

NORTHEAST COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2009

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Charles Corr	President	2010
Mark Neblung	Vice-President	2009
Mary Smith	Board Member	2009
Richard Krogmann	Board Member	2010
William Costello	Board Member	2008

Board of Education (After September 2008 Election)		
Charles Corr	President	2011 *
Mark Neblung	Vice-President	2009
Mary Smith	Board Member	2009
Richard Krogmann	Board Member	2011 *
William Costello	Board Member	2011

School Officials

Jim Cox	Superintendent	2009
Cindy McAleer	District Secretary/ Treasurer/Business Manager	2009
Brian Gruhn	Attorney	2009

* Board Term extended per the District's transition for changing Board terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Northeast 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 the Northeast Community School District, Goose Lake, Iowa 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. 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 the Northeast Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

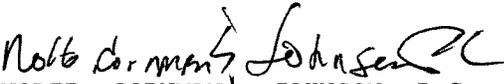
In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2010 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 32 and 33 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

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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 Northeast 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 four years ended June 30, 2008 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, 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.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Northeast 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 \$5,916,343 in fiscal 2008 to \$6,133,119 in fiscal 2009, while General Fund expenditures increased from \$5,959,793 in fiscal 2008 to \$6,446,201 in fiscal 2009. This resulted in a decrease in the District's General Fund balance from \$1,328,438 in fiscal 2008 to a balance of \$1,015,356 in fiscal 2009, a 23.57% decrease from the prior year.

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 Northeast 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 Northeast 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 Northeast Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the 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.

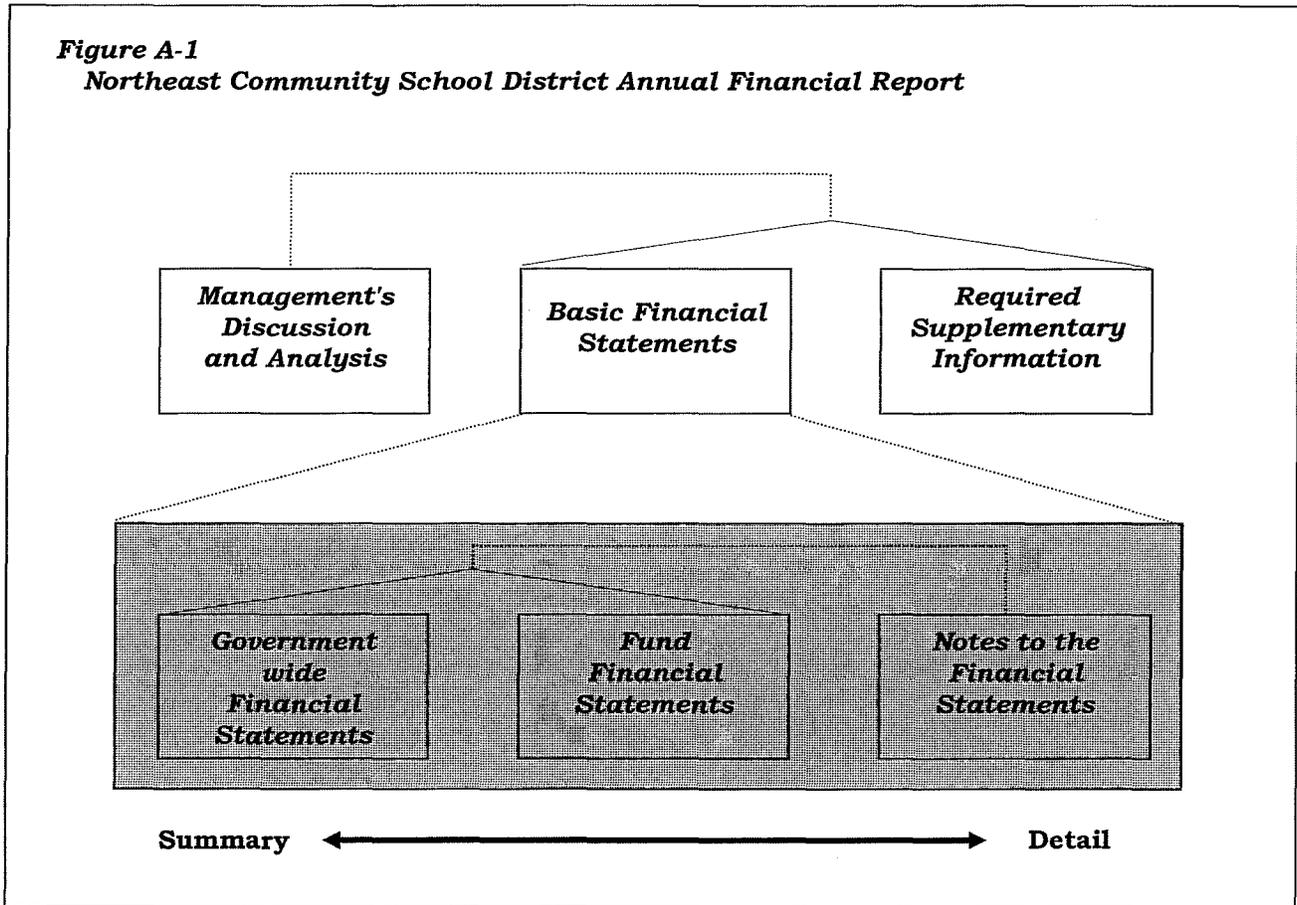


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary 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
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
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, and short-term and long-term
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

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 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, Capital Projects Fund, and the Debt Service Fund.

