

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	22
Statement of Changes in Fiduciary Net Assets	K	23
Notes to Financial Statements		24-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		34
Notes to Required Supplementary Information - Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Special Revenue, Student Activity Accounts	3	38-39
Fiduciary Funds:		
Combining Statement of Fiduciary Net Assets	4	40
Combining Statement of Changes in Fiduciary Net Assets	5	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	6	42
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>		43-44
Schedule of Findings		45-48

Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2008 Election)</b>		
Larry Hovey	President	2008
John Anderson	Vice President	2011
Don Pangburn	Board Member	2011
Cindy Pangburn	Board Member	2008
Keith Braun	Board Member	2009

**Board of Education**

**(After September 2008 Election)**

Larry Hovey	President	2011
John Anderson	Vice President	2011
Don Pangburn	Board Member	2009*
Cindy Pangburn	Board Member	2011
Keith Braun	Board Member	2009

**School Officials**

Tom Nugent	Superintendent	2009
Karen Abrahams	District Secretary/ Treasurer	2009
Ahlers & Cooney	Attorney	2009

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

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

### INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Northwood-Kensett 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 Northwood-Kensett Community School District, Northwood, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Northwood-Kensett 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 February 8, 2010 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required

**Member American Institute & Iowa Society of Certified Public Accountants**

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 Northwood-Kensett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Nolte, Cornman, Johnson PC*  
NOLTE, CORNMAN & JOHNSON, P.C.

February 8, 2010

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

### **2009 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,903,449 in fiscal year 2008 to \$5,057,611 in fiscal year 2009, while General Fund expenditures increased from \$4,623,165 in fiscal 2008 to \$4,812,917 in fiscal 2009. This resulted in an increase in the District's General Fund balance from \$948,848 in fiscal 2008 to \$1,193,542 in fiscal 2009, a 25.79% increase from prior year.
- The increase in General Fund revenues was attributable to allowable growth as allowed by the SBRC, special education deficit allowable growth and an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District increased net assets in the governmental activities by \$931,527, and increased in the business type activities by \$12,106, respectively.
- We're in our 12<sup>th</sup> year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.
- In March of 2004, the District purchased a wind turbine for \$60,000. The purchase was financed by a \$135,000 Energy Loan. One-half of the loan has a 4.38% rate, and the other one-half of the loan is interest free. The turbine remained on the property it was built on. The District has taken out a 26 year lease for \$1,850 per year, which began in July, 2005 and ends on July 1, 2031.

### **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 Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

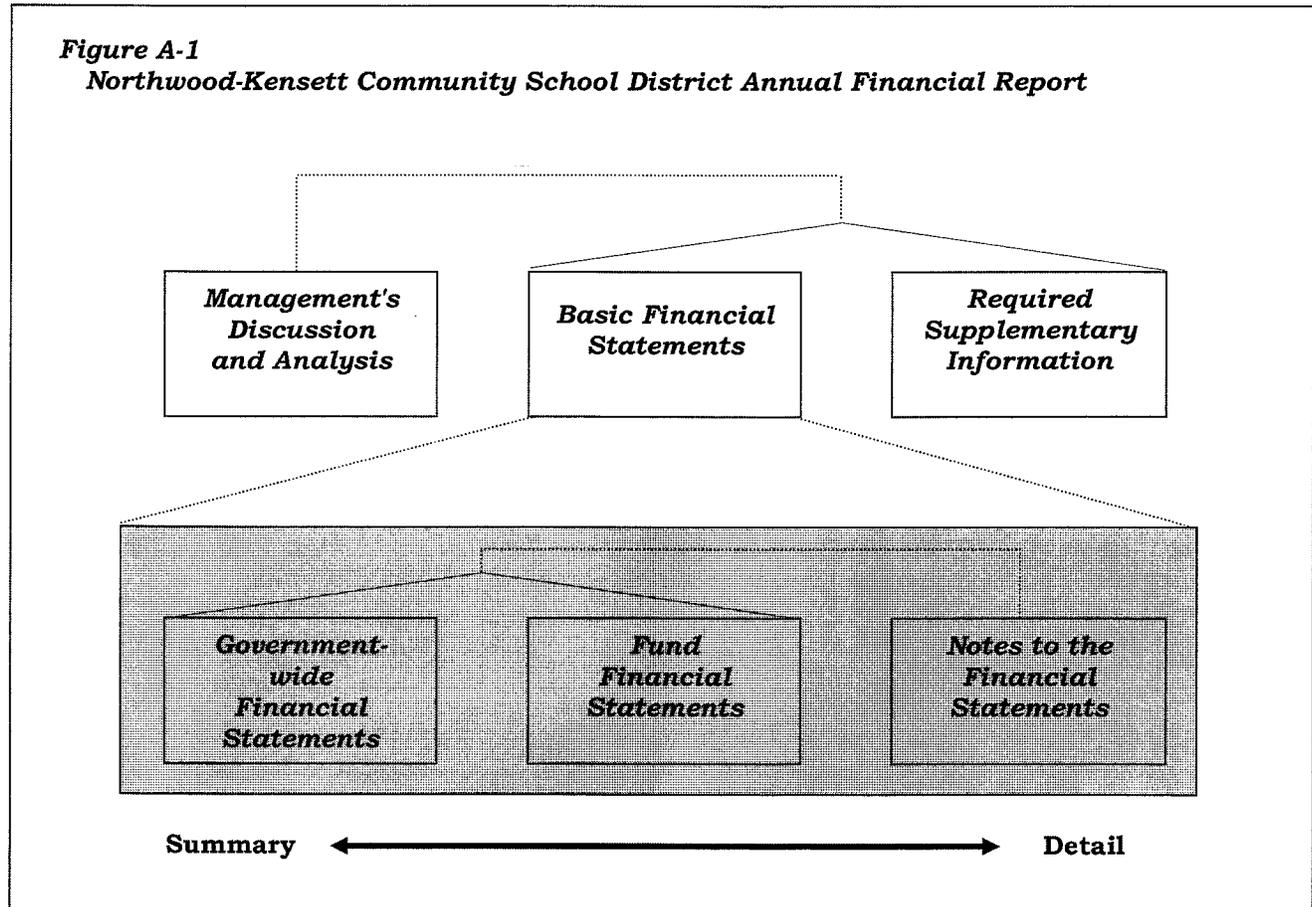


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

	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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 revenues, expenses and changes in 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, and 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 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:

