

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Governmental Fund Financial Statements:		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	26
Statement of Changes in Fiduciary Net Assets	K	27
Notes to Financial Statements		28-37
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	42
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	43
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	44
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	45
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	46
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 <u>Government Auditing Standards</u>		47-48
Schedule of Findings and Responses		49-53



Gary E. Horton CPA

902 Central Ave. East - PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of  
North Kossuth 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 North Kossuth Community School District, Swea City, 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 North Kossuth 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 report dated April 28, 2010, on our consideration of North Kossuth 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 13 and 39 through 40 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 North Kossuth 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

April 28, 2010

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

North Kossuth 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 \$3,503,274 in fiscal 2008 to \$3,741,566 in fiscal 2009, while General Fund expenditures decreased from \$3,844,592 in fiscal 2008 to \$3,785,724 in fiscal 2009. The District's General Fund balance decreased from \$302,760 in fiscal 2008 to \$293,602 in fiscal 2009, a 3% decrease.
- The increase in General Fund revenues was attributable to an increase in local property taxes and federal grant revenue in fiscal 2009. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2009. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

### 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 North Kossuth 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 North Kossuth 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 North Kossuth 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-1**  
**North Kossuth Community School District Annual Financial Report**

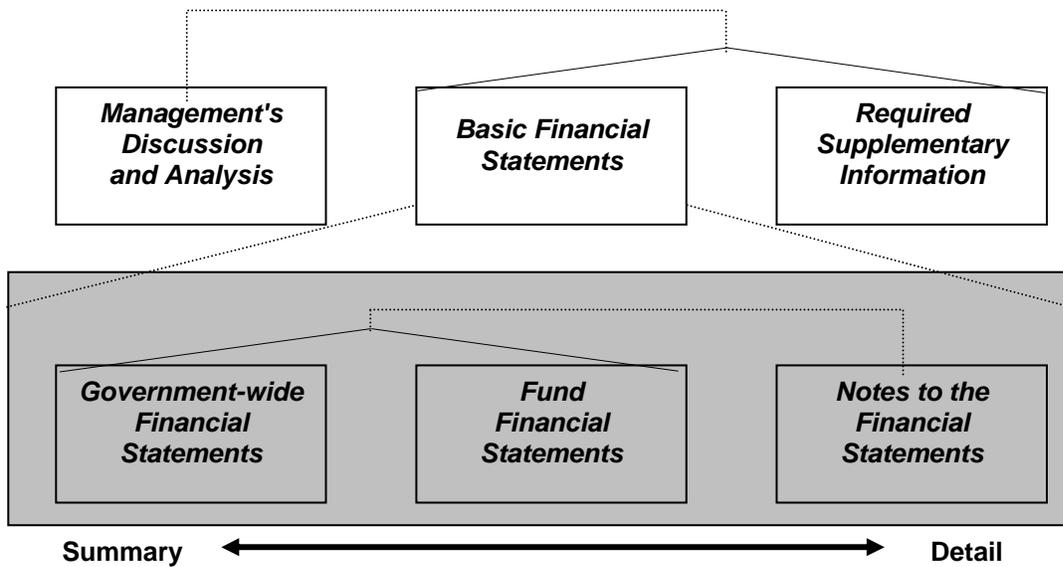


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<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 three kinds of funds:

*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.

- 1) *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 District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has two internal service funds; one used to account for the District's employee flexible benefit plan and one used to reimburse employees for a portion of their health insurance deductible.

- 2) 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 Private-Purpose Trust and Agency Funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
  - 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							
	Governmental Activities		Business-type Activities		Total School District		Percentage Change
	2008	2009	2008	2009	2008	2009	2008-09
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,255,021	3,637,101	-22,472	-24,391	3,232,549	3,612,710	12%
Capital assets	3,044,313	3,039,749	66,542	60,306	3,110,855	3,100,055	-1%
<b>Total assets</b>	<b>6,299,334</b>	<b>6,676,850</b>	<b>44,070</b>	<b>35,915</b>	<b>6,343,404</b>	<b>6,712,765</b>	<b>6%</b>
Long-term liabilities	585,982	442,103	-	-	585,982	442,103	-25%
Other liabilities	2,199,612	2,498,225	1,005	1,932	2,200,617	2,500,157	14%
<b>Total liabilities</b>	<b>2,785,594</b>	<b>2,940,328</b>	<b>1,005</b>	<b>1,932</b>	<b>2,786,599</b>	<b>2,942,260</b>	<b>6%</b>
Net Assets:							
Invested in capital assets, net of related debt	2,549,313	2,664,749	66,542	60,306	2,615,855	2,725,055	4%
Restricted	438,466	581,992	-	-	438,466	581,992	34%
Unrestricted	525,961	489,781	-23,477	-26,323	502,484	463,458	-8%
<b>TOTAL NET ASSETS</b>	<b>3,513,740</b>	<b>3,736,522</b>	<b>43,065</b>	<b>33,983</b>	<b>3,556,805</b>	<b>3,770,505</b>	<b>6%</b>

The District’s combined total net assets increased by nearly 6%, or approximately \$213,700, over the prior year. The largest portion of the District’s net assets is 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 increased approximately \$143,526 or nearly 34% over the prior year. The increase was primarily a result of sales taxes that were collected, but not spent in fiscal year 2009.