The required financial statements for the 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.

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 for the year ended June 30, 2009 compared to the year ended June 30, 2008.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 4,301,855	4,486,094	119,105	84,026	4,420,960	4,570,120	-3.26%
Capital assets	5,604,850	5,657,508	76,462	28,326	5,681,312	5,685,834	-0.08%
Total assets	9,906,705	10,143,602	195,567	112,352	10,102,272	10,255,954	-1.50%
Long-term liabilities	1,864,948	2,458,739	0	0	1,864,948	2,458,739	-24.15%
Other liabilities	2,843,938	2,564,531	21,406	17,214	2,865,344	2,581,745	10.98%
Total liabilities	4,708,886	5,023,270	21,406	17,214	4,730,292	5,040,484	-6.15%
Net assets:							
Invested in capital assets, net of related debt	3,739,902	2,932,076	76,462	28,326	3,816,364	2,960,402	28.91%
Restricted	264,008	640,382	0	7,148	264,008	647,530	-59.23%
Unrestricted	1,193,909	1,547,874	97,699	59,664	1,291,608	1,607,538	-19.65%
Total net assets	\$ 5,197,819	5,120,332	174,161	95,138	5,371,980	5,215,470	3.00%

The District's combined net assets increased by 3.00%, or \$156,510, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of 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 by \$383,522, or 59.23% over the prior year.

Unrestricted net assets are 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 by \$315,930, or 19.65%. This decrease in unrestricted net assets was the primarily result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to June 30, 2008.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 1,430,097	1,206,538	188,352	159,463	1,618,449	1,366,001	18.48%
Operating grants and contributions and restricted interest	911,330	711,283	126,978	107,212	1,038,308	818,495	26.86%
Capital grants and contributions and restricted interest	0	36,525	0	0	0	36,525	-100.00%
General revenues and transfers:							
Property tax	1,957,203	2,082,194	0	0	1,957,203	2,082,194	-6.00%
Income surtax	249,692	194,640	0	0	249,692	194,640	28.28%
Statewide sales and service tax	459,007	383,543	0	0	459,007	383,543	19.68%
Unrestricted state grants	2,159,040	2,180,523	0	0	2,159,040	2,180,523	-0.99%
Unrestricted investment earnings	25,994	78,269	1,981	2,603	27,975	80,872	-65.41%
Other	66,049	35,994	843	0	66,892	35,994	85.84%
Transfers	(59,058)	0	59,058	0	0	0	0.00%
Total revenues and transfers	7,199,354	6,909,509	377,212	269,278	7,576,566	7,178,787	5.54%
Program expenses:							
Governmental activities:							
Instructional	4,389,510	4,028,403	0	0	4,389,510	4,028,403	8.96%
Support services	2,168,504	2,110,323	16,033	0	2,184,537	2,110,323	3.52%
Non-instructional programs	1,665	5,469	282,156	271,120	283,821	276,589	2.61%
Other expenses	562,188	509,355	0	0	562,188	509,355	10.37%
Total expenses	7,121,867	6,653,550	298,189	271,120	7,420,056	6,924,670	7.15%
Change in net assets	77,487	255,959	79,023	(1,842)	156,510	254,117	-38.41%
Beginning net assets	5,120,332	4,864,373	95,138	96,980	5,215,470	4,961,353	5.12%
Ending net assets	\$ 5,197,819	5,120,332	174,161	95,138	5,371,980	5,215,470	3.00%

In fiscal 2009, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 67.02% of the revenue from governmental activities while charges for services and operating grants and contributions account for 83.59% of the revenue from business type activities.

The District's total revenues were \$7,576,566 of which \$7,199,354 was for governmental activities and \$377,212 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 5.54% in revenues and a 7.15% increase in expenses. The increase in expenses was primarily related to the increases in instructional expenses.

Governmental Activities

Revenues for governmental activities were \$7,199,354 and expenses were \$7,121,867.

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 and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 4,389,510	4,028,403	8.96%	2,249,990	2,442,846	-7.89%
Support services	2,168,504	2,110,323	2.76%	2,166,254	1,951,260	11.02%
Non-instructional programs	1,665	5,469	-69.56%	1,665	2,901	-42.61%
Other expenses	562,188	509,355	10.37%	362,531	375,642	-3.49%
Totals	\$ 7,121,867	6,653,550	7.04%	4,780,440	4,772,649	0.16%

- The cost financed by users of the District's programs was \$1,430,097.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$911,330.
- The net cost of governmental activities was financed with \$2,665,902 in local taxes, \$2,159,040 in unrestricted state grants, \$25,994 in interest on investments, and \$66,049 in other general revenue.

Business type Activities

Revenues of the District's business type activities were \$377,212 and expenses were \$298,189. 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.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Northeast 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 combined fund balance of \$1,259,377, below last year's ending fund balances of \$1,742,072.

