

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

June 30, 2009

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Independent Auditor's Report

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated March 12, 2010, on our consideration of Pomeroy-Palmer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Pomeroy-Palmer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

March 12, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

Pomeroy-Palmer 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 \$2,187,077 in fiscal 2008 to \$2,261,948 in fiscal 2009, while General Fund expenditures increased from \$2,463,377 in fiscal 2008 to \$2,585,645 in fiscal 2009. The District's General Fund balance decreased from \$233,111 in fiscal 2008 to (\$103,110) in fiscal 2009, a 144% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax revenue in fiscal 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2009. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pomeroy-Palmer 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 Pomeroy-Palmer 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 Pomeroy-Palmer Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Pomeroy-Palmer Community School District Annual Financial Report

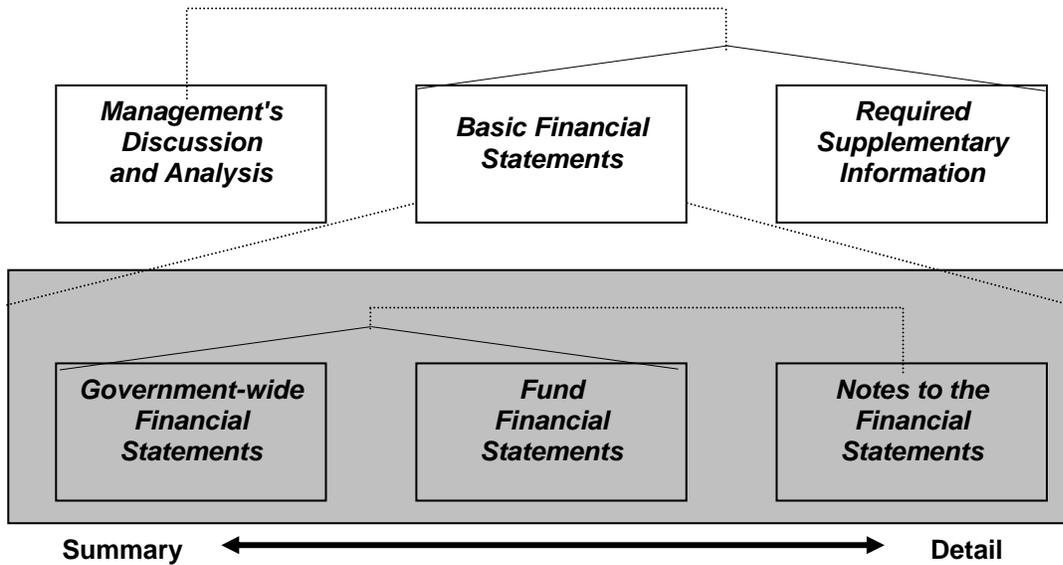


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 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, Physical Plant and Equipment Fund, Management Fund, Capital Projects Fund and Student Activities Fund.

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and Childcare Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee flexible benefit plan.

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

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

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

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

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

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

Government-Wide Financial Analysis

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Current and other assets	\$2,511,972	\$2,226,515	\$4,364	\$5,281	\$2,516,336	\$2,231,796	12.7%
Capital assets	\$910,883	\$551,891	\$5,424	\$6,457	\$916,307	\$558,348	64.1%
Total assets	\$3,422,855	\$2,778,406	\$9,788	\$11,738	\$3,432,643	\$2,790,144	23.0%
Long-term liabilities	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
Other liabilities	\$2,210,943	\$1,340,835	\$670	\$948	\$2,211,613	\$1,341,783	64.8%
Total liabilities	\$2,210,943	\$1,340,835	\$670	\$948	\$2,211,613	\$1,341,783	64.8%
Net Assets:							
Invested in capital assets, net of related debt	\$910,883	\$551,891	\$5,424	\$6,457	\$916,307	\$558,348	64.1%
Restricted	\$312,964	\$581,514	\$0	\$0	\$312,964	\$581,514	-46.2%
Unrestricted	-\$11,935	\$304,166	\$3,694	\$4,333	-\$8,241	\$308,499	-102.7%
TOTAL NET ASSETS	\$1,211,912	\$1,437,571	\$9,118	\$10,790	\$1,221,030	\$1,448,361	-15.7%