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 \$39,026, or 8%. 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 2008-09
	Governmental Activities		Business-type Activities		Total School District		
	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	
Revenues							
Program Revenues:							
Charges for services	563,725	507,551	41,697	68,923	605,422	576,474	8%
Operating grants & contributions	612,413	704,587	30,525	66,474	642,938	770,587	20%
Capital grants & contributions	-	43,000	-	-	-	43,000	100%
General Revenues:							
Property taxes	1,569,826	2,047,960	-	-	1,569,826	2,047,960	31%
Income Surtax	275,107	256,455	-	-	275,107	256,455	-7%
Statewide sales & services tax	200,907	235,264	-	-	200,907	235,264	17%
Unrestricted state grants	1,067,696	726,390	-	-	1,067,696	726,390	-32%
ARRA stabilization	-	26,571	-	70	-	26,641	100%
Unrestricted investment earnings	20,331	16,456	57	-	20,388	16,456	-19%
Other revenue	27,222	9,256	-	-	27,222	9,256	-66%
<b>Total Revenues</b>	<b>4,337,227</b>	<b>4,573,490</b>	<b>72,279</b>	<b>135,467</b>	<b>4,409,506</b>	<b>4,708,483</b>	<b>7%</b>
Expenses:							
Instruction	2,794,967	2,913,567	-	-	2,794,967	2,913,567	4%
Support services	1,340,334	1,101,252	-	-	1,340,334	1,101,252	-18%
Non-instructional programs	-	-	90,654	144,549	90,654	144,549	59%
Other expenditures	285,529	335,415	-	-	285,529	335,415	17%
<b>Total expenses</b>	<b>4,420,830</b>	<b>4,350,234</b>	<b>90,654</b>	<b>144,549</b>	<b>4,511,484</b>	<b>4,494,783</b>	<b>-1%</b>
<b>CHANGE IN NET ASSETS</b>	<b>-83,603</b>	<b>222,782</b>	<b>-18,375</b>	<b>-9,082</b>	<b>-101,978</b>	<b>213,700</b>	<b>309%</b>
Net assets beginning of year	3,597,343	3,513,740	61,440	43,065	3,658,783	3,556,805	-3%
<b>Net assets end of year</b>	<b>3,513,740</b>	<b>3,736,522</b>	<b>43,065</b>	<b>33,983</b>	<b>3,556,805</b>	<b>3,770,505</b>	<b>6%</b>

Property tax and unrestricted state grants account for 59% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$4,573,490 and expenses were \$4,350,234. Increase in revenue was mainly due to an increase in property tax and the ARRA stabilization funds. Expenses decreased 1% due to offsetting the instruction expense increase with cuts in the support services.

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.

	Total Cost of Services			Net Cost of Services		
	2008	2009	Change 2008-09	2008	2009	Change 2008-09
	\$	\$		\$	\$	
Instruction	2,794,967	2,913,567	4%	1,796,511	1,870,246	4%
Support Services	1,340,334	1,101,252	-18%	1,300,488	1,069,124	-18%
Other Expenses	285,529	335,415	17%	147,693	156,200	6%
<b>TOTAL</b>	<b>4,420,830</b>	<b>4,350,234</b>	<b>-2%</b>	<b>3,244,692</b>	<b>3,095,570</b>	<b>-5%</b>

- The cost financed by users of the District's programs was \$507,551. 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 \$704,113.
- The net cost of governmental activities was financed with \$2,539,679 in property and local other taxes and \$726,390 in unrestricted state grants.
- **Business Type Activities**

Revenues for business type activities were \$135,467 and expenses were \$144,549. 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 revenue and expenses due to the increased number of students being served. However, the district is continuing to decrease the program's change in net assets (loss was 50% less than in 2008). Steps will continue to be taken to reduce costs and increase student participation in both lunch and breakfast programs.

## INDIVIDUAL FUND ANALYSIS

As previously noted, North Kossuth 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 \$810,931, above last year's ending fund balances of \$688,570, an increase of \$122,361. Most of this increase is attributable to the non-major governmental funds.

## **Governmental Fund Highlights**

The District's deteriorating General Fund financial position is the result of many factors. The General Fund balance decreased from \$302,760 to \$293,602, a \$9,158 or nearly a 3% decrease. General Fund revenue increased 1% mainly due to increased local tax. Expenditures decreased by 2% mainly in the support staff area. However, this was not enough to offset a decrease in the General Fund ending balance.

- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$126,347 in fiscal 2008 to \$92,720 in fiscal 2009. Several major expenses were incurred in 2009. A fence was built to secure the grounds, a security camera system was installed, several classrooms were remodeled and the heating system was upgraded.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$43,065 at June 30, 2008 to \$33,983 at June 30, 2009, representing a decrease of approximately 21%. The School Nutrition program continued to operate at a loss. However, the loss was 9% less than in 2008. Costs continued to rise, staff hours were increased to accommodate serving more students, however, student prices were not increased due to the economy.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, North Kossuth Community School District amended its annual budget one time to reflect potential additional expenditures in the instruction function.

The District's receipts were \$275,089 more than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving more in federal and state sources than originally anticipated.