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that 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 District-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 total net assets at June 30, 2009 compared to June 30, 2008.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 5,171,200	4,734,165	63,425	50,712	5,234,625	4,784,877	9.40%
Capital assets	4,298,569	4,211,474	24,652	25,166	4,323,221	4,236,640	2.04%
Total assets	<u>9,469,769</u>	<u>8,945,639</u>	<u>88,077</u>	<u>75,878</u>	<u>9,557,846</u>	<u>9,021,517</u>	<u>5.94%</u>
Long-term obligations	2,048,271	2,252,337	-	-	2,048,271	2,252,337	-9.06%
Other liabilities	2,694,212	2,897,543	3,170	3,077	2,697,382	2,900,620	-7.01%
Total liabilities	<u>4,742,483</u>	<u>5,149,880</u>	<u>3,170</u>	<u>3,077</u>	<u>4,745,653</u>	<u>5,152,957</u>	<u>-7.90%</u>
Net assets:							
Invested in capital assets, net of related debt	2,286,180	1,987,168	24,652	25,166	2,310,832	2,012,334	14.83%
Restricted	1,208,899	804,861	-	-	1,208,899	804,861	50.20%
Unrestricted	1,232,207	1,003,730	60,255	47,635	1,292,462	1,051,365	22.93%
Total net assets	<u>\$ 4,727,286</u>	<u>3,795,759</u>	<u>84,907</u>	<u>72,801</u>	<u>4,812,193</u>	<u>3,868,560</u>	<u>24.39%</u>

The District's combined net assets increased by 24.39%, or \$943,633 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$404,038 or 50.20% over the prior year. The increase was primarily a result of the increase in the Management Levy fund balance.

Unrestricted net assets-the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements- increased \$241,097 or 22.93% over the prior year.

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

Figure A-4							
Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2009	2008	2009	2008	2009	2008	2008-09
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for services	\$ 294,996	234,202	165,577	162,498	460,573	396,700	16.10%
Operating grants, contributions and restricted interest	1,081,523	852,370	99,532	89,306	1,181,055	941,676	25.42%
<b>General revenues:</b>							
Property tax	2,876,671	2,533,361	-	-	2,876,671	2,533,361	13.55%
Statewide sales and services tax	289,972	296,586	-	-	289,972	296,586	-2.23%
Unrestricted state grants	1,731,742	2,001,252	-	-	1,731,742	2,001,252	-13.47%
Other	68,962	80,397	350	337	69,312	80,734	-14.15%
<b>Total revenues</b>	<b>6,343,866</b>	<b>5,998,168</b>	<b>265,459</b>	<b>252,141</b>	<b>6,609,325</b>	<b>6,250,309</b>	<b>5.74%</b>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instructional	3,504,090	3,378,839	-	-	3,504,090	3,378,839	3.71%
Support services	1,426,492	1,407,905	-	-	1,426,492	1,407,905	1.32%
Non-instructional programs	-	-	253,353	234,639	253,353	234,639	7.98%
Other expenses	481,757	535,093	-	-	481,757	535,093	-9.97%
<b>Total expenses</b>	<b>5,412,339</b>	<b>5,321,837</b>	<b>253,353</b>	<b>234,639</b>	<b>5,665,692</b>	<b>5,556,476</b>	<b>1.97%</b>
Change in net assets	931,527	676,331	12,106	17,502	943,633	693,833	36.00%
Net assets beginning of year	3,795,759	3,119,428	72,801	55,299	3,868,560	3,174,727	21.85%
Net assets end of year	\$ 4,727,286	3,795,759	84,907	72,801	4,812,193	3,868,560	24.39%

In fiscal 2009, property tax and unrestricted state grants account for 72.64% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.87% of the revenue from business type activities.

The District's total revenues were approximately \$6.61 million of which \$6.34 million was for governmental activities and \$.27 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.74% increase in revenues and a 1.97% increase in expenses. The increase in expenses was related to the increases in the negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$6,343,866 and expenses were \$5,412,339.

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

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2009	2008	Change 2008-09	2009	2008	Change 2008-09
Instruction	\$ 3,504,090	3,378,839	3.71%	2,308,941	2,567,374	-10.07%
Support services	1,426,492	1,407,905	1.32%	1,426,492	1,311,210	8.79%
Other expenses	481,757	535,093	-9.97%	300,387	356,681	-15.78%
Totals	\$ 5,412,339	5,321,837	1.70%	4,035,820	4,235,265	-4.71%

For the year ended June 30, 2009:

- The cost financed by users of the District's programs was \$294,996.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,081,523.
- The net cost of governmental activities was financed with \$2,876,671 in property tax, \$289,972 in statewide sales and services tax, \$1,731,742 in unrestricted state grants and \$68,962 in other income.