Governmental Fund Highlights

- The District's General Fund declining financial position is the product of many factors. Revenues in the General Fund increased by \$216,776 or 3.66% while expenditures increased by \$486,408 or 8.16%. The largest increase was in the instructional function which increased by \$362,768 or 9.49%.
- The Special Revenue Management Levy Fund balance increased from \$155,667 at June 30, 2008 to \$165,879 at June 30, 2009, representing an increase of 6.56%. Revenues consisting of local tax and state sources increased by 37,986 or 69.94%. Expenditures at the same time decreased by \$14,561 or 15.07%. The decline in expenditures was primarily due to the decrease in the regular instruction functional area.
- The Special Revenue Physical Plant and Equipment Levy (PPEL) fund balance increased from \$1,477 at June 30, 2008 to \$1,494, at June 30, 2009. Local revenue decreased by

\$2,917 or 5.79%. Expenditures were a transfer to the Debt Service for payment of the bus lease.

- The District's Capital Projects fund balance decreased from \$215,437 in 2008 to \$29,268 in 2009. Capital Projects revenue increased by \$51,300 or 12.12%. The increase was primarily due to the increase in statewide sales and service tax. Facilities acquisitions lead the way in the expenditures, increasing by \$213,369 or 155.33%.
- The District's Debt Service fund balance increased from \$25,192 at June 30, 2008 to \$26,306 in 2009.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$95,138 at June 30, 2008, to \$174,161 at June 30, 2009, representing an increase of 83.06%. The increase was due to increased charges for services and transfer from the General Fund for the purchase of equipment.

BUDGETARY HIGHLIGHTS

The District's revenues were \$647,113 more than budgeted revenues, a variance of 9.37%. The District received more in local and federal sources than originally anticipated.

Total expenditures were basically less than budgeted, 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. During the year, the District adopted one budget amendment increasing other expenditures by \$182,651. During the year ended June 30, 2009, expenditures in the non-instructional programs and other expenditures functional areas exceeded the amount budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$5,681,312, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$366,613.

The original cost of the District's capital assets was \$11,047,023. Governmental funds account for \$10,850,002 with the remainder of \$197,021 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$55,891 at June 30, 2008 compared to \$193,072, reported at June 30, 2009. This increase resulted from the construction of a new play ground and professional fees for future projects.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 202,905	116,677	0	0	202,905	116,677	73.90%
Construction in Progress	193,072	55,891	0	0	193,072	55,891	245.44%
Buildings	4,086,415	4,208,492	0	0	4,086,415	4,208,492	-2.90%
Land improvements	671,958	714,363	0	0	671,958	714,363	-5.94%
Machinery and equipment	450,500	562,085	76,462	28,326	526,962	590,411	-10.75%
Total	\$ 5,604,850	5,657,508	76,462	28,326	5,681,312	5,685,834	-0.08%

Long-Term Debt

At June 30, 2009, the District had \$1,864,948 in general obligation and other long-term debt outstanding. This represents a decrease of 24.15% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
General obligation bonds	\$ 1,785,000	2,050,000	-12.93%
Revenue bonds	0	250,000	-100.00%
Bus Lease	79,948	158,739	-49.64%
Totals	\$ 1,864,948	2,458,739	-24.15%

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 October 2009 enrollment was down 8.0 students; however open enrollment in continues to remain steady which creates a net decrease of 1.1 students for total served enrollment.

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 James W. Cox, Superintendent, Northeast Community School District, 3690 Highway 136, Goose Lake, Iowa, 52750.

BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,440,681	112,255	1,552,936
Receivables:			
Property tax:			
Delinquent	42,949	0	42,949
Succeeding year	2,075,803	0	2,075,803
Income surtax	211,429	0	211,429
Accounts	0	44	44
Due from other governments	530,993	0	530,993
Inventories	0	6,806	6,806
Capital assets, net of accumulated depreciation	5,604,850	76,462	5,681,312
TOTAL ASSETS	9,906,705	195,567	10,102,272
LIABILITIES			
Accounts payable	166,028	5,724	171,752
Salaries and benefits payable	586,530	12,187	598,717
Interest payable	12,849	0	12,849
Deferred revenue:			
Succeeding year property tax	2,075,803	0	2,075,803
Other	2,728	0	2,728
Unearned revenue	0	3,495	3,495
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	275,000	0	275,000
Bus Lease	79,948	0	79,948
Portion due after one year:			
General obligation bonds	1,510,000	0	1,510,000
TOTAL LIABILITIES	4,708,886	21,406	4,730,292
NET ASSETS			
Invested in capital assets, net of related debt	3,739,902	76,462	3,816,364
Restricted for:			
Categorical funding	20,027	0	20,027
Management levy	165,879	0	165,879
Physical plant and equipment levy	1,494	0	1,494
Capital projects	29,268	0	29,268
Debt service	26,306	0	26,306
Other special revenue	21,034	0	21,034
Unrestricted	1,193,909	97,699	1,291,608
TOTAL NET ASSETS	\$ 5,197,819	174,161	5,371,980