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**

At June 30, 2008, the District had invested \$3,110,055, 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 decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$175,535.

The largest change in capital asset activity during the year occurred when improvements were made to existing structures. Improvements included a camera security system, fencing to secure the grounds, upgrading the heating system and playground equipment.

Figure A-6

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2008-09
	Activities		Activities		School District		
	2008	2009	2008	2009	2008	2009	
	\$	\$	\$	\$	\$	\$	
Land	30,725	30,725	-	-	30,725	30,725	0%
Buildings	2,444,503	2,406,105	-	-	2,444,503	2,406,105	-2%
Improvements Equipment & Furniture	4,405	74,299	-	-	4,405	74,299	1587%
	564,680	528,620	66,542	60,306	631,222	588,926	-7%
<b>TOTAL</b>	<b>3,044,313</b>	<b>3,039,749</b>	<b>66,542</b>	<b>60,306</b>	<b>3,110,855</b>	<b>3,100,055</b>	<b>-1%</b>

**Long-Term Debt**

At June 30, 2009 the District had \$442,103 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 25% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2008-2009
	2008	2009	
	\$	\$	
Capital Loan Notes	495,000	375,000	-24%
Termination Benefits	78,382	57,653	-26%
Compensated Absences	12,600	9,450	-25%
<b>Total</b>	<b>585,982</b>	<b>442,103</b>	<b>-25%</b>

**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:

- School financing is highly dependent upon student enrollment. The District's October 2009 enrollment had a slight increase. This increase in enrollment will slightly increase the District's funding for fiscal year 2011.
- Negotiations for the Master Contract with the North Kossuth Education Association will require an increase in salary and benefit costs. Only one employee is considering retirement at this time. 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.

- North Kossuth and Sentral schools will be entering into their second year of a whole grade sharing arrangement started in 2008-09. Bus routes were consolidated and a route position was eliminated. A teaching position and an At-Risk position were cut along with the loss of a seasoned administrator helped defray costs this year. North Kossuth employment needs will continue to be assessed.

## **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 Kay Hardt, District Secretary/Treasurer and Business Manager, North Kossuth Community School District, 203 5<sup>th</sup> Street North, Swea City, IA 50590.

## BASIC FINANCIAL STATEMENTS

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	188,385	-	188,385
Other	743,611	3,328	746,939
Receivables:			
Property tax:			
Delinquent	22,754	-	22,754
Succeeding year	2,225,335	-	2,225,335
Accounts	11,243	135	11,378
Accrued interest ISCAP	1,742	-	1,742
Interfund balances	32,836	(32,836)	-
Due from other governments	411,195	-	411,195
Inventories	-	4,982	4,982
Capital assets, net of accumulated depreciation	3,039,749	60,306	3,100,055
<b>Total assets</b>	<b>6,676,850</b>	<b>35,915</b>	<b>6,712,765</b>
<b>Liabilities</b>			
Accounts payable	57,845	-	57,845
Salaries and benefits payable	11,904	177	12,081
Accrued interest payable	2,180	-	2,180
Deferred revenue:			
Succeeding year property tax	2,225,335	-	2,225,335
Other	10,486	1,755	12,241
ISCAP warrants payable	186,000	-	186,000
ISCAP accrued interest payable	2,446	-	2,446
ISCAP premium	2,029	-	2,029
Long-term liabilities:			
Portion due within one year:			
Capital loan notes payable	120,000	-	120,000
Termination benefits	19,309	-	19,309
Compensated absences	3,150	-	3,150
Portion due after one year:			
Capital loan notes payable	255,000	-	255,000
Termination benefits	38,344	-	38,344
Compensated absences	6,300	-	6,300
<b>Total liabilities</b>	<b>2,940,328</b>	<b>1,932</b>	<b>2,942,260</b>

## NORTH KOSSUTH 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	2,664,749	60,306	2,725,055
Restricted for:			
Categorical funding	28,740	-	28,740
Management levy	45,578	-	45,578
Physical plant and equipment levy	186,296	-	186,296
Other special revenue purposes	47,885	-	47,885
Sales tax capital projects	273,493	-	273,493
Unrestricted	489,781	(26,323)	463,458
<b>Total net assets</b>	<u>3,736,522</u>	<u>33,983</u>	<u>3,770,505</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

<b>Functions/Programs</b>	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,580,199	162,248	338,597	-
Special	733,770	180,996	120,247	-
Other	599,598	164,157	77,076	-
	<u>2,913,567</u>	<u>507,401</u>	<u>535,920</u>	<u>-</u>
Support services:				
Student	45,888	-	-	-
Instructional staff	41,973	-	-	-
Administration	447,403	-	-	-
Operation and maintenance of plant	316,223	150	-	-
Transportation	249,765	-	31,978	-
	<u>1,101,252</u>	<u>150</u>	<u>31,978</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	109,099	-	-	43,000
Long-term debt interest	16,730	-	-	-
AEA flowthrough	136,215	-	136,215	-
Depreciation (unallocated)*	73,371	-	-	-
	<u>335,415</u>	<u>-</u>	<u>136,215</u>	<u>43,000</u>
Total governmental activities	4,350,234	507,551	704,113	43,000
Business type activities:				
Non-instructional programs:				
Food service operations	144,549	68,923	66,474	-
Total	<u>4,494,783</u>	<u>576,474</u>	<u>770,587</u>	<u>43,000</u>