The District’s combined total net assets decreased by nearly 19%, or approximately \$227,000, over the prior year. The largest portion of the District’s net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets decreased approximately \$280,000 or 93% over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund and Local Option Sales Tax Fund for the new bus barn, new boiler system, security cameras, and salaries.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$317,000. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

	Change in Net Assets						Percentage Change 2008-2009
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	
Revenues							
Program Revenues:							
Charges for services	\$168,037	\$145,526	\$113,452	\$90,227	\$281,489	\$235,753	19.4%
Operating grants & contributions	\$383,134	\$373,049	\$49,928	\$46,793	\$433,062	\$419,842	3.1%
Capital grants & contributions	\$0	\$0	\$0	\$0	\$0	\$0	0.0%
General Revenues:							
Property taxes	\$1,316,089	\$1,179,268	\$0	\$0	\$1,316,089	\$1,179,268	11.6%
Income Surtax	\$115,734	\$98,893	\$0	\$0	\$115,734	\$98,893	17.0%
Statewide sales tax	\$123,698	\$130,048	\$0	\$0	\$123,698	\$130,048	-4.9%
Unrestricted state grants	\$587,065	\$636,771	\$0	\$0	\$587,065	\$636,771	-7.8%
Unrestricted investment earnings	\$16,309	\$20,054	\$30	\$80	\$16,339	\$20,134	-18.8%
Other revenue	\$11,346	\$50,254	\$0	\$0	\$11,346	\$50,254	-77.4%
Total Revenues	\$2,721,412	\$2,633,863	\$163,410	\$137,100	\$2,884,822	\$2,770,963	4.1%
Expenses:							
Instruction	\$1,889,869	\$1,871,471	\$0	\$0	\$1,889,869	\$1,871,471	1.0%
Support services	\$852,625	\$832,919	\$0	\$0	\$852,625	\$832,919	2.4%
Non-instructional programs	\$0	\$0	\$180,382	\$159,848	\$180,382	\$159,848	12.8%
Other expenditures	\$189,277	\$142,777	\$0	\$0	\$189,277	\$142,777	32.6%
Total expenses	\$2,931,771	\$2,847,167	\$180,382	\$159,848	\$3,112,153	\$3,007,015	3.5%
Change in net assets before transfers	(\$210,359)	(\$213,304)	(\$16,972)	(\$22,748)	(\$227,331)	(\$236,052)	3.7%
Transfers	(\$15,300)	(\$21,490)	\$15,300	\$21,490	\$0	\$0	-
CHANGE IN NET ASSETS	(\$225,659)	(\$234,794)	(\$1,672)	(\$1,258)	(\$227,331)	(\$236,052)	3.7%
Net assets beginning of year	\$1,437,571	\$1,672,365	\$10,790	\$12,048	\$1,448,361	\$1,684,413	-14.0%
Net assets end of year	\$1,211,912	\$1,437,571	\$9,118	\$10,790	\$1,221,030	\$1,448,361	-15.7%

In fiscal year 2009 property tax and unrestricted state grants account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 4.1% increase in revenues and a 3.5% increase in expenses. Property tax increased approximately \$137,000 to fund increases in expenses. The increases in expenses related to increases in the negotiated salaries and benefits.

Governmental Activities

Revenues for governmental activities were \$2,721,412 and expenses were \$2,931,771. The District had to use its unspent balance in order to cover the difference in revenue and expenses. The District will work to continue to increase revenues and cut expenditures next year.

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

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2009 \$	2008 \$	Change 2008-2009	2009 \$	2008 \$	Change 2008-2009
Instruction	\$1,889,869	\$1,871,471	1.0%	\$1,429,593	\$1,442,471	-.9%
Support Services	\$852,625	\$832,919	2.4%	\$852,437	\$832,844	2.4%
Other Expenses	\$189,277	\$142,777	32.6%	\$98,570	\$53,277	85.0%
TOTAL	\$2,931,771	\$2,847,167	3.0%	\$2,380,600	\$2,328,592	2.2%