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 2,867,673	947,807	626,402	(1,293,464)	0	(1,293,464)
Special	742,209	325,847	80,608	(335,754)	0	(335,754)
Other	779,628	156,443	2,413	(620,772)	0	(620,772)
	4,389,510	1,430,097	709,423	(2,249,990)	0	(2,249,990)
Support services:						
Student	243,906	0	0	(243,906)	0	(243,906)
Instructional staff	137,313	0	0	(137,313)	0	(137,313)
Administration	687,493	0	0	(687,493)	0	(687,493)
Operation and maintenance of plant	610,492	0	0	(610,492)	0	(610,492)
Transportation	489,300	0	2,250	(487,050)	0	(487,050)
	2,168,504	0	2,250	(2,166,254)	0	(2,166,254)
Non-instructional programs	1,665	0	0	(1,665)		(1,665)
Other expenditures:						
Facilities acquisitions	94,870	0	0	(94,870)	0	(94,870)
Long-term debt interest	70,726	0	0	(70,726)	0	(70,726)
AEA flowthrough	199,657	0	199,657	0	0	0
Depreciation(unallocated)*	196,935	0	0	(196,935)	0	(196,935)
	562,188	0	199,657	(362,531)	0	(362,531)
Total governmental activities	7,121,867	1,430,097	911,330	(4,780,440)	0	(4,780,440)
Business Type activities:						
Support services:						
Administration	10,946	0	0	0	(10,946)	(10,946)
Operation and maintenance of plant	5,087	0	0	0	(5,087)	(5,087)
Total support services	16,033	0	0	0	(16,033)	(16,033)
Non-instructional programs:						
Nutrition services	282,156	188,352	126,978	0	33,174	33,174
Total business type activities	298,189	188,352	126,978	0	17,141	17,141
Total	\$ 7,420,056	1,618,449	1,038,308	(4,780,440)	17,141	(4,763,299)
General Revenues and Transfers:						
General revenues:						
Local tax for:						
General purposes				\$ 1,580,218	0	1,580,218
Debt service				329,497	0	329,497
Capital outlay				47,488	0	47,488
Income surtax				249,692	0	249,692
Statewide sales and services				459,007	0	459,007
Unrestricted state grants				2,159,040	0	2,159,040
Unrestricted investment earnings				25,994	1,981	27,975
Other general revenues				66,049	843	66,892
Transfers				(59,058)	59,058	0
Total general revenues and transfers				4,857,927	61,882	4,919,809
Changes in net assets				77,487	79,023	156,510
Net assets beginning of year				5,120,332	95,138	5,215,470
Net assets end of year				\$ 5,197,819	174,161	5,371,980

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	Other Nonmajor Governmental		
	General	Funds	Total
ASSETS			
Cash and pooled investments	\$ 1,199,247	241,434	1,440,681
Receivables:			
Property tax:			
Delinquent	32,904	10,045	42,949
Succeeding year	1,678,861	396,942	2,075,803
Income surtax	211,429	0	211,429
Due from other governments	454,110	76,883	530,993
TOTAL ASSETS	\$ 3,576,551	725,304	4,301,855
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 81,647	84,381	166,028
Salaries and benefits payable	586,530	0	586,530
Deferred revenue:			
Succeeding year property tax	1,678,861	396,942	2,075,803
Income surtax	211,429	0	211,429
Other	2,728	0	2,728
Total liabilities	<u>2,561,195</u>	<u>481,323</u>	<u>3,042,518</u>
Fund balances:			
Reserved for:			
Debt service	0	26,306	26,306
Categorical funding	20,027	0	20,027
Unreserved	995,329	217,675	1,213,004
Total fund balances	<u>1,015,356</u>	<u>243,981</u>	<u>1,259,337</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,576,551	725,304	4,301,855

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2009

Total fund balances of governmental funds (page 15)	\$	1,259,337
 <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.		5,604,850
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(12,849)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		211,429
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(1,864,948)</u>
Net assets of governmental activities (page 13)	\$	<u><u>5,197,819</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,733,125	915,988	2,649,113
Tuition	1,249,924	0	1,249,924
Other	134,865	193,186	328,051
State sources	2,811,931	289	2,812,220
Federal sources	198,624	0	198,624
Total revenues	<u>6,128,469</u>	<u>1,109,463</u>	<u>7,237,932</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	2,824,699	42,021	2,866,720
Special	742,209	0	742,209
Other	620,397	159,231	779,628
	<u>4,187,305</u>	<u>201,252</u>	<u>4,388,557</u>
Support services:			
Student	243,906	0	243,906
Instructional staff	137,313	0	137,313
Administration	672,193	4,514	676,707
Operation and maintenance of plant	572,146	39,940	612,086
Transportation	374,409	14,410	388,819
	<u>1,999,967</u>	<u>58,864</u>	<u>2,058,831</u>
Non-instructional programs:			
Community service and other enterprise operations	214	0	214
Food service operations	0	1,451	1,451
	<u>214</u>	<u>1,451</u>	<u>1,665</u>
Other expenditures:			
Facilities acquisitions	0	350,732	350,732
Long-term debt:			
Principal	0	593,791	593,791
Interest and fiscal charges	0	73,026	73,026
AEA flowthrough	199,657	0	199,657
	<u>199,657</u>	<u>1,017,549</u>	<u>1,217,206</u>
Total expenditures	<u>6,387,143</u>	<u>1,279,116</u>	<u>7,666,259</u>
Deficiency of revenues under expenditures before other financing sources (uses)	(258,674)	(169,653)	(428,327)
Other financing sources (uses):			
Transfers in	0	373,340	373,340
Transfers out	(59,058)	(373,340)	(432,398)
Sale of equipment	4,650	0	4,650
Total other financing sources (uses)	<u>(54,408)</u>	<u>0</u>	<u>(54,408)</u>
Net change in fund balances	(313,082)	(169,653)	(482,735)
Fund balance beginning of year	<u>1,328,438</u>	<u>413,634</u>	<u>1,742,072</u>
Fund balance end of year	<u>\$ 1,015,356</u>	<u>243,981</u>	<u>1,259,337</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2009

Net change in fund balances - total governmental funds (page 17) \$ (482,735)

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays, depreciation expense, and loss on the disposal of assets in the year are as follows:

Capital outlays	\$ 304,119	
Depreciation expense	(355,818)	
Loss on asset disposal	(959)	(52,658)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 16,789

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 593,791
 liabilities in the Statement of Net Assets.