**General Revenues:**

Property taxes levied for:	
General purposes	
Capital outlay	
Income surtax	
Statewide sales and services tax	
Unrestricted state grants	
ARRA stabilization	
Unrestricted investment earnings	
Other	
Total general revenues	

**Change in net assets**

Net assets beginning of year	
Net assets end of year	

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,079,354)	-	(1,079,354)
(432,527)	-	(432,527)
(358,365)	-	(358,365)
<u>(1,870,246)</u>	<u>-</u>	<u>(1,870,246)</u>
(45,888)	-	(45,888)
(41,973)	-	(41,973)
(447,403)	-	(447,403)
(316,073)	-	(316,073)
(217,787)	-	(217,787)
<u>(1,069,124)</u>	<u>-</u>	<u>(1,069,124)</u>
(66,099)	-	(66,099)
(16,730)	-	(16,730)
-	-	-
(73,371)	-	(73,371)
<u>(156,200)</u>	<u>-</u>	<u>(156,200)</u>
(3,095,570)	-	(3,095,570)
<u>-</u>	<u>(9,152)</u>	<u>(9,152)</u>
<u>(3,095,570)</u>	<u>(9,152)</u>	<u>(3,104,722)</u>
1,867,692	-	1,867,692
180,268	-	180,268
256,455	-	256,455
235,264	-	235,264
726,390	-	726,390
26,571	70	26,641
16,456	-	16,456
9,256	-	9,256
<u>3,318,352</u>	<u>70</u>	<u>3,318,422</u>
222,782	(9,082)	213,700
<u>3,513,740</u>	<u>43,065</u>	<u>3,556,805</u>
<u>3,736,522</u>	<u>33,983</u>	<u>3,770,505</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments:				
ISCAP	188,385	-	-	188,385
Other	169,960	90,844	379,938	640,742
Receivables:				
Property tax:				
Delinquent	19,552	2,025	1,177	22,754
Succeeding year	1,848,857	176,477	200,001	2,225,335
Accounts	844	-	10,399	11,243
Accrued interest - ISCAP	1,742	-	-	1,742
Interfund receivable	32,836	-	-	32,836
Due from other governments	281,314	93,576	36,305	411,195
<b>Total assets</b>	<b>2,543,490</b>	<b>362,922</b>	<b>627,820</b>	<b>3,534,232</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	54,486	149	3,210	57,845
Salaries and benefits payable	11,904	-	-	11,904
ISCAP warrants payable	186,000	-	-	186,000
ISCAP accrued interest payable	2,446	-	-	2,446
ISCAP premium	2,029	-	-	2,029
Deferred revenue:				
Succeeding year property tax	1,848,857	176,477	200,001	2,225,335
Income surtax	133,680	93,576	-	227,256
Other	10,486	-	-	10,486
Total liabilities	2,249,888	270,202	203,211	2,723,301
Fund balances:				
Reserved for:				
Categorical funding	28,740	-	-	28,740
Unreserved reported in:				
General fund	264,862	-	-	264,862
Special revenue funds	-	92,720	151,116	243,836
Capital projects funds	-	-	273,493	273,493
Total fund balances	293,602	92,720	424,609	810,931
<b>Total liabilities and fund balances</b>	<b>2,543,490</b>	<b>362,922</b>	<b>627,820</b>	<b>3,534,232</b>

NORTH KOSSUTH 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>	810,931
<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.	3,039,749
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	227,256
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.	(2,180)
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and employee flexible benefit plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	102,869
Long-term liabilities, including notes payable, termination benefits and compensated absences, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(442,103)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,736,522</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,912,968	285,415	341,296	2,539,679
Tuition	337,664	-	-	337,664
Other	90,860	45,008	159,731	295,599
State sources	1,140,199	-	-	1,140,199
Federal sources	259,875	-	-	259,875
Total revenues	<u>3,741,566</u>	<u>330,423</u>	<u>501,027</u>	<u>4,573,016</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,554,880	-	17,006	1,571,886
Special	733,770	-	-	733,770
Other	449,152	-	149,270	598,422
	<u>2,737,802</u>	<u>-</u>	<u>166,276</u>	<u>2,904,078</u>
Support services:				
Student	45,888	-	-	45,888
Instructional staff	10,292	-	8,950	19,242
Administration	399,859	8,021	35,745	443,625
Operation and maintenance of plant	249,513	45,213	22,888	317,614
Transportation	206,155	-	17,158	223,313
	<u>911,707</u>	<u>53,234</u>	<u>84,741</u>	<u>1,049,682</u>
Other expenditures:				
Facilities acquisition	-	173,436	84,864	258,300
Long-term debt:				
Principal	-	-	120,000	120,000
Interest and fiscal charges	-	-	17,380	17,380
AEA flowthrough	136,215	-	-	136,215
	<u>136,215</u>	<u>173,436</u>	<u>222,244</u>	<u>531,895</u>
Total expenditures	<u>3,785,724</u>	<u>226,670</u>	<u>473,261</u>	<u>4,485,655</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(44,158)</u>	<u>103,753</u>	<u>27,766</u>	<u>87,361</u>
Other financing sources (uses):				
Operating transfers in	35,000	-	137,380	172,380
Operating transfers out	-	(137,380)	-	(137,380)
Total other financing sources (uses)	<u>35,000</u>	<u>(137,380)</u>	<u>137,380</u>	<u>35,000</u>
Net change in fund balances	(9,158)	(33,627)	165,146	122,361
Fund balances beginning of year	<u>302,760</u>	<u>126,347</u>	<u>259,463</u>	<u>688,570</u>
Fund balances end of year	<u>293,602</u>	<u>92,720</u>	<u>424,609</u>	<u>810,931</u>

