

IKM COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2009

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IKM COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

(Before September 2008 Election)

Richard Wiig	President	2008
Dennis Kasparbauer	Vice President	2008
Brian Miller	Board Member	2009
Kenny Juhl	Board Member	2009
David Heller	Board Member	2010
Larry Barry	Board Member	2008
Judy Erb	Board Member	2008

(After September 2008 Election)\*

Richard Wiig	President	2011
Dennis Kasparbauer	Vice President	2011
Lynn Berry	Board Member	2011
Judy Erb	Board Member	2009
David Heller	Board Member	2011
Kenny Juhl	Board Member	2009
Brian Miller	Board Member	2009

**School Officials**

Jeff Kruse	Superintendent
Mary Heller	District Secretary/Treasurer

\* Board terms may have been extended or shortened per the District's transition plan for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

Independent Auditor's Report

To the Board of Education of  
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District, Manilla, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated January 11, 2010, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 12 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

January 11, 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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IKM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2009 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,175,545 in fiscal 2008 to \$5,179,981 in fiscal 2009, while General Fund expenditures increased from \$4,106,946 in fiscal 2008 to \$5,438,542 in fiscal 2009. The District's General Fund balance decreased from \$855,836 in fiscal 2008 to \$597,275 in fiscal 2009, a 30% decrease.
- The increase in General Fund revenues was attributable to shared revenues through whole grade sharing in fiscal 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and expenses associated with whole grade sharing.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of IKM Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report IKM Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which IKM Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

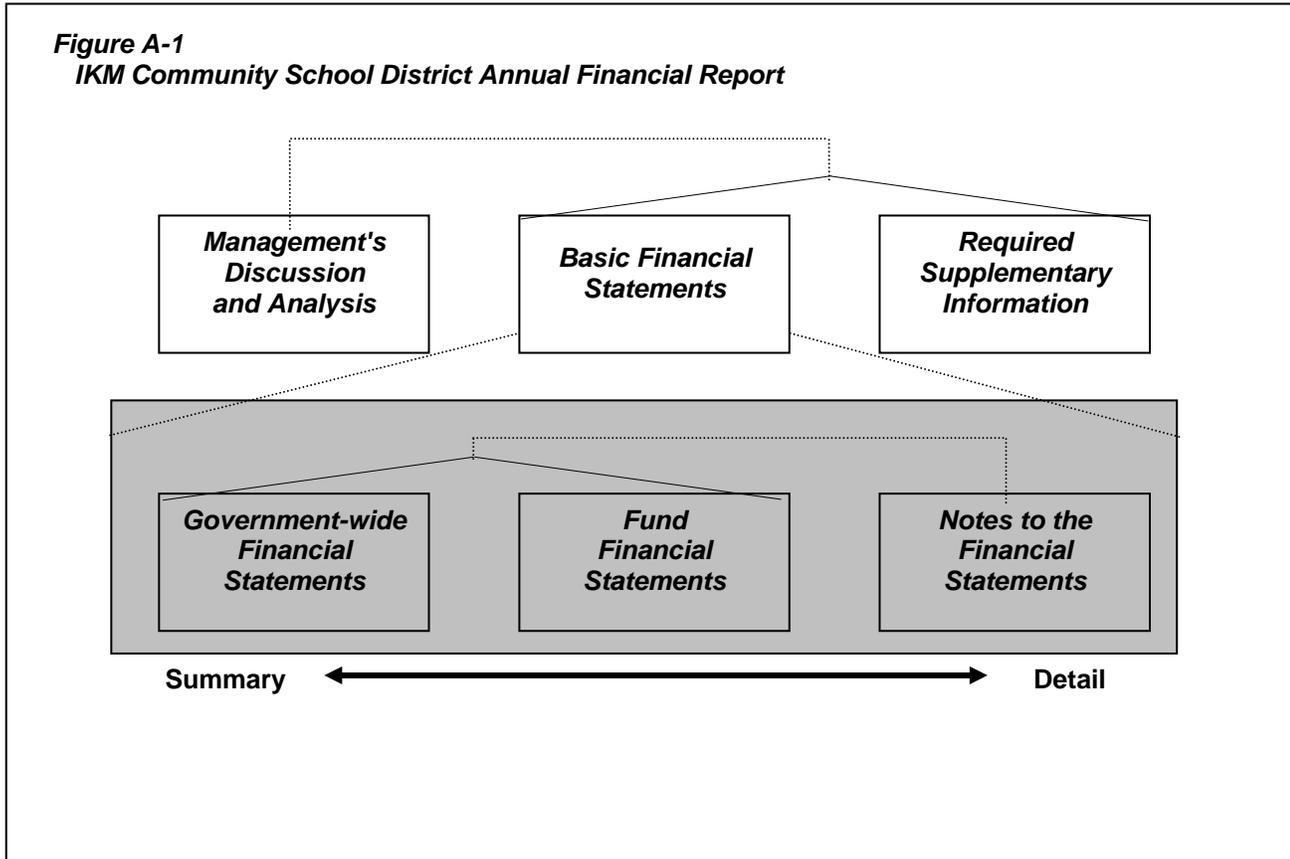


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health,

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show that it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.

- Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2009 compared to June 30, 2008.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,510,796	4,292,107	65,149	51,327	4,575,945	4,343,434	5.3
Capital assets	2,365,965	1,630,573	7,167	8,086	2,373,132	1,638,659	44.8
<b>Total assets</b>	<b>6,876,761</b>	<b>5,922,680</b>	<b>72,316</b>	<b>59,413</b>	<b>6,949,077</b>	<b>5,982,093</b>	<b>16.2</b>
Long-term liabilities	977,165	1,014,906	0	0	977,165	1,014,906	-3.7
Other liabilities	2,961,075	1,777,032	3,032	894	2,964,107	1,777,926	66.7
<b>Total liabilities</b>	<b>3,938,240</b>	<b>2,791,938</b>	<b>3,032</b>	<b>894</b>	<b>3,941,272</b>	<b>2,792,832</b>	<b>41.1</b>
Net Assets:							
Invested in capital assets, net of related debt	1,495,965	630,573	7,167	8,086	1,503,132	638,659	135.4
Restricted	665,860	1,469,203	0	0	665,860	1,469,203	-54.7
Unrestricted	776,696	1,030,966	62,117	50,433	838,813	1,081,399	-22.4
<b>TOTAL NET ASSETS</b>	<b>2,938,521</b>	<b>3,130,742</b>	<b>69,284</b>	<b>58,519</b>	<b>3,007,805</b>	<b>3,189,261</b>	<b>-5.7</b>

The District's combined total net assets decreased by nearly 5.7%, or approximately \$180,000 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$800,000 or 55% over the prior year. The decrease was primarily a result of increased expenditures in the Capital Projects Fund

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$240,000, or 22%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2009 and 2008.

Figure A-4

	Change in Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	
Revenues							
Program Revenues:							
Charges for services	1,365,721	340,731	94,754	82,452	1,460,475	423,183	245.1
Operating grants & contributions	647,368	555,658	85,690	77,524	733,058	633,182	15.8
Capital grants & contributions	17,636	27,705	0	0	17,636	27,705	-36.3
General Revenues:							
Property taxes	1,637,388	1,547,139	0	0	1,637,388	1,547,139	5.8
Income Surtax	224,047	236,313	0	0	224,047	236,313	-5.2
Sales tax	241,194	248,888	0	0	241,194	248,888	-3.1
Unrestricted state grants	1,528,187	1,646,677	0	0	1,528,187	1,646,677	-7.2
Unrestricted investment earnings	22,072	44,747	1,032	1,846	23,104	46,593	-50.4
Other revenue	33,281	26,914	0	0	33,281	26,914	23.7
<b>Total Revenues</b>	<b>5,716,894</b>	<b>4,674,772</b>	<b>181,476</b>	<b>161,822</b>	<b>5,898,370</b>	<b>4,836,594</b>	<b>22.0</b>
Expenses:							
Instruction	4,067,159	2,904,924	0	0	4,067,159	2,904,924	40.0
Support services	1,522,680	1,265,911	0	0	1,522,680	1,265,911	20.3
Non-instructional programs	165	149	170,711	170,871	170,876	171,020	-.1
Other expenditures	319,111	212,593	0	0	319,111	212,593	50.1
<b>Total expenses</b>	<b>5,909,115</b>	<b>4,383,577</b>	<b>170,711</b>	<b>170,871</b>	<b>6,079,826</b>	<b>4,554,448</b>	<b>33.5</b>
<b>Change in net assets before transfers</b>	<b>(192,221)</b>	<b>291,195</b>	<b>10,765</b>	<b>(9,049)</b>	<b>(181,456)</b>	<b>282,146</b>	<b>-164.3</b>
Transfers	0	0	0	0	0	0	0
<b>CHANGE IN NET ASSETS</b>	<b>(192,221)</b>	<b>291,195</b>	<b>10,765</b>	<b>(9,049)</b>	<b>(181,456)</b>	<b>282,146</b>	<b>-164.3</b>
Net assets beginning of year	3,130,742	2,839,547	58,519	67,568	3,189,261	2,907,115	9.7
Net assets end of year	2,938,521	3,130,742	69,284	58,519	3,007,805	3,189,261	-5.7

In fiscal year 2009 property tax and unrestricted state grants account for 54% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 22% increase in revenues and a 33.5% increase in expenses. Property tax increased \$90,000 to fund increases in expenses. The increases in expenses related to increases in the negotiated salaries and benefits and costs associated with whole grade sharing.