### Business Type Activities

Revenues of the District's business type activities were \$265,459 and expenses were \$253,353. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,348,027, above last year's ending fund balances of \$1,746,816. However, the primary reason for the increase is due to the District's controlled spending in the General Fund.

### Governmental Fund Highlights

- The District's General Fund financial position changed from \$948,848 to \$1,193,542. This was due to the controlled spending by the District. Expenditures for the year increased \$189,752, while revenues increased only \$154,162. However, the revenues still exceeded expenditures by \$244,694 to cause the increase in the fund balance.
- The District continued receiving statewide sales and service tax, which helped to bolster revenues. The Capital Projects Fund transferred \$144,000 to the Debt Service Fund during the year for debt relief. An overall decrease in expenditures in the fund during the year allowed the balance to increase by \$51,279.
- The Special Revenue, Management Levy fund balance increased from \$254,858 to \$443,175, due to a reduction in expenditures during the current year.

## Proprietary Funds Highlights

The School Nutrition Fund net assets increased from \$72,801 at June 30, 2008 to \$84,907 at June 30, 2009, representing an increase of 16.63%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$9,458 more than budgeted revenues, a variance of 0.14%. The most significant variance resulted from the District receiving more in federal 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 ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2009, the District had invested \$4,323,221, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$258,730.

The original cost of the District's capital assets was \$8,468,717. Governmental funds account for \$8,351,159 with the remainder of \$117,558 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$110,014 at June 30, 2008 compared to \$252,270 at June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2008-09
Land	\$ 36,425	36,425	-	-	36,425	36,425	0.00%
Construction in Progress	252,270	110,014	-	-	252,270	110,014	129.31%
Buildings	3,669,478	3,756,225	-	-	3,669,478	3,756,225	-2.31%
Improvements other than buildings	121,340	126,004	-	-	121,340	126,004	-3.70%
Machinery and equipment	219,056	182,806	24,652	25,166	243,708	207,972	17.18%
Total	\$ 4,298,569	4,211,474	24,652	25,166	4,323,221	4,236,640	2.04%

### Long-Term Debt

At June 30, 2009, the District had \$2,048,271 in other long-term debt outstanding. This represents a decrease of 9.06% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$2,000,000 at June 30, 2009.

The District had total energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy of \$12,389 at June 30, 2009.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$13,006 at June 30, 2009.

Also, the District had compensated absences of \$22,876 at June 30, 2009, which is an increase of 110.78% from the prior year.

Figure A-7		
Outstanding Long-Term Obligations		
	Total District	Total Change
	June 30, 2009	June 30, 2008-09
General obligation bonds	\$ 2,000,000	2,200,000 -9.09%
Capital loan notes	12,389	24,306 -49.03%
Early retirement	13,006	17,178 -24.29%
Compensated absences	22,876	10,853 110.78%
Totals	<u>\$ 2,048,271</u>	<u>2,252,337 -9.06%</u>

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- With the September 25, 2009 ten percent across-the-board reduction, the District will continue to implement cost-saving measures and develop a plan for the remainder of the 2009/2010 year. The Board of Education will determine what cost-saving measures we will implement and how much we can spend from our reserves.

## **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 Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1<sup>st</sup> Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.

BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,281,140	56,766	2,337,906
Receivables:			
Property tax:			
Delinquent	52,946	-	52,946
Succeeding year	2,549,064	-	2,549,064
Income surtax	134,114	-	134,114
Accounts	3,726	1,623	5,349
Due from other governments	150,210	-	150,210
Inventories	-	5,036	5,036
Capital assets, net of accumulated depreciation	4,298,569	24,652	4,323,221
<b>Total assets</b>	<b>9,469,769</b>	<b>88,077</b>	<b>9,557,846</b>
<b>Liabilities</b>			
Accounts payable	77,895	695	78,590
Salaries and benefits payable	1,632	-	1,632
Accrued interest payable	5,153	-	5,153
Deferred revenue:			
Succeeding year property tax	2,549,064	-	2,549,064
Other	60,468	-	60,468
Unearned revenue	-	2,475	2,475
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	225,000	-	225,000
Energy loan notes payable	12,389	-	12,389
Early retirement payable	6,503	-	6,503
Compensated absences payable	22,876	-	22,876
Portion due after one year:			
General obligation bonds payable	1,775,000	-	1,775,000
Early retirement payable	6,503	-	6,503
<b>Total liabilities</b>	<b>4,742,483</b>	<b>3,170</b>	<b>4,745,653</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,286,180	24,652	2,310,832
Restricted for:			
Categorical funding	67,420	-	67,420
Management levy	430,169	-	430,169
Physical plant and equipment levy	188,335	-	188,335
Capital projects	363,164	-	363,164
Debt service	48,961	-	48,961
Other special revenue purposes	110,850	-	110,850
Unrestricted	1,232,207	60,255	1,292,462
<b>Total net assets</b>	<b>\$ 4,727,286</b>	<b>84,907</b>	<b>4,812,193</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, and Restricted Contributions Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 2,177,182	81,008	434,945	(1,661,229)	-	(1,661,229)
Special	753,003	59,809	73,192	(620,002)	-	(620,002)
Other	573,905	154,179	392,016	(27,710)	-	(27,710)
	<u>3,504,090</u>	<u>294,996</u>	<u>900,153</u>	<u>(2,308,941)</u>	<u>-</u>	<u>(2,308,941)</u>
Support services:						
Student	92,398	-	-	(92,398)	-	(92,398)
Instructional staff	179,334	-	-	(179,334)	-	(179,334)
Administration	568,510	-	-	(568,510)	-	(568,510)
Operation and maintenance of plant	345,594	-	-	(345,594)	-	(345,594)
Transportation	240,656	-	-	(240,656)	-	(240,656)
	<u>1,426,492</u>	<u>-</u>	<u>-</u>	<u>(1,426,492)</u>	<u>-</u>	<u>(1,426,492)</u>
Other expenditures:						
Facilities acquisitions	55,378	-	-	(55,378)	-	(55,378)
Long-term debt interest	98,665	-	-	(98,665)	-	(98,665)
AEA flowthrough	181,370	-	181,370	-	-	-
Depreciation(unallocated)*	146,344	-	-	(146,344)	-	(146,344)
	<u>481,757</u>	<u>-</u>	<u>181,370</u>	<u>(300,387)</u>	<u>-</u>	<u>(300,387)</u>
Total governmental activities	5,412,339	294,996	1,081,523	(4,035,820)	-	(4,035,820)
Business Type activities:						
Non-instructional programs:						
Nutrition services	253,353	165,577	99,532	-	11,756	11,756
Total business type activities	<u>253,353</u>	<u>165,577</u>	<u>99,532</u>	<u>-</u>	<u>11,756</u>	<u>11,756</u>
Total	<u>\$ 5,665,692</u>	<u>460,573</u>	<u>1,181,055</u>	<u>(4,035,820)</u>	<u>11,756</u>	<u>(4,024,064)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$ 2,529,765	-	2,529,765
Capital outlay				182,728	-	182,728
Debt service				164,178	-	164,178
Statewide sales and services tax				289,972	-	289,972
Unrestricted state grants				1,731,742	-	1,731,742
Unrestricted investment earnings				27,544	350	27,894
Other				41,418	-	41,418
Total general revenues				<u>4,967,347</u>	<u>350</u>	<u>4,967,697</u>
Changes in net assets				931,527	12,106	943,633
Net assets beginning of year				<u>3,795,759</u>	<u>72,801</u>	<u>3,868,560</u>
Net assets end of year				<u>\$ 4,727,286</u>	<u>84,907</u>	<u>4,812,193</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	General	Special Revenue- Management Levy	Debt Service	Other Nonmajor Governmental Funds	Total
<b>Assets</b>					
Cash and pooled investments	\$ 1,209,147	437,250	45,775	588,968	2,281,140
Receivables:					
Property tax					
Delinquent	41,034	5,180	3,186	3,546	52,946
Succeeding year	2,003,613	175,000	172,430	198,021	2,549,064
Income surtax	134,114	-	-	-	134,114
Accounts	2,981	745	-	-	3,726
Due from other governments	80,348	-	-	69,862	150,210
<b>Total assets</b>	<b>\$ 3,471,237</b>	<b>618,175</b>	<b>221,391</b>	<b>860,397</b>	<b>5,171,200</b>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 77,868	-	-	27	77,895
Salaries and benefits payable	1,632	-	-	-	1,632
Deferred revenue:					
Succeeding year property tax	2,003,613	175,000	172,430	198,021	2,549,064
Income surtax	134,114	-	-	-	134,114
Other	60,468	-	-	-	60,468
<b>Total liabilities</b>	<b>2,277,695</b>	<b>175,000</b>	<b>172,430</b>	<b>198,048</b>	<b>2,823,173</b>
<b>Fund balances:</b>					
Reserved for:					
Categorical funding	67,420	-	-	-	67,420
Debt service	-	-	48,961	-	48,961
Unreserved	1,126,122	443,175	-	662,349	2,231,646
<b>Total fund balances</b>	<b>1,193,542</b>	<b>443,175</b>	<b>48,961</b>	<b>662,349</b>	<b>2,348,027</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,471,237</b>	<b>618,175</b>	<b>221,391</b>	<b>860,397</b>	<b>5,171,200</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT 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(page 15)</b>	\$	2,348,027
 <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 in the governmental funds.		4,298,569
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		134,114
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.		(5,153)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, early retirement payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,048,271)</u>
<b>Net assets of governmental activities(page 13)</b>	<b>\$</b>	<b><u><u>4,727,286</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Special Revenue- Management Levy	Debt Service	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 2,229,166	265,340	164,178	472,700	3,131,384
Tuition	124,768	-	-	-	124,768
Other	282,428	18,619	1,316	328,843	631,206
State sources	2,258,461	-	-	-	2,258,461
Federal sources	162,788	-	-	-	162,788
Total revenues	5,057,611	283,959	165,494	801,543	6,308,607
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	2,140,852	38,611	-	68,412	2,247,875
Special	753,003	-	-	-	753,003
Other	410,525	-	-	163,380	573,905
	3,304,380	38,611	-	231,792	3,574,783
Support services:					
Student	92,398	-	-	-	92,398
Instructional staff	179,334	-	-	-	179,334
Administration	526,167	42,343	-	-	568,510
Operation and maintenance of plant	344,182	2,340	-	-	346,522
Transportation	185,086	12,348	-	-	197,434
	1,327,167	57,031	-	-	1,384,198
Other expenditures:					
Facilities acquisitions	-	-	-	252,567	252,567
Long-term debt:					
Principal	-	-	211,917	-	211,917
Interest	-	-	113,782	-	113,782
AEA flowthrough	181,370	-	-	-	181,370
	181,370	-	325,699	252,567	759,636
Total expenditures	4,812,917	95,642	325,699	484,359	5,718,617
Excess(deficiency) of revenues over(under) expenditures	244,694	188,317	(160,205)	317,184	589,990
Other financing sources(uses):					
Issuance of bonds	-	-	2,000,000	-	2,000,000
Payment to esgrow agent	-	-	(2,000,000)	-	(2,000,000)
Premium on bond issuance	-	-	35,221	-	35,221
Discount on bond issuance	-	-	(24,000)	-	(24,000)
Transfer in	-	-	156,879	-	156,879
Transfer out	-	-	-	(156,879)	(156,879)
Total other financing sources(uses)	-	-	168,100	(156,879)	11,221
Net change in fund balances	244,694	188,317	7,895	160,305	601,211
Fund balance beginning of year	948,848	254,858	41,066	502,044	1,746,816
Fund balance end of year	\$ 1,193,542	443,175	48,961	662,349	2,348,027

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT 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

Net change in fund balances - total governmental funds(page 17) \$ 601,211

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

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

Depreciation expense	\$ (254,776)	
Capital outlays	<u>341,871</u>	87,095

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 35,259

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.