NORTH KOSSUTH 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>		122,361

**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 not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:

Expenditures for capital assets	162,100	
Depreciation expense	<u>(166,664)</u>	(4,564)

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.		120,000
---	--	---------

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.		650
--	--	-----

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	20,729	
Compensated absences	<u>3,150</u>	23,879

An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program and employee flexible benefit plan to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>(39,544)</u>
---	--	-----------------

<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>222,782</u></u>
---	--	-----------------------

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2009

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
<b>Assets</b>		
Cash and cash equivalents	3,328	102,869
Accounts receivable	135	-
Inventories	4,982	-
Capital assets, net of accumulated depreciation	60,306	-
<b>Total assets</b>	<u>68,751</u>	<u>102,869</u>
<b>Liabilities</b>		
Interfund payable	32,836	-
Salaries and benefits payable	177	-
Deferred revenue	1,755	-
<b>Total liabilities</b>	<u>34,768</u>	<u>-</u>
<b>Net assets</b>		
Invested in capital assets	60,306	-
Unrestricted	(26,323)	102,869
<b>Total net assets</b>	<u><u>33,983</u></u>	<u><u>102,869</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Operating revenues:		
Local sources:		
Charges for service	<u>68,923</u>	<u>37,809</u>
Operating expenses:		
Non-instructional programs:		
Salaries	47,441	-
Benefits	27,545	42,353
Purchased services	1,020	-
Supplies	59,672	-
Depreciation	8,871	-
Total operating expenses	<u>144,549</u>	<u>42,353</u>
Operating gain (loss)	<u>(75,626)</u>	<u>(4,544)</u>
Non-operating revenues:		
State sources	1,493	-
Federal sources	64,981	-
Interest income	70	-
Total non-operating revenues	<u>66,544</u>	<u>-</u>
Gain (loss) before transfers	(9,082)	(4,544)
Transfers to General Fund	<u>-</u>	<u>(35,000)</u>
Change in net assets	(9,082)	(39,544)
Net assets beginning of year	<u>43,065</u>	<u>142,413</u>
Net assets end of year	<u><u>33,983</u></u>	<u><u>102,869</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2009

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	69,787	-
Cash from services provided to other funds	-	37,809
Cash payments to employees for services	(75,058)	(55,914)
Cash payments to suppliers for goods or services	(52,406)	-
Net cash provided by (used by) provided by operating activities	<u>(57,677)</u>	<u>(18,105)</u>
Cash flows from non-capital financing activities:		
Transfers from (to) General Fund	-	(35,000)
Loan from (repaid to) General Fund	4,877	-
State grants received	1,493	-
Federal grants received	55,485	-
Net cash provided by non-capital financing activities	<u>61,855</u>	<u>(35,000)</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(2,635)	-
Cash flows from investing activities:		
Interest on investments	70	-
Net increase (decrease) in cash and cash equivalents	1,613	(53,105)
Cash and cash equivalents at beginning of year	<u>1,715</u>	<u>155,974</u>
Cash and cash equivalents at end of year	<u><u>3,328</u></u>	<u><u>102,869</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(75,626)	(4,544)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	9,496	-
Depreciation	8,871	-
Decrease (increase) in inventories	(1,210)	-
Decrease (increase) in accounts receivable	(135)	-
(Decrease) increase in accounts payable	-	(13,561)
(Decrease) increase in salaries and benefits payable	(72)	-
(Decrease) increase in deferred revenue	999	-
Net cash used by operating activities	<u>(57,677)</u>	<u>(18,105)</u>

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

During the year ended June 30, 2009, the District received \$9,496 of federal commodities.

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2009

	Private Purpose Trust Scholarship	Agency
	\$	\$
<b>Assets</b>		
Cash and pooled investments	1,668	16,261
<b>Liabilities</b>		
Other payables	-	16,261
<b>Net Assets</b>		
Reserved for scholarships	<u>1,668</u>	<u>-</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	-
Deductions:	
Support services:	
Scholarships awarded	<u>250</u>
Change in net assets	(250)
Net assets beginning of year	<u>1,918</u>
Net assets end of year	<u><u>1,668</u></u>

# NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2009

### 1. Summary of Significant Accounting Policies

North Kossuth 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 Bancroft, Ledyard and Swea City, Iowa and the predominately agricultural territory in a portion of Kossuth 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, North Kossuth 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 North Kossuth 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 Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's health insurance deductible reimbursement plan and employee flexible benefit plan.

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 Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for other organizations. 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 became 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 of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

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 meal 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 sick leave hours for subsequent use or for payment upon retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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 did not exceed the amounts 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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

**3. Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount \$
General Fund	Nonmajor School Nutrition Fund	32,836

The loan from the General Fund to the School Nutrition was made to assist with cash flow.