### Governmental Activities

Revenues for governmental activities were \$5,716,894 and expenses were \$5,909,115. In a difficult budget year, the District overspent by approximately \$200,000.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-2009	2009	2008	Change 2008-2009
	\$	\$		\$	\$	
Instruction	4,067,159	2,904,924	1,162,235	2,299,379	2,208,219	91,160
Support Services	1,522,680	1,265,911	256,769	1,427,192	1,210,496	216,696
Non-instructional Programs	165	149	16	165	149	16
Other Expenses	319,111	212,593	106,518	151,654	40,619	111,035
<b>TOTAL</b>	<b>5,909,115</b>	<b>4,383,577</b>	<b>1,525,538</b>	<b>3,878,390</b>	<b>3,459,483</b>	<b>418,907</b>

For the year ended June 30, 2009

- The cost financed by users of the District's programs was \$1,365,721. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$665,004.
- The net cost of governmental activities was financed with \$2,102,629 in property and local other taxes and \$1,528,187 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$181,476 and expenses were \$170,711. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2009, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund that the District will use to help with the replacement of equipment.

### INDIVIDUAL FUND ANALYSIS

As previously noted, IKM Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,357,888, well below last year's ending fund balances of \$2,329,303. However, the primary reason for the decrease in combined fund balances in fiscal 2009 is due to facilities improvements.

### Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Revenues increased because of whole grade sharing but so did expenses. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$855,836 to \$597,275, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a \$173,085 in fiscal 2008 to \$133,703 in fiscal 2009. While revenues remained approximately the same, the District substantially increased spending from the PPEL Fund in order to purchase new school transportation vehicles.
- The Capital Projects Fund balance decreased from a fund balance of \$1,007,531 in fiscal 2008 to \$263,197 in fiscal 2009. The decrease is largely attributable to the completion of a new HVAC project in the district.

**Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$58,519 at June 30, 2008 to \$69,284 at June 30, 2009, representing an increase of approximately 18%. For fiscal 2009, the District increased meal prices, resulting in the increase in net assets.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, IKM Community School District should have amended its annual budget to reflect increased costs in instruction because of whole grade sharing expenses.

Total expenditures were less than budgeted, due primarily to the District’s budget for the General Fund. It is the District’s practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District’s certified budget should always exceed actual expenditures for the year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

On June 30, 2009, the District had invested \$2,373,132, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See Figure A-6) This represents a net increase of 44.8% from last year. More detailed information about the District’s capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$170,133.

*Figure A-6*

*Capital Assets (net of depreciation)*

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2008-2009
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	0	0	10,000	10,000	0
Construction in progress	0	952,726	0	0	0	952,726	-100.0
Buildings	2,072,446	417,588	0	0	2,072,446	417,588	396.3
Improvements	86,851	88,352	0	0	86,851	88,352	-1.6
Equipment & furniture	196,668	161,907	7,167	8,086	203,835	169,993	19.9
<b>TOTAL</b>	<b>2,365,965</b>	<b>1,630,573</b>	<b>7,167</b>	<b>8,086</b>	<b>2,373,132</b>	<b>1,638,659</b>	<b>44.8</b>

## Long-Term Debt

On June 30, 2009, the District had \$977,165 in general obligation and other long-term debt outstanding. This represents a decrease of 3.7% from last year. (See Figure A-7) Additional information is presented in Note 6 to the financial statements

**Figure A-7  
Outstanding Long-Term Obligations**

	<b>Total School District</b>		<b>Percentage Change</b>
	<b>2009</b>	<b>2008</b>	<b>2008-2009</b>
	\$	\$	
Termination Benefits	107,165	14,906	618.9
Revenue Bonds	870,000	1,000,000	-13.0
	<u>977,165</u>	<u>1,014,906</u>	<u>-3.7</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The 10% across the board cut will have a bearing on the District's cash position.
- Because of auditing requirements to show all revenue and expenses associated with whole grade sharing, both revenue and expense numbers are inflated compared to previous years.
- School financing is highly dependent upon student enrollment. The District's October 2009 enrollment increased by 3 students; this is largely attributable to higher open enrollment out numbers.
- The District has experienced declining enrollment for the past several years and expects this trend to continue.
- The District has evaluated the condition of its transportation vehicles and determined only one support vehicle will be needed.
- Annually the District negotiates a new Master Contract with the IKMEA. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Kruse, District Superintendent, IKM Community School District, 755 Main Street, Manilla, Iowa, 51454.