Early Retirement	4,172	
Compensated absences	<u>(12,023)</u>	(7,851)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 211,917

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. 3,896

Changes in net assets of governmental activities(page 14) \$ 931,527

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2009

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 56,766
Accounts receivable	1,623
Inventories	5,036
Capital assets, net of accumulated depreciation	<u>24,652</u>
<b>Total Assets</b>	<u>88,077</u>
<b>Liabilities</b>	
Accounts payable	695
Salary and benefits payable	-
Unearned revenues	<u>2,475</u>
<b>Total Liabilities</b>	<u>3,170</u>
<b>Net Assets</b>	
Invested in capital assets	24,652
Unrestricted	<u>60,255</u>
<b>Total Net Assets</b>	<u>\$ 84,907</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2009

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 165,577
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	75,111
Benefits	25,987
Services	8,578
Supplies	138,635
Depreciation	3,954
Other	1,088
TOTAL OPERATING EXPENSES	253,353
OPERATING LOSS	(87,776)
NON-OPERATING REVENUES:	
State sources	2,979
Federal sources	96,553
Interest income	350
TOTAL NON-OPERATING REVENUES	99,882
Net income	12,106
Net assets beginning of year	72,801
Net assets end of year	\$ 84,907

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 163,789
Cash received from miscellaneous operating activities	658
Cash payments to employees for services	(101,212)
Cash payments to suppliers for goods or services	(133,249)
Net cash used in operating activities	(70,014)
Cash flows from non-capital financing activities:	
State grants received	2,979
Federal grants received	79,563
Net cash provided by non-capital financing activities	82,542
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(3,440)
Cash flows from investing activities:	
Interest on investment	350
Net increase in cash and cash equivalents	9,438
Cash and cash equivalents at beginning of year	47,328
Cash and cash equivalents at end of year	\$ 56,766
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (87,776)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,990
Depreciation	3,954
Increase in inventories	(1,652)
Increase in accounts receivable	(1,623)
Decrease in accounts payable	(286)
Decrease in salaries and benefits payable	(114)
Increase in unearned revenue	493
Net cash used in operating activities	\$ (70,014)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR  
END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE  
SHEET:

Current assets:	
Cash and investments	\$ 56,766

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received Federal commodities valued at \$16,990.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2009

	Private Purpose Trust
	Scholarship
<b>Assets</b>	
Cash and pooled investments	\$ 414,407
Accounts receivable	358
<b>Total Assets</b>	<b>\$ 414,765</b>
<b>Net Assets</b>	
Restricted for scholarships	\$ 309,502
Unrestricted	105,263
<b>Total Net Assets</b>	<b>\$ 414,765</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2009

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest	\$ 13,508
Contributions	82,491
Total additions	95,999
 Deductions:	
Scholarships	26,850
 Income before other financing uses	69,149
 Other financing uses:	
Unrealized loss	(5,338)
 Change in net assets	63,811
 Net assets beginning of year	350,954
 Net assets end of year	\$ 414,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2009

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

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth 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, Northwood-Kensett 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 Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 Worth 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 support.

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

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

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

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental, 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 other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

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

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

The 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.

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 judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2008.

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

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

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

Asset Class	Amount
Land	\$ 0
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. 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 Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

#### (2) **Cash and Pooled Investments**

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

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

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The District's investments are all category 1 which means that the investments are insured or registered or the securities are held by the District or its agent in the District's name.

Investments are stated at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates.

The District's investments at June 30, 2008, are as follows:

Type	Value
Corporate bonds	\$ 117,814

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 144,000
Debt Service	Special Revenue: Physical Plant and Equipment Levy	12,879
Total		\$ 156,879

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

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 36,425	-	-	36,425
Construction in Progress	110,014	142,256	-	252,270
Total capital assets not being depreciated	146,439	142,256	-	288,695
Capital assets being depreciated:				
Buildings	6,177,587	54,933	-	6,232,520
Land improvements	167,981	-	-	167,981
Machinery and equipment	1,531,781	144,682	14,500	1,661,963
Total capital assets being depreciated	7,877,349	199,615	14,500	8,062,464
Less accumulated depreciation for:				
Buildings	2,421,362	141,680	-	2,563,042
Land improvements	41,977	4,664	-	46,641
Machinery and equipment	1,348,975	108,432	14,500	1,442,907
Total accumulated depreciation	3,812,314	254,776	14,500	4,052,590
Total capital assets being depreciated, net	4,065,035	(55,161)	-	4,009,874
Governmental activities capital assets, net	\$ 4,211,474	87,095	-	4,298,569

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 114,118	3,440	-	117,558
Less accumulated depreciation	88,952	3,954	-	92,906
Business type activities capital assets, net	\$ 25,166	(514)	-	24,652