**4. Interfund Transfers**

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

Transfer To	Transfer From	Amount \$
Nonmajor Governmental Funds:		
Debt Service Fund	Physical Plant and Equipment Levy Fund	137,380
General Fund	Nonmajor Proprietary Funds: Internal Service Fund	35,000

The transfer from the PPEL Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The Internal Service Fund returned excess monies collected to the General Fund.

**5. 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:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2008-09B	1/21/09	1/21/10	188,385	1,742	186,000	2,446

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:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2008-09B	3.000	2.110

## 6. 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 \$
Governmental activities:				
Capital assets not being depreciated:				
Land	30,725	-	-	30,725
Capital assets being depreciated:				
Buildings	3,304,757	34,641	-	3,339,398
Improvements other than buildings	44,888	70,226	6,451	108,663
Furniture and equipment	2,105,724	57,233	190,122	1,972,835
Total capital assets being deprec.	5,455,369	162,100	196,573	5,420,896
Less accumulated depreciation for:				
Buildings	860,254	73,039	-	933,293
Improvements other than buildings	40,483	332	6,451	34,364
Furniture and equipment	1,541,044	93,293	190,122	1,444,215
Total accumulated depreciation	2,441,781	166,664	196,573	2,411,872
Total capital assets being depreciated, net	3,013,588	(4,564)	-	3,009,024
Governmental activities capital assets, net	3,044,313	(4,564)	-	3,039,749

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	137,244	2,635	-	139,879
Less accumulated depreciation	<u>70,702</u>	<u>8,871</u>	<u>-</u>	<u>79,573</u>
Business type activities capital assets, net	<u>66,542</u>	<u>(6,236)</u>	<u>-</u>	<u>60,306</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	28,398
Other	1,176
Support services:	
Instructional support	22,731
Administration services	6,928
Operation and maintenance of plant services	7,608
Transportation	<u>26,452</u>
	93,293
Unallocated depreciation	<u>73,371</u>
Total depreciation expense – governmental activities	<u>166,664</u>
Business type activities:	
Food services	<u>8,871</u>

## 7. 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
	\$	\$	\$	\$	\$
Capital loan notes	495,000	-	120,000	375,000	120,000
Termination benefits	78,382	-	20,729	57,653	19,309
Compensated absences	<u>12,600</u>	<u>-</u>	<u>3,150</u>	<u>9,450</u>	<u>3,150</u>
Total	<u>585,982</u>	<u>-</u>	<u>143,879</u>	<u>442,103</u>	<u>142,459</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during the year ended June 30, 2006. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of the District paying \$322 per month for up to eight years for the retiree's health insurance premiums.

At June 30, 2009, the District has obligations to four participants with a total liability of \$57,653. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$20,729.

Capital Loan Notes

The District issued \$1,035,000 of capital loan notes during the year ended June 30, 2003. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2010	3.30	120,000	13,080	133,080
2011	3.50	125,000	9,120	134,120
2012	3.65	130,000	4,746	134,746
		375,000	26,946	401,946

During the year ended June 30, 2009 the District made principal and interest payments totaling \$136,980 under the note agreement.

**8. 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 \$126,854, \$123,366 and \$107,034 respectively, equal to the required contributions for each year.

**9. Risk Management**

North Kossuth 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.

**10. 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 \$136,215 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.

**11. Lease Commitment**

The District entered into a ten-year contract to lease a school building in fiscal year 2002. At June 30, 2008 the District exercised the termination clause in the lease. The payments the District will make

over the next three years, as provided by the termination contingency clause in the lease, are as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
	\$
2010	36,000
2011	36,000
2012	36,000

The District has also leased copy machines under operating leases. The remaining payments required under the lease are as follows:

<u>Year Ended June 30,</u>	<u>Copier Lease Payments</u>
	\$
2010	7,404
2011	7,404
2012	617

## **12. Deficit Fund Balances**

At June 30, 2009 the District had an unrestricted net assets deficit of \$26,323 in the Enterprise, School Nutrition Fund.

## **13. Construction Commitment**

The District has entered into a \$65,410 contract for roofing. Work on the project had not started at June 30, 2009.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,172,942	68,993	3,241,935	3,041,614	3,041,614	200,321
State sources	1,140,199	1,493	1,141,692	1,193,780	1,193,780	(52,088)
Federal sources	259,875	64,981	324,856	198,000	198,000	126,856
Total revenues	<u>4,573,016</u>	<u>135,467</u>	<u>4,708,483</u>	<u>4,433,394</u>	<u>4,433,394</u>	<u>275,089</u>
Expenditures/Expenses:						
Instruction	2,904,078	-	2,904,078	2,968,654	3,068,654	164,576
Support services	1,049,682	-	1,049,682	1,292,090	1,292,090	242,408
Non-instructional programs	-	144,549	144,549	151,250	151,250	6,701
Other expenditures	531,895	-	531,895	785,929	785,929	254,034
Total expenditures/expenses	<u>4,485,655</u>	<u>144,549</u>	<u>4,630,204</u>	<u>5,197,923</u>	<u>5,297,923</u>	<u>667,719</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	87,361	(9,082)	78,279	(764,529)	(864,529)	942,808
Other financing sources (uses) net	<u>35,000</u>	-	<u>35,000</u>	<u>51,550</u>	<u>51,550</u>	<u>(16,550)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	122,361	(9,082)	113,279	(712,979)	(812,979)	926,258
Balance beginning of year	<u>688,570</u>	<u>43,065</u>	<u>731,635</u>	<u>712,979</u>	<u>712,979</u>	<u>18,656</u>
Balance end of year	<u><u>810,931</u></u>	<u><u>33,983</u></u>	<u><u>844,914</u></u>	<u><u>-</u></u>	<u><u>(100,000)</u></u>	<u><u>944,914</u></u>