For the year ended June 30, 2009

- The cost financed by users of the District's programs was \$168,037. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$383,134.
- The net cost of governmental activities was financed with \$1,316,089 in property taxes and \$587,065 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$163,410 and expenses were \$180,382. The District's business type activities include the School Nutrition Fund and Childcare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Increased enrollment in the Childcare Program as well as increased Childcare rates lead to increased revenue. Expenses increased mainly due to increases in salaries and benefits for the Childcare Program for extra staff to accommodate the increase in enrollment. The District paid the difference in expenses and revenues from the general fund. This increase resulted in maintaining the revenue level in the School Nutrition Fund, as the number of students available to participate continues to decline. It will also help the Childcare Fund to operate self-sufficiently in the future.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$198,544, a decrease from last year's ending fund balances of \$809,217. The primary reasons for the decrease in combined fund

balances in fiscal 2009 are increased salary and benefits, construction of the new bus barn, and new boiler system.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. General Fund revenues increased by \$74,871 due mainly to increases in tax and tuition. However, this increase was more than offset by \$122,268 increase in expenditures. Because expenditures were still greater than revenues, the District had to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$233,111 to (\$103,110), due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$305,992 in fiscal 2008 to \$145,723 in fiscal 2009. While revenues increased modestly, expenditures increased due to the new bus barn project.
- The Capital Projects Fund balance decreased from \$203,992 in fiscal 2008 to \$60,017 in fiscal 2009. This is a result of a decrease in revenue as well as increased expenditures due to the new boiler system and salaries.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$7,761 at June 30, 2008 to \$7,362 at June 30, 2009, representing a decrease of approximately 5%. An \$8,837 transfer from the General Fund to the School Nutrition Fund helped to lessen the decrease in net assets. Without the transfer the School Nutrition Fund would have had deficit net assets of \$1,505 at June 30, 2009.

The Childcare Fund ended fiscal year 2009 with net assets of \$1,756. However, all of the net assets are attributed to a \$6,463 transfer from the General Fund to the Childcare Fund. Without the transfer the Childcare Fund would have had deficit net assets of \$4,707 at June 30, 2009.

BUDGETARY HIGHLIGHTS

The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures function areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

The District's receipts were \$149,434 less than budgeted receipts, a variance of 5%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were less than budgeted, however, the District did exceed its General Fund unspent authorized budget. The District is working to cut expenditures over the next few years and increase revenues in order to overcome the negative unspent authorized budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$916,307, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, and transportation equipment. (See Figure A-6) This represents a net increase of 64.1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$82,374.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$199,712 at June 30, 2009 compared to \$11,892 reported at June 30, 2008. This significant increase resulted from construction of a new bus barn and new boiler system.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2008-2009
	Activities		Activities		School District		
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Land	\$18,295	\$10,601	\$0	\$0	\$18,295	\$10,601	72.6%
Construction in progress	\$199,712	\$11,892	\$0	\$0	\$199,712	\$11,892	1579.4%
Buildings	\$506,936	\$311,728	\$0	\$0	\$506,936	\$311,728	62.6%
Improvements	\$30,563	\$32,297	\$0	\$0	\$30,563	\$32,297	-5.4%
Equipment & furniture	\$155,377	\$185,373	\$5,424	\$6,457	\$160,801	\$191,830	-16.2%
TOTAL	\$910,883	\$551,891	\$5,424	\$6,457	\$916,307	\$558,348	64.1%

Long-Term Debt

The District does not have any long-term debt.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District started sharing Athletics with Pocahontas Area Community School in 2008-2009. The District will start a whole-grade sharing agreement with Pocahontas Area Community School in 2009-2010.
- The District's valuation will increase over the next few years due to the building of at least 100 windmills in the district
- Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in future enrollment. The October 2009 enrollment increased by eleven students. This will increase the District's funding for fiscal year 2011.
- The District's faculty is reaching retirement age at a steadily increasing rate. The levy rate for the Management Fund will be set to cover anticipated early retirement obligations and the District insurance premium for the next year.

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 Megan Hauswirth, District Secretary/Treasurer and Business Manager, Pomeroy-Palmer Community School District, 202 E. Harrison St., Pomeroy, Iowa, 50575.