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 58,738
Support services:	
Operation and maintenance of plant	6,472
Transportation	43,222
	<u>108,432</u>
Unallocated depreciation	<u>146,344</u>
Total governmental activities depreciation expense	\$ <u>254,776</u>
Business type activities:	
Food services	\$ <u>3,954</u>

**(5) Long-Term Liabilities**

A summary of changes in long-term debt for the year ended June 30, 2009 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,200,000	2,000,000	2,200,000	2,000,000	225,000
Energy capital loan notes	24,306	-	11,917	12,389	12,389
Early retirement	17,178	1,348	5,520	13,006	6,503
Compensated absences	10,853	22,876	10,853	22,876	22,876
Total	\$ 2,252,337	2,024,224	2,228,290	2,048,271	266,768

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May 5, 2009			
	Interest Rates	Principal	Interest	Total
2010	3.00	% \$ 225,000	60,846	285,846
2011	3.00	230,000	53,594	283,594
2012	3.00	235,000	46,694	281,694
2013	3.00	250,000	39,644	289,644
2014	3.00	255,000	32,143	287,143
2015-2017	3.00-3.13	805,000	49,782	854,782
Total		\$ 2,000,000	282,703	2,282,703

Energy Capital Loan Notes Payable

The District issued \$90,000 and \$135,000 of Energy Management Capital Loan Notes during the year ended June 30, 2003 and 2004. The proceeds from the loan were used to implement an energy conservation program and purchase a wind turbine. The first \$90,000 of notes bear interest at 3.96%, the second \$67,500 of notes bear interest at 4.38% and the third \$67,500 of notes are interest free. The second and third series were paid off during the year ended June 30, 2007. The final payment on the first series is in 2010. The first series principal and interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. The note payable is as follows:

Year ended June 30,	Series 1		
	Principal	Interest	Total
2010	\$ 12,389	491	12,880

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must reach the age of fifty-five on or before June 30 of the year the certified employee wishes to retire and must have completed fifteen years of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2009, totaled \$5,520. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Bond Defeasement**

On May 28, 2009, the District issued \$2,000,000 in general obligation bonds to call \$2,000,000 of the outstanding general obligation bonds dated May 1, 1998. The new advance refunding bonds have been added to the appropriate financial statements. The defeasement of principal and interest for the year was \$2,000,000 and \$0 respectively. The present value of savings of this bond refunding is \$167,073.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to

IPERS for the years ended June 30, 2009, 2008 and 2007 were \$187,804, \$172,041 and \$153,026 respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits**

GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB Statement No.45.

**(9) Risk Management**

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

**(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 \$181,370 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(11) Categorical Funding**

The District's ending balances for categorical funding by project as of June 30, 2009 are as follows:

Project	Amount
Dropouts and dropout prevention programs	\$ 17,836
Beginning teacher mentoring and induction program	79
Professional development	14,736
Salary improvement program	6,524
Market factor incentives	1,765
Professional development for model core curriculum	8,455
Additional teacher contract day	2,100
Market factor	3,807
Weighted at-risk programs	11,747
Additional salary, professional development or both	371
Total reserved for categorical funding	\$ 67,420

REQUIRED SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON 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	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 3,887,358	165,927	4,053,285	4,041,133	4,041,133	12,152
State sources	2,258,461	2,979	2,261,440	2,366,102	2,366,102	(104,662)
Federal sources	162,788	96,553	259,341	157,373	157,373	101,968
Total revenues	<u>6,308,607</u>	<u>265,459</u>	<u>6,574,066</u>	<u>6,564,608</u>	<u>6,564,608</u>	<u>9,458</u>
Expenditures/Expenses:						
Instruction	3,574,783	-	3,574,783	3,892,175	3,892,175	317,392
Support services	1,384,198	-	1,384,198	1,631,220	1,631,220	247,022
Non-instructional programs	-	253,353	253,353	267,000	267,000	13,647
Other expenditures	759,636	-	759,636	902,167	902,167	142,531
Total expenditures/expenses	<u>5,718,617</u>	<u>253,353</u>	<u>5,971,970</u>	<u>6,692,562</u>	<u>6,692,562</u>	<u>720,592</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	589,990	12,106	602,096	(127,954)	(127,954)	730,050
Other financing sources, net	<u>11,221</u>	<u>-</u>	<u>11,221</u>	<u>-</u>	<u>-</u>	<u>11,221</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	601,211	12,106	613,317	(127,954)	(127,954)	741,271
Balance beginning of year	<u>1,746,816</u>	<u>72,801</u>	<u>1,819,617</u>	<u>1,597,079</u>	<u>1,597,079</u>	<u>222,538</u>
Balance end of year	<u>\$ 2,348,027</u>	<u>84,907</u>	<u>2,432,934</u>	<u>1,469,125</u>	<u>1,469,125</u>	<u>963,809</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2009

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. 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 functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL REVENUE FUNDS  
 JUNE 30, 2009

	Special Revenue Funds					Total
	Physical Plant & Equipment Levy	Student Activity	Support Trust	Total Special Revenue	Capital Projects	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 184,789	92,178	18,699	295,666	293,302	588,968
Receivables:						
Property tax:						
Current year delinquent	3,546	-	-	3,546	-	3,546
Succeeding year	198,021	-	-	198,021	-	198,021
Due from other governments	-	-	-	-	69,862	69,862
<b>Total assets</b>	<b>\$ 386,356</b>	<b>92,178</b>	<b>18,699</b>	<b>497,233</b>	<b>363,164</b>	<b>860,397</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ -	-	27	27	-	27
Deferred revenue:						
Succeeding year property tax	198,021	-	-	198,021	-	198,021
	198,021	-	27	198,048	-	198,048
Fund balances:						
Unreserved	188,335	92,178	18,672	299,185	363,164	662,349
Total fund balances	188,335	92,178	18,672	299,185	363,164	662,349
<b>Total liabilities and fund balances</b>	<b>\$ 386,356</b>	<b>92,178</b>	<b>18,699</b>	<b>497,233</b>	<b>363,164</b>	<b>860,397</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2009