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest 2,300

Changes in net assets of governmental activities (page 14) \$ 77,487

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2009

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 112,255
Receivables:	
Other	44
Inventories	6,806
Capital assets, net of accumulated depreciation	76,462
Total assets	195,567
LIABILITIES:	
Accounts payable	5,724
Salaries and benefits payable	12,187
Unearned revenue	3,495
Total liabilities	21,406
NET ASSETS:	
Invested in capital assets	76,462
Unrestricted	97,699
Total net assets	\$ 174,161

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 188,352
Miscellaneous revenue	843
Total operating revenues	189,195
Operating expenses:	
Support services:	
Administration:	
Salaries	8,640
Benefits	2,306
Operation and maintenance of plant:	
Services	5,087
Total support services	16,033
Non-instructional programs:	
Food service operations:	
Salaries	87,533
Benefits	22,663
Services	6,322
Supplies	154,543
Depreciation	10,795
Other	8
Total non-instructional programs	281,864
Total operating expenses	297,897
Operating loss	(108,702)
Non-operating revenues(expenses):	
Loss on asset disposal	(292)
State sources	3,796
Federal sources	123,182
Interest on investments	1,981
Total non-operating revenues(expenses)	128,667
Change in assets before other financing sources	19,965
Other financing sources:	
Transfer in	59,058
Change in net assets	79,023
Net assets beginning of year	95,138
Net assets end of year	\$ 174,161

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 187,744
Cash received from miscellaneous operating activities	843
Cash payments to employees for services	(122,062)
Cash payments to suppliers for goods or services	(137,024)
Net cash used in operating activities	(70,499)
Cash flows from non-capital financing activities:	
Transfer from the General Fund	59,058
State grants received	3,796
Federal grants received	97,885
Net cash provided by non-capital financing activities	160,739
Cash flows from capital and related financing activities:	
Purchase of capital assets	(59,223)
Cash flows from investing activities:	
Interest on investments	1,981
Net increase in cash and cash equivalents	32,998
Cash and cash equivalents at beginning of year	79,257
Cash and cash equivalents at end of year	\$ 112,255
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (108,702)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	25,297
Depreciation	10,795
Increase in inventories	(2,085)
Decrease in accounts receivable	4
Increase in accounts payable	5,724
Decrease in salaries and benefits payable	(920)
Decrease in unearned revenue	(612)
Net cash used in operating activities	\$ (70,499)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 112,255
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2009, the District received Federal commodities valued at \$25,297.	

SEE NOTES TO BASIC FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

(1) **Summary of Significant Accounting Policies**

The Northeast Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Goose Lake, Iowa, and the predominate agricultural territory in Clinton County. 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, Northeast 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 Northeast Community School District has no component units which 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 do 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 Clinton Counties Assessors' 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 support.

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 that are attributed to the acquisition, construction, or improvement of those assets.

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

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but 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 that 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 that are 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 and proprietary 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 other 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 receipts that are 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 expenses, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 judgments, 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 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 nonoperating 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 nonoperating 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 Balances

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, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are 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 that 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 become due and collectible in September and March of the fiscal year with a 1½% 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, machinery, 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 repairs 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.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

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 receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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 Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are 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 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.

(2) **Cash and Pooled Investments**

The District's deposits in bank 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.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The certificates of deposit are classified as Category 1, which means the investments are insured and are held by the District in the District's name. Investments are stated at fair value.

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

	<u>Fair Value</u>
Diversified Portfolio	<u>\$ 86</u>

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

Credit Risk. The investments in the Iowa School Joint Investment Trust were both rated at Aaa by Moody's Investors Services.

(3) 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>
Debt Service	Capital Projects	\$ 253,748
Special Revenue, Physical Plant and Equipment Levy	Capital Projects	36,046
Debt Service	Special Revenue, Physical Plant and Equipment Levy	83,546
Nutrition Fund	General Fund	<u>59,058</u>
Total		<u>\$ 432,398</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The Special Revenue, Physical Plant and Equipment Levy transferred monies to the Debt Service for payment of bus lease.

The Capital Projects Fund transferred monies to the Special Revenue, Physical Plant and Equipment Levy for payment of bus lease.

The Capital Projects Fund transferred monies to the Debt Service Fund for the relief of revenue bonds.

The General Fund transferred monies to the Nutrition Fund for the purchase of equipment.