## BASIC FINANCIAL STATEMENTS

## IKM COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	329,130	-	329,130
Other	1,180,106	58,310	1,238,416
Receivables:			
Property tax:			
Delinquent	10,320	-	10,320
Succeeding year	1,705,546	-	1,705,546
Accounts	-	704	704
Accrued interest:			
ISCAP	40	-	40
Other	1,841	-	1,841
Due from other governments	1,283,813	-	1,283,813
Inventories	-	6,135	6,135
Capital assets, net of accumulated depreciation	2,365,965	7,167	2,373,132
<b>Total assets</b>	<b>6,876,761</b>	<b>72,316</b>	<b>6,949,077</b>
<b>Liabilities</b>			
Accounts payable	22,043	-	22,043
Due to other governments	889,130	-	889,130
Deferred revenue:			
Succeeding year property tax	1,705,546	-	1,705,546
Other	13,973	3,032	17,005
ISCAP warrants payable	324,000	-	324,000
ISCAP accrued interest payable	111	-	111
ISCAP premium	6,272	-	6,272
Long-term liabilities:			
Portion due within one year:			
Termination benefits	17,765	-	17,765
Portion due after one year:			
Revenue bonds payable	870,000	-	870,000
Termination benefits	89,400	-	89,400
<b>Total liabilities</b>	<b>3,938,240</b>	<b>3,032</b>	<b>3,941,272</b>

## IKM COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,495,965	7,167	1,503,132
Restricted for:			
Categorical funding	12,412	-	12,412
Management levy	196,109	-	196,109
Physical plant and equipment levy	133,703	-	133,703
Other special revenue purposes	59,648	-	59,648
Sales tax capital projects	263,197	-	263,197
Debt service	791	-	791
Unrestricted	<u>776,696</u>	<u>62,117</u>	<u>838,813</u>
<b>Total net assets</b>	<u><u>2,938,521</u></u>	<u><u>69,284</u></u>	<u><u>3,007,805</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular	2,823,565	1,072,457	420,778	-
Special	750,498	145,465	22,250	-
Other	493,096	53,638	53,192	-
	4,067,159	1,271,560	496,220	-
Support services:				
Student	48,882	-	-	-
Instructional staff	257,301	-	-	-
Administration	569,664	82,589	-	-
Operation and maintenance of plant	359,398	2,913	-	-
Transportation	287,435	8,659	1,327	-
	1,522,680	94,161	1,327	-
Non-instructional programs	165	-	-	-
Other expenditures:				
Facilities acquisition	11,072	-	-	17,636
Long-term debt interest	37,077	-	791	-
AEA flowthrough	149,030	-	149,030	-
Depreciation (unallocated)*	121,932	-	-	-
	319,111	-	149,821	17,636
Total governmental activities	5,909,115	1,365,721	647,368	17,636
Business type activities:				
Non-instructional programs:				
Food service operations	170,711	94,754	85,690	-
Total	6,079,826	1,460,475	733,058	17,636
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
<b>Change in net assets</b>				
Net assets beginning of year				
Net assets end of year				

\*This amount excludes the depreciation that is included in the direct expense of the various programs.

Net (Expense) Revenue and Changes in Net

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,330,330)	-	(1,330,330)
(582,783)	-	(582,783)
(386,266)	-	(386,266)
<u>(2,299,379)</u>	<u>-</u>	<u>(2,299,379)</u>
(48,882)	-	(48,882)
(257,301)	-	(257,301)
(487,075)	-	(487,075)
(356,485)	-	(356,485)
(277,449)	-	(277,449)
<u>(1,427,192)</u>	<u>-</u>	<u>(1,427,192)</u>
(165)	-	(165)
6,564	-	6,564
(36,286)	-	(36,286)
-	-	-
(121,932)	-	(121,932)
<u>(151,654)</u>	<u>-</u>	<u>(151,654)</u>
(3,878,390)	-	(3,878,390)
-	9,733	9,733
<u>(3,878,390)</u>	<u>9,733</u>	<u>(3,868,657)</u>
1,597,435	-	1,597,435
39,953	-	39,953
224,047	-	224,047
241,194	-	241,194
1,528,187	-	1,528,187
22,072	1,032	23,104
33,281	-	33,281
<u>3,686,169</u>	<u>1,032</u>	<u>3,687,201</u>
(192,221)	10,765	(181,456)
<u>3,130,742</u>	<u>58,519</u>	<u>3,189,261</u>
<u>2,938,521</u>	<u>69,284</u>	<u>3,007,805</u>

## IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2009

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	329,130	-	-	329,130
Other	477,400	206,025	496,681	1,180,106
Receivables:				
Property tax:				
Delinquent	9,068	-	1,252	10,320
Succeeding year	1,540,571	-	164,975	1,705,546
Accrued interest - ISCAP	40	-	-	40
Accrued interest	779	-	1,062	1,841
Due from other governments	1,208,685	57,172	17,956	1,283,813
<b>Total assets</b>	<b>3,565,673</b>	<b>263,197</b>	<b>681,926</b>	<b>4,510,796</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	22,043	-	-	22,043
Due to other governments	869,595	-	19,535	889,130
ISCAP warrants payable	324,000	-	-	324,000
ISCAP accrued interest payable	111	-	-	111
ISCAP premium	6,272	-	-	6,272
Deferred revenue:				
Succeeding year property tax	1,540,571	-	164,975	1,705,546
Income surtax	191,833	-	-	191,833
Other	13,973	-	-	13,973
Total liabilities	2,968,398	-	184,510	3,152,908
Fund balances:				
Reserved for:				
Categorical funding	12,412	-	-	12,412
Debt service	-	-	791	791
Unreserved, reported in:				
General fund	584,863	-	-	584,863
Special revenue funds	-	-	496,625	496,625
Capital project fund	-	263,197	-	263,197
Total fund balances	597,275	263,197	497,416	1,357,888
<b>Total liabilities and fund balances</b>	<b>3,565,673</b>	<b>263,197</b>	<b>681,926</b>	<b>4,510,796</b>

See notes to financial statements.

## IKM COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2009

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,357,888
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,365,965
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	191,833
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(977,165)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,938,521</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2009

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,663,107	241,194	198,447	2,102,748
Tuition	256,330	-	-	256,330
Other	1,085,912	21,364	75,895	1,183,171
State sources	2,017,660	-	132	2,017,792
Federal sources	156,972	-	-	156,972
Total revenues	<u>5,179,981</u>	<u>262,558</u>	<u>274,474</u>	<u>5,717,013</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,729,454	-	-	2,729,454
Special	750,498	-	-	750,498
Other	422,114	-	70,982	493,096
	<u>3,902,066</u>	<u>-</u>	<u>70,982</u>	<u>3,973,048</u>
Support services:				
Student	48,882	-	-	48,882
Instructional staff	257,301	-	-	257,301
Administration	544,456	-	25,208	569,664
Operation and maintenance of plant	302,561	-	53,182	355,743
Transportation	234,246	-	93,457	327,703
	<u>1,387,446</u>	<u>-</u>	<u>171,847</u>	<u>1,559,293</u>
Non-instructional programs	-	-	165	165
Other expenditures:				
Facilities acquisition	-	833,635	-	833,635
Long-term debt:				
Principal	-	-	130,000	130,000
Interest and fiscal charges	-	-	43,257	43,257
AEA flowthrough	149,030	-	-	149,030
	<u>149,030</u>	<u>833,635</u>	<u>173,257</u>	<u>1,155,922</u>
Total expenditures	<u>5,438,542</u>	<u>833,635</u>	<u>416,251</u>	<u>6,688,428</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(258,561)</u>	<u>(571,077)</u>	<u>(141,777)</u>	<u>(971,415)</u>
Other financing sources (uses):				
Operating transfers in	-	-	173,257	173,257
Operating transfers out	-	(173,257)	-	(173,257)
Total other financing sources (uses)	<u>-</u>	<u>(173,257)</u>	<u>173,257</u>	<u>-</u>
Net change in fund balances	(258,561)	(744,334)	31,480	(971,415)
Fund balances beginning of year	855,836	1,007,531	465,936	2,329,303
Fund balances end of year	<u>597,275</u>	<u>263,197</u>	<u>497,416</u>	<u>1,357,888</u>

## IKM COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2009

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(971,415)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	904,606	
Depreciation expense	<u>(169,214)</u>	735,392
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		(119)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		130,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		
		6,180
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		<u>(92,259)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(192,221)</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	58,310
Accounts receivable	704
Inventories	6,135
Capital assets, net of accumulated depreciaiton	<u>7,167</u>
<b>Total assets</b>	72,316
<b>Liabilities</b>	
Deferred revenue	<u>3,032</u>
<b>Net assets</b>	
Invested in capital assets	7,167
Unrestricted	<u>62,117</u>
<b>Total net assets</b>	<u><u>69,284</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>94,754</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	56,223
Benefits	23,443
Purchased services	2,921
Supplies	86,797
Depreciation	919
Other	408
Total operating expenses	<u>170,711</u>
Operating gain (loss)	<u>(75,957)</u>
Non-operating revenues:	
State sources	2,216
Federal sources	83,474
Interest income	<u>1,032</u>
Total non-operating revenues	<u>86,722</u>
Change in net assets	10,765
Net assets beginning of year	<u>58,519</u>
Net assets end of year	<u><u>69,284</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2009

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	96,803
Cash payments to employees for services	(79,666)
Cash payments to suppliers for goods or services	(82,911)
Net cash used by operating activities	<u>(65,774)</u>
Cash flows from non-capital financing activities:	
State grants received	2,216
Federal grants received	75,763
Net cash provided by non-capital financing activities	<u>77,979</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
(Purchase) redemption of CD	25,000
Interest on investments	1,242
Net cash provided by investing activities	<u>26,242</u>
Net increase (decrease) in cash and cash equivalents	38,447
Cash and cash equivalents at beginning of year	<u>19,863</u>
Cash and cash equivalents at end of year	<u><u>58,310</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(75,957)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	7,711
Depreciation	919
Decrease (increase) in inventories	(496)
Decrease (increase) in accounts receivable	(89)
(Decrease) increase in deferred revenue	2,138
Net cash used by operating activities	<u><u>(65,774)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2009, the District received \$7,711 of federal commodities.