	Special Revenue Funds					Total
	Physical Plant and Equipment Levy	Student Activity	Expendable Trust	Total Special Revenue Funds	Capital Projects	Total Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 182,728	-	-	182,728	289,972	472,700
Other	139,468	187,461	399	327,328	1,515	328,843
TOTAL REVENUES	322,196	187,461	399	510,056	291,487	801,543
EXPENDITURES:						
Current:						
Instruction:						
Regular	-	-	288	288	68,124	68,412
Other	-	163,380	-	163,380	-	163,380
Other expenditures:						-
Facilities acquisitions	224,483	-	-	224,483	28,084	252,567
TOTAL EXPENDITURES	224,483	163,380	288	388,151	96,208	484,359
Excess of revenues over expenditures	97,713	24,081	111	121,905	195,279	317,184
OTHER FINANCING USES:						
Transfer out	(12,879)	-	-	(12,879)	(144,000)	(156,879)
TOTAL OTHER FINANCING USES	(12,879)	-	-	(12,879)	(144,000)	(156,879)
Excess of revenues and other financing sources over expenditures and other financing uses	84,834	24,081	111	109,026	51,279	160,305
FUND BALANCES BEGINNING OF YEAR	103,501	68,097	18,561	190,159	311,885	502,044
FUND BALANCES END OF YEAR	\$ 188,335	92,178	18,672	299,185	363,164	662,349

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,319	702	378	1,643
Speech	439	-	439	-
Vocal music	3,685	3,124	3,002	3,807
Choir robe	1,303	112	-	1,415
High school band	-	2,377	2,377	-
Elementary band	90	-	90	-
High school band uniforms	1,736	984	1,484	1,236
High school horn rent/repair	-	152	-	152
Instrument repair	-	1,630	1,245	385
Band trip	5,589	5,456	2,530	8,515
General athletics	-	7,045	7,045	-
Athletic passes	-	18,034	18,034	-
Athletic uniforms	-	6,000	4,625	1,375
Camps	-	10,473	10,473	-
Corn bowl conference	-	25,245	16,742	8,503
Boys Basketball	-	6,368	6,368	-
Football	(2,580)	16,927	14,347	-
Baseball	(178)	803	625	-
Boys track	-	1,501	1,501	-
LMNK Wrestling	-	748	748	-
Girls basketball	-	3,789	3,789	-
Volleyball	-	2,410	2,410	-
Softball	-	1,641	1,641	-
Girls track	-	1,457	1,457	-
FFA	7,942	33,282	35,464	5,760
Math Club	329	660	571	418
Honor society	80	575	536	119
High school student council	133	341	283	191
Student leadership	347	-	-	347
FBLA	-	66	-	66
Cheerleaders	(382)	397	15	-
Junior high cheerleaders	(106)	106	-	-
Spanish club	1,915	10,710	6,234	6,391
FCCLA club	152	1,727	1,733	146
Extreme N-K	364	-	364	-

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Class of 2008	299	-	-	299
Class of 2009	810	665	967	508
Class of 2010	1,954	1,936	2,653	1,237
Class of 2011	1,452	1,160	-	2,612
Class of 2012	641	1,015	-	1,656
Class of 2013	374	420	-	794
Class of 2014	-	370	40	330
Stevens Tech Lab	526	-	-	526
Chip	531	405	545	391
Science projects	136	-	-	136
Student planner	105	-	105	-
HS student of the month	684	114	355	443
Athletic misc.	-	1,016	1,016	-
Beverage machine athletics	102	-	102	-
Yearbook	2,372	13,574	9,775	6,171
Pepsi donations	560	-	560	-
Interest on checking	-	194	194	-
Interest on CD's	-	518	518	-
Elementary activities	460	-	-	460
Band CD	34,914	1,232	-	36,146
Total	\$ 68,097	187,461	163,380	92,178

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2009

	Reuben/Helen Scholarship	Gilbert Charles Stevens	Hellen Hollen Holstad	Richard Moen	Pheasants Forever	Margaret Sigmond	Total
<b>Assets</b>							
Cash and pooled investments	\$ 65,380	84,430	182,017	6,991	500	75,089	414,407
Accounts receivable	-	358	-	-	-	-	358
<b>Total Assets</b>	<b>\$ 65,380</b>	<b>84,788</b>	<b>182,017</b>	<b>6,991</b>	<b>500</b>	<b>75,089</b>	<b>414,765</b>
<b>Net Assets</b>							
Restricted for scholarships	\$ 65,380	62,105	182,017	-	-	-	309,502
Unrestricted	-	22,683	-	6,991	500	75,089	105,263
<b>Total Net Assets</b>	<b>\$ 65,380</b>	<b>84,788</b>	<b>182,017</b>	<b>6,991</b>	<b>500</b>	<b>75,089</b>	<b>414,765</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2009