(4) Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 116,677	86,228	0	202,905
Construction in progress	55,891	137,181	0	193,072
Total capital assets not being depreciated	<u>172,568</u>	<u>223,409</u>	<u>0</u>	<u>395,977</u>
Capital assets being depreciated:				
Buildings	6,802,083	16,293	0	6,818,376
Land improvements	1,196,195	16,160	0	1,212,355
Machinery and equipment	2,416,863	48,257	41,826	2,423,294
Total capital assets being depreciated	<u>10,415,141</u>	<u>80,710</u>	<u>41,826</u>	<u>10,454,025</u>
Less accumulated depreciation for:				
Buildings	2,593,591	138,370	0	2,731,961
Land improvements	481,832	58,565	0	540,397
Machinery and equipment	1,854,778	158,883	40,867	1,972,794
Total accumulated depreciation	<u>4,930,201</u>	<u>355,818</u>	<u>40,867</u>	<u>5,245,152</u>
Total capital assets being depreciated, net	<u>5,484,940</u>	<u>(275,108)</u>	<u>959</u>	<u>5,208,873</u>
Governmental activities capital assets, net	<u>\$ 5,657,508</u>	<u>(51,699)</u>	<u>959</u>	<u>5,604,850</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 145,030	59,223	7,232	197,021
Less accumulated depreciation	116,704	10,795	6,940	120,559
Business type activities capital assets, net	\$ 28,326	48,428	292	76,462

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 19,410
Support services:		
Administration		10,786
Operation and maintenance of plant		28,206
Transportation		100,481
		<u>158,883</u>
Unallocated depreciation		<u>196,935</u>
Total governmental activities depreciation expense		<u>\$ 355,818</u>
Business type activities:		
Food services		<u>\$ 10,795</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation	\$ 2,050,000	0	265,000	1,785,000	275,000
Revenue Bonds	250,000	0	250,000	0	0
Bus Lease	158,739	0	78,791	79,948	79,948
Total	\$ 2,458,739	0	593,791	1,864,948	354,948

General Obligation Bonds Payable

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue dated May 1, 2004		
		Principal	Interest	Total
2010	3.00 %	\$ 275,000	56,835	331,835
2011	3.00	280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		\$ 1,785,000	209,295	1,994,295

Bus Lease Payable

Details of the District's bus lease indebtedness are as follows:

Year Ending June 30,	Bus Lease dated September 27, 2007			
	Interest Rates	Principal	Interest	Total
2010	4.50 %	\$ 79,948	3,598	83,546

(6) Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$700 per month until either the District or the landlord terminates the lease.

(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 payroll for the year ended June 30, 2009, 2008 and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$243,218, \$213,890, and \$192,538, respectively, equal to the required contributions for each year.

(8) Risk Management

Northeast Community School 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 \$199,657 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.

(10) Construction Commitments

The District has entered into various contracts for a playground project. As of June 30, 2009, costs of \$193,072 have been incurred against the contract.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2009, expenditures in the non-instructional programs other expenditures functional exceeded the amount budgeted.

(12) Other Postemployment Benefits (OPEB)

GASB Statement Number 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This statement establishes standards for the measurement, recognition, and display of other postemployment benefits expenses and related liabilities or assets note disclosures, and if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement Number 45 for the year ending June 30, 2010.

(13) Categorical Funding

The District's ending balance for categorical funding by project as of the year ended June 30, 2009, are as follows:

Project	Amount
Salary Improvement Program	\$ 2,499
Contracts for the Professional Development/ Technical Assistance Seminars	2,197
Market factor	4,578
Professional Development for Model Core Curriculum	6,306
Market factor incentives	4,447
	<hr/>
Total	\$ 20,027
	<hr/> <hr/>

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Fund Types	Fund Type		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 4,227,088	191,176	4,418,264	3,910,992	3,910,992	507,272
State sources	2,812,220	3,796	2,816,016	2,823,081	2,823,081	(7,065)
Federal sources	198,624	123,182	321,806	174,900	174,900	146,906
Total revenues	<u>7,237,932</u>	<u>318,154</u>	<u>7,556,086</u>	<u>6,908,973</u>	<u>6,908,973</u>	<u>647,113</u>
Expenditures/expenses:						
Instruction	4,388,557	0	4,388,557	4,615,800	4,615,800	227,243
Support services	2,058,831	16,033	2,074,864	2,176,100	2,176,100	101,236
Non-instructional programs	1,665	282,156	283,821	271,600	271,600	(12,221)
Other expenditures	1,217,206	0	1,217,206	967,349	1,150,000	(67,206)
Total expenditures/expenses	<u>7,666,259</u>	<u>298,189</u>	<u>7,964,448</u>	<u>8,030,849</u>	<u>8,213,500</u>	<u>249,052</u>
Excess(deficiency) of revenues over(under) expenditures/expenses before other financing sources(uses)	(428,327)	19,965	(408,362)	(1,121,876)	(1,304,527)	896,165
Other financing sources, net	(54,408)	59,058	4,650	500	500	4,150
Excess(deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	(482,735)	79,023	(403,712)	(1,121,376)	(1,304,027)	900,315
Balance beginning of year	1,742,072	95,138	1,837,210	1,774,892	1,774,892	62,318
Balance end of year	<u>\$ 1,259,337</u>	<u>174,161</u>	<u>1,433,498</u>	<u>653,516</u>	<u>470,865</u>	<u>962,633</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST 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 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 the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing other expenditures by \$182,651. During the year ended June 30, 2009, expenditures in the non-instructional programs and other expenditures functional areas exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue Funds						Total
	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 21,407	164,249	450	186,106	36,262	19,066	241,434
Receivables:							
Property tax:							
Current year delinquent	0	1,761	1,044	2,805	0	7,240	10,045
Succeeding year	0	90,000	49,707	139,707	0	257,235	396,942
Due from other governments	3,073	0	0	3,073	73,810	0	76,883
TOTAL ASSETS	\$ 24,480	256,010	51,201	331,691	110,072	283,541	725,304
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 3,446	131	0	3,577	80,804	0	84,381
Deferred revenue:							
Succeeding year property tax	0	90,000	49,707	139,707	0	257,235	396,942
Total liabilities	3,446	90,131	49,707	143,284	80,804	257,235	481,323
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	26,306	26,306
Unreserved	21,034	165,879	1,494	188,407	29,268	0	217,675
Total fund balances	21,034	165,879	1,494	188,407	29,268	26,306	243,981
TOTAL LIABILITIES AND FUND BALANCES	\$ 24,480	256,010	51,201	331,691	110,072	283,541	725,304