# IKM COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2009

### 1. Summary of Significant Accounting Policies

IKM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, IKM Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The IKM Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the

governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for food service sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the instruction functional area exceeded the amount budgeted.

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	12,180

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

**3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental Debt Service	Capital Projects Fund	173,257

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**4. Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2009 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	329,130	40	324,000	111

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2009, is as follows:

<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rate shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2009-10A	2.500	0.902

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Construction in progress	952,726	806,446	1,759,172	-
Total capital assets not being depr.	<u>962,726</u>	<u>806,446</u>	<u>1,759,172</u>	<u>10,000</u>
Capital assets being depreciated:				
Buildings	1,762,271	1,772,489	-	3,534,760
Improvements other than buildings	320,243	2,800	-	323,043
Furniture and equipment	820,224	82,043	33,173	869,094
Total capital assets being deprec.	<u>2,902,738</u>	<u>1,857,332</u>	<u>33,173</u>	<u>4,726,897</u>
Less accumulated depreciation for:				
Buildings	1,344,683	117,631	-	1,462,314
Improvements other than buildings	231,891	4,301	-	236,192
Furniture and equipment	658,317	47,282	33,173	672,426
Total accumulated depreciation	<u>2,234,891</u>	<u>169,214</u>	<u>33,173</u>	<u>2,370,932</u>
Total capital assets being depreciated, net	<u>667,847</u>	<u>1,688,118</u>	<u>-</u>	<u>2,355,965</u>
Governmental activities capital assets, net	<u>1,630,573</u>	<u>2,494,564</u>	<u>1,759,172</u>	<u>2,365,965</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	70,673	-	-	70,673
Less accumulated depreciation	62,587	919	-	63,506
Business type activities capital assets, net	<u>8,086</u>	<u>(919)</u>	<u>-</u>	<u>7,167</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	1,852
Support services:	
Operation and maintenance	3,655
Transportation	41,775
	<u>47,282</u>
Unallocated depreciation	<u>121,932</u>
Total depreciation expense – governmental activities	<u>169,214</u>
Business type activities:	
Food services	<u>919</u>

## 6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2009, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Revenue bonds	1,000,000	-	130,000	870,000	-
Termination benefits	14,906	100,486	8,227	107,165	17,765
Total	<u>1,014,906</u>	<u>100,486</u>	<u>138,227</u>	<u>977,165</u>	<u>17,765</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees for fiscal year 2009. Eligible employees must have completed at least twenty years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which the employee resigned. The application for early retirement is subject to approval by the Board of Education.

The District will pay up to \$6,121 per retiree, per year for single plan health insurance until the retiree reaches age 65.

At June 30, 2009, the District has obligations to four participants with a total liability of \$107,165. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$8,227.

### Revenue Bonds

Details of the District's June 30, 2009 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2010	3.15	-	16,491	16,491
2011	3.25	135,000	30,789	165,789
2012	3.45	140,000	26,181	166,181
2013	3.70	140,000	21,176	161,176
2014	3.80	135,000	16,021	151,021
2015-2019	3.90-4.75	320,000	29,206	349,206
		<u>870,000</u>	<u>139,864</u>	<u>1,009,864</u>

The District has pledged future local option (statewide) sales and services tax revenues to repay the \$1,000,000 bonds issued in May 2008. The bonds were issued for the purpose of financing a portion of the costs of a HVAC system. The bonds are payable solely from the proceeds of the local option (statewide) sales and services tax revenues received by the District and are payable through 2019. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 70% of the local option (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$993,373. For the current year, \$130,000 of principal and \$43,257 of interest was paid on the bonds and total statewide sales and services tax revenues were \$241,194.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- Bonds maturing after July 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- Starting July 1, 2008 the District shall establish a sinking fund. Money in the sinking account shall be used to pay the interest and principal on the bonds. Monthly payments to the sinking fund shall not be less than the sum of 1/6 of the next interest payment and 1/12 of the next principal payment. The sinking fund is part of the Debt Service Fund.

## 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$185,992, \$148,724 and \$135,190 respectively, equal to the required contributions for each year.