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Hellen Holstad	Richard Richard Moen	Building Building Trades	Pheasants Pheasants Forever	Margaret Margaret Sigmond	Total
Additions:								
Local sources:								
Interest	\$ 5,891	1,625	5,903	-	-	-	89	13,508
Contributions	-	-	-	6,991	-	500	75,000	82,491
	<u>5,891</u>	<u>1,625</u>	<u>5,903</u>	<u>6,991</u>	<u>-</u>	<u>500</u>	<u>75,089</u>	<u>95,999</u>
Deductions:								
Scholarships	6,000	6,000	8,900	1,925	3,025	1,000	-	26,850
Gain(loss)before other financing uses	(109)	(4,375)	(2,997)	5,066	(3,025)	(500)	75,089	69,149
Other financing sources(uses):								
Unrealized gain(loss)	(6,720)	(50)	1,432	-	-	-	-	(5,338)
Change in net assets	(6,829)	(4,425)	(1,565)	5,066	(3,025)	(500)	75,089	63,811
Net assets beginning of year	72,209	89,213	183,582	1,925	3,025	1,000	-	350,954
Net assets end of year	<u>\$ 65,380</u>	<u>84,788</u>	<u>182,017</u>	<u>6,991</u>	<u>-</u>	<u>500</u>	<u>75,089</u>	<u>414,765</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis					
	Years Ended June 30					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 3,131,384	2,824,046	2,637,136	2,473,383	2,376,421	2,154,280
Tuition	124,768	107,205	102,073	72,369	81,471	64,500
Other	631,206	472,856	309,594	275,466	242,923	226,566
Intermediate sources	-	-	-	-	13,093	-
State sources	2,258,461	2,449,968	2,307,226	2,311,952	2,150,064	1,887,359
Federal sources	162,788	137,119	149,978	149,419	190,625	200,208
Total	<u>\$ 6,308,607</u>	<u>5,991,194</u>	<u>5,506,007</u>	<u>5,282,589</u>	<u>5,054,597</u>	<u>4,532,913</u>
Expenditures:						
Instruction:						
Regular	\$ 2,247,875	2,056,668	1,958,278	1,824,877	1,744,473	1,882,702
Special	753,003	738,386	743,155	669,142	719,381	642,003
Other	573,905	564,915	560,747	511,898	473,065	409,380
Support services:						
Student	92,398	90,615	64,307	74,091	133,658	128,773
Instructional staff	179,334	179,418	103,279	96,818	100,568	123,543
Administration	568,510	524,524	538,601	513,783	450,089	427,141
Operation and maintenance of plant	346,522	387,131	391,114	366,725	335,670	323,659
Transportation	197,434	228,921	213,196	197,981	143,065	137,278
Other expenditures:						
Facilities acquisition	252,567	438,706	73,987	119,990	192,102	361,474
Long-term debt:						
Principal	211,917	201,463	274,895	204,290	225,078	219,167
Interest	113,782	118,566	129,451	138,463	149,020	157,512
AEA flowthrough	181,370	178,412	170,051	164,998	155,958	151,485
Total	<u>\$ 5,718,617</u>	<u>5,707,725</u>	<u>5,221,061</u>	<u>4,883,056</u>	<u>4,822,127</u>	<u>4,964,117</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

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

To the Board of Education of the  
Northwood-Kensett 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 Northwood-Kensett Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 8, 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 Northwood-Kensett 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 Northwood-Kensett Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northwood-Kensett Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

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

#### Compliance and Other Matters

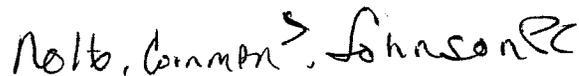
As part of obtaining reasonable assurance about whether Northwood-Kensett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could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

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

Northwood-Kensett Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Northwood-Kensett 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 Northwood-Kensett Community School District and other parties to whom Northwood-Kensett Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 8, 2010

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arrives.

Conclusion - Response accepted.

I-B-09 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches.

Response - We will make changes as the opportunity arises.

Conclusion - Response accepted.

I-C-09 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a timely basis. Although the bank statements are reconciled to the report that is given to the Board, failure to reconcile to the software system could allow for items to not be posted.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis.

Response - This has been done on a monthly basis, and the software system reports are given to the bank representative to also reconcile.

Conclusion - Response accepted.

I-D-09 Timely Deposits - We noted during our audit that deposits for the Nutrition fund were prepared but may not be entered into the system and/or taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - The District is studying in hopes to solve and comply.

Conclusion - Response accepted.

I-E-09 Supporting Documentation - During our audit, we noted an instance of a payment being made that lacked an invoice or other form of supporting documentation.

Recommendation - Whenever possible, the District should use an original invoice or receipt as supporting documentation for payments. We realize there may be instances when such documentation may be unavailable. In those cases, the District should require additional approval before payment is made and support the payment with an alternative form of documentation.

Response - The District will do its best to comply.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS  
 YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

- II-A-09 Certified Budget - District disbursements for the year ended June 30, 2009 did not exceed the amounts budgeted.
- II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-09 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Robin Fredericks, Bus driver & Aide Spouse co-owns A&I Auto	Tires & Repairs	\$7,699
Terri Sculley, Teacher's Aide Owns Village Florist	Supplies	\$333
Brian Campbell, Teacher Owns Soup's Pizzeria & Grill	Pizza	\$272

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Terri Sculley and Brian Campbell do not appear to represent a conflict of interest.

- II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-08 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

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

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

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

Beginning Balance		\$	-
Statewide sales and services tax revenue			289,972
Expenditures/Transfers out:			
School infrastructure:			
Buildings	\$	24,647	
Equipment		19,643	
Other improvements		51,918	
Debt service for school infrastructure:			
General obligation debt		144,000	240,208
			<hr/>
Ending Balance		\$	<u>49,764</u>

Levies reduced as a result of statewide sales and services tax received:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	<hr/>	<hr/>
Debt service levy	\$ 0.72720	\$ 144,000

II-L-09 Officiating Contracts - We noted during our audit that the Board President was not signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The District will comply.

Conclusion - Response accepted.