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST 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
	Student Activity	Manage- ment Levy	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 0	79,996	47,488	127,484	459,007	329,497	915,988
Other	164,404	12,253	0	176,657	15,600	929	193,186
State sources	0	49	29	78	0	211	289
TOTAL REVENUES	164,404	92,298	47,517	304,219	474,607	330,637	1,109,463
EXPENDITURES:							
Current:							
Instruction:							
Regular	0	21,771	0	21,771	20,250	0	42,021
Other	159,231	0	0	159,231	0	0	159,231
Support services:							
Administration	0	4,514	0	4,514	0	0	4,514
Operation and maintenance of plant	0	39,940	0	39,940	0	0	39,940
Student transportation	0	14,410	0	14,410	0	0	14,410
Non-instructional programs:							
Food service operations	0	1,451	0	1,451	0	0	1,451
Other expenditures:							
Facilities acquisitions	0	0	0	0	350,732	0	350,732
Long-term debt:							
Principal	0	0	0	0	0	593,791	593,791
Interest and fiscal charges	0	0	0	0	0	73,026	73,026
TOTAL EXPENDITURES	159,231	82,086	0	241,317	370,982	666,817	1,279,116
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES							
BEFORE OTHER FINANCING SOURCES (USES)	5,173	10,212	47,517	62,902	103,625	(336,180)	(169,653)
OTHER FINANCING SOURCES (USES):							
Transfers in	0	0	36,046	36,046	0	337,294	373,340
Transfers out	0	0	(83,546)	(83,546)	(289,794)	0	(373,340)
TOTAL OTHER FINANCING SOURCE (USES)	0	0	(47,500)	(47,500)	(289,794)	337,294	0
NET CHANGE IN FUND BALANCES	5,173	10,212	17	15,402	(186,169)	1,114	(169,653)
FUND BALANCE BEGINNING OF YEAR	15,861	155,667	1,477	173,005	215,437	25,192	413,634
FUND BALANCE END OF YEAR	\$ 21,034	165,879	1,494	188,407	29,268	26,306	243,981

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Drama	\$ 2,742	2,549	2,943	0	2,348
Music	0	24	858	834	0
Cross Country	0	1,275	634	0	641
Golf	0	349	2,276	1,927	0
HS Cheerleading	(2,247)	811	1,751	0	(3,187)
Cheerleading Fundraiser	53	1,771	1,273	0	551
MS Boys Basketball	0	531	1,018	487	0
HS Boys Basketball	1,106	4,046	6,195	1,043	0
HS Boys Basketball Tournament	5,627	0	804	0	4,823
MS Football	0	564	584	20	0
HS Football	673	15,983	10,745	0	5,911
HS Football Fundraising	846	3,312	2,267	0	1,891
HS Boys Soccer	0	748	6,831	0	(6,083)
Baseball	(4,446)	1,198	4,064	0	(7,312)
Baseball Fundraising	193	823	1,016	0	0
MS Boys Track	0	918	588	0	330
HS Boys Track	(4,158)	2,965	4,007	0	(5,200)
Boys Track Fundraising	575	10,294	9,041	0	1,828
MS Wrestling	0	1,158	315	0	843
HS Wrestling	0	4,020	6,979	0	(2,959)
Wrestling Fundraising	856	11,065	10,718	0	1,203
MS Girls Basketball	0	222	790	568	0
HS Girls Basketball	(3,512)	3,293	2,549	2,202	(566)
HS Girls Basketball Fundraising	50	778	1,178	0	(350)
MS Volleyball	0	420	344	0	76
HS Volleyball	0	2,908	3,014	106	0
HS Volleyball Fundraising	496	6,992	6,555	0	933
MS Girls Softball	0	0	250	250	0
HS Softball	(3,854)	2,060	3,141	0	(4,935)
HS Softball Fundraising	762	7,296	10,549	0	(2,491)
MS Girls Track	0	943	603	0	340
HS Girls Track	(3,845)	5,743	3,468	1,570	0
HS Girls Track Fundraising	542	2,264	714	0	2,092
Activity General Activities	0	10,131	2,288	(7,843)	0
Activity Interest Account	0	137	0	(137)	0
Student Center-Vending Commissions	0	1,027	0	(1,027)	0
Post Prom	670	4,439	4,059	0	1,050
Student Leadership	51	304	289	0	66
Spanish Club	2	10	0	0	12
Dance Team	257	83	80	0	260
S.S.D.D.	749	1,583	2,240	0	92
NHS Fundraising	0	549	510	0	39
FBLA	2,157	10,575	10,406	0	2,326
FTA	2,433	0	892	0	1,541
FFA	7,642	29,416	22,214	0	14,844
MS Student Council	682	168	51	0	799
HS Student Council	212	1,170	949	0	433
Class of 2009	0	475	839	0	(364)
Class of 2010	2,463	0	1,992	0	471
Class of 2011	2,494	0	0	0	2,494
Class of 2012	2,309	0	0	0	2,309
Class of 2013	1,185	4,232	3,381	0	2,036
Class of 2014	0	1,613	0	0	1,613
6th Grade Store	96	1,169	979	0	286
Total	\$ 15,861	164,404	159,231	0	21,034