BASIC FINANCIAL STATEMENTS

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents			
ISCAP	413,444	-	413,444
Other	369,656	-	369,656
Receivables:			
Property tax:			
Delinquent	14,253	-	14,253
Succeeding year	1,510,214	-	1,510,214
Accounts	3,320	2,464	5,784
Accrued interest - ISCAP	51	-	51
Due from other governments	201,034	-	201,034
Inventories	-	1,900	1,900
Capital assets, net of accumulated depreciation	910,883	5,424	916,307
Total assets	3,422,855	9,788	3,432,643
Liabilities			
Accounts payable	146,086	285	146,371
Due to other governments	102,979		102,979
Deferred revenue:			
Succeeding year property tax	1,510,214	-	1,510,214
Other	36,646	385	37,031
ISCAP warrants payable	407,000	-	407,000
ISCAP accrued interest payable	139	-	139
ISCAP premium	7,879	-	7,879
Total liabilities	2,210,943	670	2,211,613
Net assets			
Invested in capital assets, net of related debt	910,883	5,424	916,307
Restricted for:			
Categorical funding	11,310	-	11,310
Management levy	73,461	-	73,461
Physical plant and equipment levy	145,723	-	145,723
Other special revenue purposes	22,453	-	22,453
Sales tax capital projects	60,017	-	60,017
Unrestricted	(11,935)	3,694	(8,241)
Total net assets	1,211,912	9,118	1,221,030

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2009

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,230,199	110,980	228,668	-
Special	293,841	16,910	23,295	-
Other	365,829	40,147	40,276	-
	<u>1,889,869</u>	<u>168,037</u>	<u>292,239</u>	<u>-</u>
Support services:				
Student	24,275	-	-	-
Instructional staff	113,236	-	-	-
Administration	289,259	-	-	-
Operation and maintenance of plant	277,717	-	-	-
Transportation	148,138	-	188	-
	<u>852,625</u>	<u>-</u>	<u>188</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	69,753	-	-	-
AEA flowthrough	90,707	-	90,707	-
Depreciation (unallocated)*	28,817	-	-	-
	<u>189,277</u>	<u>-</u>	<u>90,707</u>	<u>-</u>
Total governmental activities	2,931,771	168,037	383,134	-
Business type activities:				
Non-instructional programs:				
Food service operations	107,885	48,691	49,928	-
Childcare	72,497	64,761	-	-
Total business-type activities	<u>180,382</u>	<u>113,452</u>	<u>49,928</u>	<u>-</u>
Total	<u>3,112,153</u>	<u>281,489</u>	<u>433,062</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(890,551)	-	(890,551)
(253,636)	-	(253,636)
<u>(285,406)</u>	-	<u>(285,406)</u>
<u>(1,429,593)</u>	-	<u>(1,429,593)</u>
(24,275)	-	(24,275)
(113,236)	-	(113,236)
(289,259)	-	(289,259)
(277,717)	-	(277,717)
<u>(147,950)</u>	-	<u>(147,950)</u>
<u>(852,437)</u>	-	<u>(852,437)</u>
(69,753)	-	(69,753)
-	-	-
<u>(28,817)</u>	-	<u>(28,817)</u>
<u>(98,570)</u>	-	<u>(98,570)</u>
(2,380,600)	-	(2,380,600)
-	(9,266)	(9,266)
-	(7,736)	(7,736)
-	(17,002)	(17,002)
<u>(2,380,600)</u>	<u>(17,002)</u>	<u>(2,397,602)</u>
1,206,133	-	1,206,133
109,956	-	109,956
115,734	-	115,734
123,698	-	123,698
587,065	-	587,065
16,309	30	16,339
11,346	-	11,346
<u>2,170,241</u>	<u>30</u>	<u>2,170,271</u>
<u>(15,300)</u>	<u>15,300</u>	<u>-</u>
<u>2,154,941</u>	<u>15,330</u>	<u>2,170,271</u>
(225,659)	(1,672)	(227,331)
<u>1,437,571</u>	<u>10,790</u>	<u>1,448,361</u>
<u>1,211,912</u>	<u>9,118</u>	<u>1,221,030</u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
ISCAP	413,444	-	-	413,444
Other	22,374	225,424	120,506	368,304
Receivables:				
Property tax:				
Delinquent	11,599	1,191	1,463	14,253
Succeeding year	1,263,723	111,491	135,000	1,510,214
Accounts	3,240	-	80	3,320
Accrued interest - ISCAP	51	-	-	51
Interfund receivable	-	31,608	8,570	40,178
Due from other governments	169,032	-	32,002	201,034
Total assets	1,883,463	369,714	297,621	2,550,798
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	25,544	112,500	6,690	144,734
Due to other governments	102,979	-	-	102,979
Interfund payable	40,178	-	-	40,178
ISCAP warrants payable	407,000	-	-	407,000
ISCAP accrued interest payable	139	-	-	139
ISCAP premium	7,879	-	-	7,879
Deferred revenue:				
Succeeding year property tax	1,263,723	111,491	135,000	1,510,214
Income surtax	87,366	-	-	87,366
Other	51,765	-	-	51,765
Total liabilities	1,986,573	223,991	141,690	2,352,254
Fund balances:				
Reserved for:				
Categorical funding	11,310	-	-	11,310
Unreserved reported in:				
General fund	(114,420)	-	-	(114,420)
Special revenue funds	-	145,723	95,914	241,637
Capital projects funds	-	-	60,017	60,017
Total fund balances	(103,110)	145,723	155,931	198,544
Total liabilities and fund balances	1,883,463	369,714	297,621	2,550,798