## 8. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## **9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$149,030 for the year ended June 30, 2009, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	3,542,249	95,786	3,638,035	2,632,890	2,632,890	1,005,145
State sources	2,017,792	2,216	2,020,008	2,042,171	2,042,171	(22,163)
Federal sources	156,972	83,474	240,446	155,000	155,000	85,446
Total revenues	<u>5,717,013</u>	<u>181,476</u>	<u>5,898,489</u>	<u>4,830,061</u>	<u>4,830,061</u>	<u>1,068,428</u>
<b>Expenditures/Expenses:</b>						
Instruction	3,973,048	-	3,973,048	3,208,733	3,208,733	(764,315)
Support services	1,559,293	-	1,559,293	1,944,505	1,944,505	385,212
Non-instructional programs	165	170,711	170,876	313,841	313,841	142,965
Other expenditures	1,155,922	-	1,155,922	2,009,391	2,009,391	853,469
Total expenditures/expenses	<u>6,688,428</u>	<u>170,711</u>	<u>6,859,139</u>	<u>7,476,470</u>	<u>7,476,470</u>	<u>617,331</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(971,415)	10,765	(960,650)	(2,646,409)	(2,646,409)	1,685,759
Other financing sources (uses) net	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>1,000</u>	<u>(1,000)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(971,415)	10,765	(960,650)	(2,645,409)	(2,645,409)	1,684,759
Balance beginning of year	<u>2,329,303</u>	<u>58,519</u>	<u>2,387,822</u>	<u>2,979,928</u>	<u>2,979,928</u>	<u>(592,106)</u>
Balance end of year	<u><u>1,357,888</u></u>	<u><u>69,284</u></u>	<u><u>1,427,172</u></u>	<u><u>334,519</u></u>	<u><u>334,519</u></u>	<u><u>1,092,653</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year ended June 30, 2009.

During the year ended June 30, 2009, expenditures in the instruction function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Funds				
	Management	Student	Physical	Debt	Total
	Levy	Activity	Plant and	Service	
\$	\$	Equipment	\$	\$	
Cash and pooled investments	301,599	61,227	Levy	791	496,681
Receivables:					
Property tax:					
Delinquent	999	-	253	-	1,252
Succeeding year	115,000	-	49,975	-	164,975
Accrued interest	676	-	386	-	1,062
Due from other governments	-	17,956	-	-	17,956
<b>Total assets</b>	<b>418,274</b>	<b>79,183</b>	<b>183,678</b>	<b>791</b>	<b>681,926</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Due to other governments	-	19,535	-	-	19,535
Deferred revenue:					
Succeeding year property tax	115,000	-	49,975	-	164,975
Total liabilities	115,000	19,535	49,975	-	184,510
Fund balances:					
Reserved for debt service	-	-	-	791	791
Unreserved fund balances reported in:					
Special revenue funds	303,274	59,648	133,703	-	496,625
Total fund balances	303,274	59,648	133,703	791	497,416
<b>Total liabilities and fund balances</b>	<b>418,274</b>	<b>79,183</b>	<b>183,678</b>	<b>791</b>	<b>681,926</b>

## IKM COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2009

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	158,494	-	39,953	-	198,447
Other	19,843	52,579	2,682	791	75,895
State sources	106	-	26	-	132
Total revenues	<u>178,443</u>	<u>52,579</u>	<u>42,661</u>	<u>791</u>	<u>274,474</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	70,982	-	-	70,982
Support services:					
Administration services	25,208	-	-	-	25,208
Operation and maintenance					
of plant services	53,182	-	-	-	53,182
Transportation services	11,414	-	82,043	-	93,457
Non-instructional programs	165	-	-	-	165
Other expenditures:					
Long-term debt:					
Principal	-	-	-	130,000	130,000
Interest and fiscal charges	-	-	-	43,257	43,257
Total expenditures	<u>89,969</u>	<u>70,982</u>	<u>82,043</u>	<u>173,257</u>	<u>416,251</u>
Excess (deficiency) of revenues over (under) expenditures	88,474	(18,403)	(39,382)	(172,466)	(141,777)
Other financing sources (uses):					
Operating transfers in	-	-	-	173,257	173,257
Net change in fund balance	88,474	(18,403)	(39,382)	791	31,480
Fund balances beginning of year	<u>214,800</u>	<u>78,051</u>	<u>173,085</u>	<u>-</u>	<u>465,936</u>
Fund balances end of year	<u><u>303,274</u></u>	<u><u>59,648</u></u>	<u><u>133,703</u></u>	<u><u>791</u></u>	<u><u>497,416</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	2,688	-	64	-	2,624
Basketball	8,177	-	5,811	-	2,366
Basketball/junior high	-	1,339	1,355	16	-
Football/high school	4,440	-	4,830	390	-
Football/junior high	-	1,238	2,251	1,013	-
Track	-	-	120	120	-
Track/junior high	-	1,843	2,751	909	1
Volleyball	2,238	67	1,404	-	901
Volleyball/junior high	-	615	611	-	4
Softball	-	13,347	17,887	4,540	-
Activity tickets	10,113	10,610	2,418	(8,523)	9,782
Concessions	4,859	1,412	-	-	6,271
Concessions/junior high	-	3,469	3,414	-	55
Cross country	-	-	37	37	-
Cheerleaders	480	-	522	41	(1)
Baseball	-	3,571	4,212	641	-
Class of 2009	1,205	60	1,265	-	-
Class of 2010	15	-	15	-	-
Class of 2011	25	-	25	-	-
Annual	6,098	326	1,475	-	4,949
FFA	5,224	-	5,224	-	-
Interest	15,642	868	213	-	16,297
Student council-MS	41	1,327	954	-	414
Student council-HS	2,689	-	-	-	2,689
Student council-Elem.	22	12,487	8,580	-	3,929
Music - vocal	-	-	816	816	-
Music - instrumental	14,095	-	4,728	-	9,367
<b>Total</b>	<b>78,051</b>	<b>52,579</b>	<b>70,982</b>	<b>-</b>	<b>59,648</b>

## IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
<b>Assets</b>				
Cash	-	10,744	10,744	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>				
Other liabilities	-	10,744	10,744	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## IKM COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	2,102,748	1,981,299	1,984,089	1,898,510	1,920,010	2,041,334
Tuition	256,330	126,279	145,497	110,313	91,920	87,904
Other	1,183,171	313,818	329,962	288,687	295,670	263,884
State sources	2,017,792	2,123,044	2,134,481	2,113,616	2,001,821	1,780,773
Federal sources	156,972	122,740	143,289	160,543	157,422	186,535
Total revenues	<u>5,717,013</u>	<u>4,667,180</u>	<u>4,737,318</u>	<u>4,571,669</u>	<u>4,466,843</u>	<u>4,360,430</u>
Expenditures:						
Instruction:						
Regular	2,729,454	1,861,318	1,705,167	1,592,528	1,572,871	1,547,521
Special	750,498	493,932	509,778	601,808	549,380	647,788
Other	493,096	547,041	528,635	520,292	522,559	331,569
Support services:						
Student	48,882	42,200	89,785	82,763	78,677	78,592
Instructional staff	257,301	195,044	203,247	138,029	121,378	99,857
Administration	569,664	446,782	486,407	514,386	502,319	500,465
Operation and maintenance	355,743	342,251	331,939	342,241	283,145	274,939
Transportation	327,703	259,629	284,273	279,743	193,675	186,662
Non-instructional programs	165	149	146	142	136	139
Other expenditures:						
Facilities acquisition	833,635	1,001,361	36,095	164,932	93,299	195,340
Long-term debt:						
Principal	130,000	2,941	5,881	5,881	5,881	5,881
Interest and other charges	43,257	-	-	-	-	-
AEA flowthrough	149,030	144,269	141,863	137,574	136,369	138,188
Total expenditures	<u>6,688,428</u>	<u>5,336,917</u>	<u>4,323,216</u>	<u>4,380,319</u>	<u>4,059,689</u>	<u>4,006,941</u>

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of IKM Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 11, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IKM Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of IKM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IKM Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects IKM Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of IKM Community School District's financial statements that is more than inconsequential will not be prevented or detected by IKM Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by IKM Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 09-I-A and 09-I-B are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether IKM Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

IKM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit IKM Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of IKM Community School District and other parties to whom IKM Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of IKM Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

January 11, 2010

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

09-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal adjusting entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and consider methods to increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

District Response: We will continue to review our procedures and implement additional controls where possible

Conclusion: Response accepted.

09-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, exceeded the amount budgeted in the instruction function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: This was the first year of a whole-grade sharing agreement with Manning Community School District. Amounts due from and payable to Manning School were calculated in June when there was no longer adequate time to amend the budget. Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

09-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

09-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

09-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.

09-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.

09-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

09-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

09-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

09-II-I Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.

09-II-J Categorical Funding –No instances were noted of categorical funding being used to supplant rather than supplement other funds.

According to proposed administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, and then were reclassified as categorical spending at the end of the year.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting (continued):

Recommendation – All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

Response – We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts as incurred.

Conclusion – Response accepted.

09-II-K Statewide Sales and Services Tax – No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

	\$	\$
Beginning balance		-
Statewide sales and services tax revenue		241,194
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	67,937	
Debt service for school infrastructure:		
Revenue debt	173,257	241,194
	<u>173,257</u>	<u>241,194</u>
Ending balance		<u>-</u>