NORTH KOSSUTH 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. During the year, the District adopted one budget amendment, increasing budgeted expenditures by \$100,000.

OTHER SUPPLEMENTARY INFORMATION

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Funds			Total
	Management	Student	Capital	
	Levy	Activity	Projects	
	\$	\$	\$	\$
Cash and pooled investments	103,913	38,837	237,188	379,938
Receivables:				
Property tax:				
Delinquent	1,177	-	-	1,177
Succeeding year	200,001	-	-	200,001
Accounts	-	10,399	-	10,399
Due from other governments	-	-	36,305	36,305
<b>Total assets</b>	<b>305,091</b>	<b>49,236</b>	<b>273,493</b>	<b>627,820</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	1,859	1,351	-	3,210
Deferred revenue:				
Succeeding year property tax	200,001	-	-	200,001
Total liabilities	201,860	1,351	-	203,211
Fund balances:				
Unreserved reported in:				
Special revenue funds	103,231	47,885	-	151,116
Capital projects funds	-	-	273,493	273,493
Total fund balances	103,231	47,885	273,493	424,609
<b>Total liabilities and fund balances</b>	<b>305,091</b>	<b>49,236</b>	<b>273,493</b>	<b>627,820</b>

## NORTH KOSSUTH 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 Levy	Student Activity Fund	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	106,032	-	235,264	-	341,296
Other	9,168	147,504	3,059	-	159,731
Total revenues	<u>115,200</u>	<u>147,504</u>	<u>238,323</u>	<u>-</u>	<u>501,027</u>
Expenditures:					
Current:					
Instruction:					
Regular	17,006	-	-	-	17,006
Other	-	149,270	-	-	149,270
Support services:					
Instructional staff	-	-	8,950	-	8,950
Administration	35,745	-	-	-	35,745
Operation and maintenance of plant	22,888	-	-	-	22,888
Transportation	7,835	-	9,323	-	17,158
Other expenditures:					
Facilities acquisition	-	-	84,864	-	84,864
Long-term debt:					
Principal	-	-	-	120,000	120,000
Interest and fiscal charges	-	-	-	17,380	17,380
Total expenditures	<u>83,474</u>	<u>149,270</u>	<u>103,137</u>	<u>137,380</u>	<u>473,261</u>
Excess (deficiency) of revenues over (under) expenditures	31,726	(1,766)	135,186	(137,380)	27,766
Other financing sources (uses):					
Operating transfers in	-	-	-	137,380	137,380
Net change in fund balances	31,726	(1,766)	135,186	-	165,146
Fund balances beginning of year	<u>71,505</u>	<u>49,651</u>	<u>138,307</u>	<u>-</u>	<u>259,463</u>
Fund balances end of year	<u>103,231</u>	<u>47,885</u>	<u>273,493</u>	<u>-</u>	<u>424,609</u>

## NORTH KOSSUTH 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	Balance End of Year
	\$	\$	\$	\$
Athletics	21,539	89,727	94,185	17,081
Vocal	887	281	55	1,113
Instrumental	807	1,016	1,544	279
Activity tickets	-	1,750	1,750	-
Interest	1,993	371	101	2,263
Drama and speech	741	158	378	521
FFA	1,483	9,928	10,679	732
FFA scholarship CD	1,000	-	-	1,000
FCCLA	169	1,172	50	1,291
Student council-high school	8,484	2,216	5,829	4,871
National honor society	328	-	313	15
Annual	528	9,035	6,475	3,088
Spanish club	1,891	210	203	1,898
Economics club	203	-	-	203
Voc. team club	494	-	132	362
FCA club	206	-	7	199
Elementary student council	2,742	6,130	6,982	1,890
Elementary read-a-thon	354	200	220	334
Elementary spec. olympics	140	-	-	140
Business club	350	5,329	4,043	1,636
Quiz bowl	137	583	448	272
Science club	331	-	-	331
Class of 2007	1,265	-	1,265	-
Class of 2008	580	-	580	-
Class of 2009	2,355	2,498	4,853	-
Class of 2010	644	14,116	8,327	6,433
Class of 2011	-	1,495	851	644
Class of 2012	-	1,289	-	1,289
	<u>49,651</u>	<u>147,504</u>	<u>149,270</u>	<u>47,885</u>
Total	<u>49,651</u>	<u>147,504</u>	<u>149,270</u>	<u>47,885</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2009