See notes to financial statements.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2009

\$

Total fund balances of governmental funds (Exhibit C) 198,544

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 910,883

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 102,485

Net assets of governmental activities (Exhibit A) 1,211,912

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,175,889	109,956	258,773	1,544,618
Tuition	112,187	-	-	112,187
Other	18,792	10,250	51,687	80,729
State sources	865,122	-	-	865,122
Federal sources	89,958	-	-	89,958
Total revenues	<u>2,261,948</u>	<u>120,206</u>	<u>310,460</u>	<u>2,692,614</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,153,147	18,831	62,310	1,234,288
Special	292,764	-	-	292,764
Other	310,004	-	52,956	362,960
	<u>1,755,915</u>	<u>18,831</u>	<u>115,266</u>	<u>1,890,012</u>
Support services:				
Student	24,275	-	-	24,275
Instructional staff	80,814	-	31,217	112,031
Administration	287,286	-	1,973	289,259
Operation and maintenance of plant	237,042	2,382	34,983	274,407
Transportation	109,606	-	12,908	122,514
	<u>739,023</u>	<u>2,382</u>	<u>81,081</u>	<u>822,486</u>
Other expenditures:				
Facilities acquisition	-	259,262	228,296	487,558
AEA flowthrough	90,707	-	-	90,707
	<u>90,707</u>	<u>259,262</u>	<u>228,296</u>	<u>578,265</u>
Total expenditures	<u>2,585,645</u>	<u>280,475</u>	<u>424,643</u>	<u>3,290,763</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(323,697)</u>	<u>(160,269)</u>	<u>(114,183)</u>	<u>(598,149)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	2,776	-	-	2,776
Operating transfers out	(15,300)	-	-	(15,300)
Total other financing sources (uses)	<u>(12,524)</u>	<u>-</u>	<u>-</u>	<u>(12,524)</u>
Net change in fund balances	(336,221)	(160,269)	(114,183)	(610,673)
Fund balances beginning of year	<u>233,111</u>	<u>305,992</u>	<u>270,114</u>	<u>809,217</u>
Fund balances end of year	<u>(103,110)</u>	<u>145,723</u>	<u>155,931</u>	<u>198,544</u>

See notes to financial statements.

POMEROY-PALMER 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 (Exhibit E)		(610,673)
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	440,333	
Depreciation expense	<u>(81,341)</u>	358,992
Income surtaxes and other revenues not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		<u>26,022</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(225,659)</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2009

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Assets		
Cash and cash equivalents	-	1,352
Accounts receivable	2,464	-
Inventories	1,900	-
Capital assets, net of accumulated depreciation	5,424	-
	<u>9,788</u>	<u>1,352</u>
Total assets	<u>9,788</u>	<u>1,352</u>
Liabilities		
Accounts payable	285	1,352
Deferred revenue	385	-
	<u>670</u>	<u>1,352</u>
Total liabilities	<u>670</u>	<u>1,352</u>
Net assets		
Invested in capital assets	5,424	-
Unrestricted	3,694	-
	<u>9,118</u>	<u>-</u>
Total net assets	<u><u>9,118</u></u>	<u><u>-</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	113,452	7,667
Operating expenses:		
Non-instructional programs:		
Salaries	99,761	-
Benefits	21,828	7,665
Supplies	57,760	-
Depreciation	1,033	-
Other	-	2
Total operating expenses	180,382	7,667
Operating gain (loss)	(66,930)	-
Non-operating revenues:		
State sources	1,153	-
Federal sources	48,775	-
Interest income	30	-
Total non-operating revenues	49,958	-
Gain (loss) before transfers	(16,972)	-
Transfers in	15,300	-
Change in net assets	(1,672)	-
Net assets beginning of year	10,790	-
Net assets end of year	9,118	-