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 2,649,113	2,660,377	2,692,210	2,547,106	2,580,192	2,686,990
Tuition	1,249,924	1,047,153	860,319	713,013	522,446	549,462
Other	328,051	345,411	317,999	328,816	379,225	267,975
Intermediate sources	0	29,470	36,864	38,159	36,975	31,654
State sources	2,812,220	2,727,325	2,777,706	2,772,517	2,654,881	2,551,781
Federal sources	198,624	99,773	115,911	106,236	150,752	217,338
Total	<u>\$ 7,237,932</u>	<u>6,909,509</u>	<u>6,801,009</u>	<u>6,505,847</u>	<u>6,324,471</u>	<u>6,305,200</u>
Expenditures:						
Current:						
Instruction:						
Regular	\$ 2,866,720	2,655,381	2,512,909	2,354,686	2,310,146	2,512,182
Special	742,209	677,998	704,686	612,022	615,999	828,275
Other	779,628	748,162	680,686	690,736	651,797	545,153
Support services:						
Student	243,906	228,253	227,253	209,714	198,822	167,693
Instructional staff	137,313	121,472	108,100	138,799	147,828	91,353
Administration	676,707	629,884	590,011	608,683	607,246	565,233
Operation and maintenance of plant	612,086	561,162	573,790	555,690	464,450	441,993
Transportation	388,819	679,148	502,626	446,526	420,152	410,255
Non-instructional programs	1,665	5,469	2,901	2,663	1,386	774
Other expenditures:						
Facilities acquisitions	350,732	137,363	157,320	134,943	284,933	949,633
Long-term debt:						
Principal	593,791	380,000	370,000	360,000	2,940,000	208,000
Interest and other charges	73,026	77,462	85,858	93,423	263,183	204,897
AEA flow-through	199,657	195,507	192,793	186,543	185,900	189,565
Total	<u>\$ 7,666,259</u>	<u>7,097,261</u>	<u>6,708,933</u>	<u>6,394,428</u>	<u>9,091,842</u>	<u>7,115,006</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

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 the
Northeast 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 Northeast 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 February 25, 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 Northeast 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 Northeast Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast 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 Northeast 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 Northeast Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northeast Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings 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 Northeast 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 item I-A-09 is a material weakness.

Compliance and Other Matters

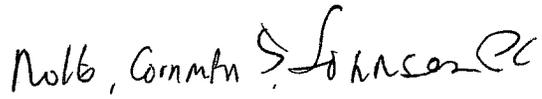
As part of obtaining reasonable assurance about whether Northeast Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have 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.

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.

Northeast Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northeast 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 Northeast Community School District and other parties to whom Northeast Community School District may report, including federal awarding agencies and pass-through entities. 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 Northeast 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.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2010

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

NORTHEAST COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting:

II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009 exceeded the amount budgeted in non-instructional and other expenditures functional areas.

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

Response - The District will monitor the budget more closely and amend it as necessary.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the Student Activity Fund. Gift cards do not appear to meet public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Also, during our audit we noted that Superintendent, Principals, and Custodians were receiving free lunches from the District's nutrition program.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply. The District should discontinue this practice and require employees to pay for their own lunches or add the value of the meals to the employees' W-2 as additional compensation. If the District allows the meals and includes them on the employee's W-2, then the General Fund should transfer the cost of meals to the Nutrition Fund.

Response - The District will add the taxable benefit to the employee's W-2. We will look at alternatives to eliminate the deficits.

Conclusion - Response accepted.

II-C-09 Travel Expense - 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.

II-D-09 Business Transactions - We noted no business transactions between the District and District officials or employees.

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

II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-09 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

- II-H-09 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Service Tax - During our audit, there was no instances of non-compliance noted with the use of the statewide sales and services tax revenue provisions Chapter 423F.3 of the Code of Iowa.

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 services tax are as follows:

Beginning Balance		\$	0
Statewide sales and services tax revenue			<u>459,007</u>
Expenditures/transfers out:			
School infrastructures:			
Buildings	\$	163,200	
Equipment		42,059	
Debt service for school infrastructure:			
Revenue Debt		<u>253,748</u>	<u>459,007</u>
Ending Balance		<u>\$</u>	<u>0</u>

- II-L-09 Financial Condition - The District had ten deficit account balances in the Activity Fund totaling \$33,447.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will look at alternatives to eliminate negative activity fund balances.

Conclusion - Response accepted.

- II-M-09 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8)." Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation – We noted during our audit that the Activity Fund was awarding scholarships. Any funds raised for the scholarships should be receipted and expended from the Private Purpose Trust Funds.

The District writes various checks throughout the year being written to “Cash or Petty Cash” instead of the custodian/sponsor for these events. Checks made out to “Cash or Petty Cash” are bearer paper and in the event the check would be lost or stolen, anyone could cash the check. In the future the District should write the check payable to the custodian/sponsor.

Response – The District will transfer funds from the Activity Fund to the Private Purpose Trust Fund to pay scholarship awards to students. The District will also write checks for “Cash or Petty Cash” payable to the custodian/sponsor of the event.

Conclusion - Response accepted.