	Music Boosters	PTO	Total
	\$	\$	\$
Balance beginning of year	11,003	533	11,536
Additions:			
Miscellaneous	30,357	-	30,357
Deductions:			
Miscellaneous	<u>25,182</u>	<u>450</u>	<u>25,632</u>
Balance end of year	<u><u>16,178</u></u>	<u><u>83</u></u>	<u><u>16,261</u></u>

## NORTH KOSSUTH 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	2,539,679	2,012,115	2,233,285	2,330,981	2,237,918	2,056,297
Tuition	337,664	392,687	224,855	170,375	268,802	245,588
Other	295,599	218,591	190,038	188,682	216,864	199,033
State sources	1,140,199	1,449,950	1,269,405	1,204,489	1,476,134	1,410,097
Federal sources	259,875	230,159	168,919	265,687	401,412	136,897
Total revenues	<u>4,573,016</u>	<u>4,303,502</u>	<u>4,086,502</u>	<u>4,160,214</u>	<u>4,601,130</u>	<u>4,047,912</u>
Expenditures:						
Instruction:						
Regular	1,571,886	1,596,282	1,489,036	1,485,648	1,610,145	1,317,154
Special	733,770	649,827	577,662	566,513	756,089	737,332
Other	598,422	573,293	521,452	510,544	272,263	363,522
Support services:						
Student	45,888	86,469	52,491	52,417	51,628	46,247
Instructional staff	19,242	93,601	148,105	30,542	70,063	74,736
Administration	443,625	448,430	427,917	484,188	496,008	455,391
Operation and maintenance	317,614	428,217	361,119	338,416	274,303	230,455
Transportation	223,313	256,072	321,250	279,018	239,727	288,779
Other expenditures:						
Facilities acquisition	258,300	129,607	93,844	114,819	552,480	1,972,927
Long-term debt:						
Principal	120,000	115,000	110,000	110,000	105,000	100,000
Interest and other charges	17,380	20,830	23,718	26,193	28,293	30,193
AEA flowthrough	136,215	137,836	132,514	128,082	130,763	132,787
Total expenditures	<u>4,485,655</u>	<u>4,535,464</u>	<u>4,259,108</u>	<u>4,126,380</u>	<u>4,586,762</u>	<u>5,749,523</u>

Gary E. Horton CPA

902 Central Ave. East - PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
BETCO@mchsi.com E-mail

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  
North Kossuth 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 North Kossuth 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 April 28, 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 North Kossuth 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 North Kossuth Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Kossuth 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 North Kossuth 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 North Kossuth Community School District's financial statements that is more than inconsequential will not be prevented or detected by North Kossuth 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 North Kossuth 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, 09-I-B and 09-I-C are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Kossuth 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.

North Kossuth 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 North Kossuth 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 North Kossuth Community School District and other parties to whom North Kossuth 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 North Kossuth 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

April 28, 2010

NORTH KOSSUTH 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 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 investigate methods to increase monitoring activities 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 Check Signatures: We noted that checks are being signed for the board secretary and board president, by the District's accounting software. This practice negates the control procedure established by requiring two signatures on checks.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks.

District Response: We believe that using the accounting software to sign checks allows the office to operate more efficiently.

Conclusion: Response accepted.

09-I-C 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.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements (continued):

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.

NORTH KOSSUTH 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 did not exceed the amounts budgeted.

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: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Beth Rolling, Board President, spouse is director at local bank and father is the owner of the same bank	School Banking	

Recommendation: When school board members have relationships with local banks, conflicts of interest may occur with school banking agreements and when the bank has a depositor or lender relationship with entities that also do business with the school. The board should consult with its attorney before entering into any transactions that may appear to be a conflict of interest.

District response: We will consult with our attorney on all issues that might be a conflict of interest.

Conclusion: Response accepted.

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: No transactions requiring board approval that had not been approved by the board were noted.

09-II-G Certified Enrollment: The calculations for line 12, supplemental weighting, included open enrollment in and non-resident whole grade sharing students.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

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 (CAR): 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, then were reclassified as categorical spending at the end of the year.

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: The Statewide Sales and Services Tax may be used to purchase equipment with a unit cost exceeding \$500. We noted that expenditures from this fund included approximately \$1,086 for individual items of equipment with a unit cost of less than \$500.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund.

District Response: We will monitor the expenditures from the Physical Plant and Equipment Levy Fund.

Conclusion: Response accepted.

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:

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

	\$	\$
Beginning balance		-
Statewide sales and services tax revenue		235,264
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	84,864	
Equipment	18,273	103,137
	<u>          </u>	<u>          </u>
Ending balance		<u>132,127</u>

09-II-L Deficit Balances: The School Nutrition Fund has an unrestricted net assets deficit of \$26,323 at June 30, 2009.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on methods to improve the financial position of the School Nutrition Fund.

Conclusion: Response accepted.

09-II-M Interfund loans: On June 16, 2008 the Iowa Department of Education issued a Declaratory Order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loan and the loan must be repaid before the October 1, after each year-end.

We noted that the School Nutrition Fund owes the General Fund \$32,836. This loan does not have an interest rate and was not repaid by October 1, 2009.

Recommendation: The District should follow the June 16, 2008 Declaratory Order with respect to the interfund loan from the General Fund to the School Nutrition Fund.

District Response: We will investigate a permanent transfer to the School Nutrition Fund so that it will have cash for operations.

Conclusion: Response accepted.