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2009

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	48,096	-
Cash received from other services	64,709	7,667
Cash payments to employees for services	(121,589)	(9,745)
Cash payments to suppliers for goods or services	(53,029)	-
Net cash used by operating activities	<u>(61,813)</u>	<u>(2,078)</u>
Cash flows from non-capital financing activities		
Transfer from General Fund	15,300	-
State grants received	1,153	-
Federal grants received	43,231	-
Net cash provided by non-capital financing activities	<u>59,684</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>30</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(2,099)	(2,078)
Cash and cash equivalents at beginning of year	<u>2,099</u>	<u>3,430</u>
Cash and cash equivalents at end of year	<u><u>-</u></u>	<u><u>1,352</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(66,930)	-
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	5,588	-
Depreciation	1,033	-
Decrease (increase) in inventories	(863)	-
Decrease (increase) in accounts receivable	(363)	-
(Decrease) increase in accounts payable	6	2,078
(Decrease) increase in deferred revenue	(284)	-
Net cash (used) provided by operating activities	<u><u>(61,813)</u></u>	<u><u>2,078</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$5,588 of federal commodities.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2009

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	298
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>298</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions	-
Deductions:	
Support services:	
Fees	<u>2</u>
Change in net assets	(2)
Net assets beginning of year	<u>300</u>
Net assets end of year	<u><u>298</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Pomeroy-Palmer 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 Pomeroy-Palmer Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

The District's proprietary funds include the Enterprise, School Nutrition Fund which is used to account for the food service operations of the District and the Childcare Fund which is used to account for the District's daycare operations.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the

current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year-end.

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

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

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable

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

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-40 years
Furniture and equipment	4-20 years

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

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

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

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

Termination Benefits

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

Early retirement benefits are equal to 60% of the base of the highest paid salary during the past five years. Benefits also include payment for up to 120 days of unused sick leave at \$20 per day.

Early retirement benefits will be paid in one lump sum amount by June 30, of the year of retirement.

During fiscal year 2009, the District approved and paid \$40,697 of early retirement benefits.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures exceeded the amounts budgeted in the non-instructional programs and other expenditures functions and the District exceeded its General Fund unspent authorized budget.

2. Cash and Pooled Investments

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

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

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	82,962

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

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

3. Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Physical Plant and Equipment Levy Fund	General Fund	31,608
Nonmajor Management Fund	General Fund	8,570

The transactions represent a temporary loan to cover a cash deficit and a reclassification of a receipt deposited in the wrong account.

4. Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Enterprise School Nutrition Fund	General Fund	8,837
Nonmajor Enterprise Childcare Fund	General Fund	6,463

The transfers from the General Fund to the Enterprise Funds covered deficits in the Enterprise Funds.

5. Iowa School Cash Anticipation Program (ISCAP)

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

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
			\$	\$	\$	\$
2009-10A	6/25/09	6/23/10	<u>413,444</u>	<u>51</u>	<u>407,000</u>	<u>139</u>

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

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

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

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

6. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	11,892	199,712	11,892	199,712
Land	<u>10,601</u>	<u>7,694</u>	<u>-</u>	<u>18,295</u>
Total capital assets not being depr.	<u>22,493</u>	<u>207,406</u>	<u>11,892</u>	<u>218,007</u>

Capital assets being depreciated:				
Buildings	1,160,830	222,291	-	1,383,121
Improvements other than buildings	52,813	-	-	52,813
Furniture and equipment	702,075	22,528	-	724,603
Total capital assets being deprec.	<u>1,915,718</u>	<u>244,819</u>	-	<u>2,160,537</u>
Less accumulated depreciation for:				
Buildings	849,102	27,083	-	876,185
Improvements other than buildings	20,516	1,734	-	22,250
Furniture and equipment	516,702	52,524	-	569,226
Total accumulated depreciation	<u>1,386,320</u>	<u>81,341</u>	-	<u>1,467,661</u>
Total capital assets being depreciated, net	<u>529,398</u>	<u>163,478</u>	-	<u>692,876</u>
Governmental activities capital assets, net	<u>551,891</u>	<u>370,884</u>	<u>11,892</u>	<u>910,883</u>
	Balance			
	Beginning of			Balance End
	Year	Increases	Decreases	of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	75,848	-	-	75,848
Less accumulated depreciation	<u>69,391</u>	<u>1,033</u>	-	<u>70,424</u>
Business type activities capital assets, net	<u>6,457</u>	<u>(1,033)</u>	-	<u>5,424</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	18,439
Special	1,077
Other	2,869
Support services:	
Instructional staff services	1,205
Operation and maintenance of plant services	3,310
Transportation	<u>25,624</u>
	52,524
Unallocated depreciation	<u>28,817</u>
Total depreciation expense – governmental activities	<u>81,341</u>
Business type activities:	
Food services	<u>1,033</u>

7. Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$100,381, \$94,180 and \$82,853 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$90,707 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Commitment – Operating Lease

The District has entered into a lease for two copy machines, which qualifies as an operating lease. The following minimum payments will be made over the lease term:

<u>Year ended June 30,</u>	<u>Minimum Lease Payment</u>
2010	\$ 15,504

11. Construction Commitment

The District has entered into a \$288,200 contract for a new bus garage. As of June 30, 2009 costs of \$182,462 had been incurred against the contract. The balance remaining at June 30, 2009 will be paid as work on the project progresses.

12. Deficit Fund Balances

At June 30, 2009 the District had an \$114,420 deficit unreserved fund balance in the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

Year ended June 30, 2009

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,737,534	113,482	1,851,016	1,923,448	1,923,448	(72,432)
Intermediate sources	-	-	-	3,500	3,500	(3,500)
State sources	865,122	1,153	866,275	926,549	926,549	(60,274)
Federal sources	89,958	48,775	138,733	151,961	151,961	(13,228)
Total revenues	<u>2,692,614</u>	<u>163,410</u>	<u>2,856,024</u>	<u>3,005,458</u>	<u>3,005,458</u>	<u>(149,434)</u>
Expenditures/Expenses:						
Instruction	1,890,012	-	1,890,012	2,190,500	2,190,500	300,488
Support services	822,486	-	822,486	964,438	964,438	141,952
Non-instructional programs	-	180,382	180,382	100,000	100,000	(80,382)
Other expenditures	578,265	-	578,265	554,840	554,840	(23,425)
Total expenditures/expenses	<u>3,290,763</u>	<u>180,382</u>	<u>3,471,145</u>	<u>3,809,778</u>	<u>3,809,778</u>	<u>338,633</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(598,149)	(16,972)	(615,121)	(804,320)	(804,320)	189,199
Other financing sources (uses) net	<u>(12,524)</u>	<u>15,300</u>	<u>2,776</u>	<u>-</u>	<u>-</u>	<u>2,776</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expense	(610,673)	(1,672)	(612,345)	(804,320)	(804,320)	191,975
Balance beginning of year	<u>809,217</u>	<u>10,790</u>	<u>820,007</u>	<u>1,009,136</u>	<u>1,009,136</u>	<u>(189,129)</u>
Balance end of year	<u><u>198,544</u></u>	<u><u>9,118</u></u>	<u><u>207,662</u></u>	<u><u>204,816</u></u>	<u><u>204,816</u></u>	<u><u>2,846</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2009

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

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

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

During the year ended June 30, 2009, expenditures in the non-instructional programs and other expenditures functions exceeded the amounts budgeted. The District also exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2009

Assets	Special Revenue Fund			Total
	Management Levy	Student Activity Fund	Capital Projects Fund	
	\$	\$	\$	
Cash and pooled investments	64,961	23,102	32,443	120,506
Receivables:				
Property tax:				
Delinquent	1,463	-	-	1,463
Succeeding year	135,000	-	-	135,000
Accounts	-	80	-	80
Interfund receivable	8,570	-	-	8,570
Due from other governments	-	-	32,002	32,002
Total assets	209,994	23,182	64,445	297,621
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	1,533	729	4,428	6,690
Deferred revenue:				
Other	135,000	-	-	135,000
Total liabilities	136,533	729	4,428	141,690
Fund balances:				
Unreserved reported in:				
Special revenue funds	73,461	22,453	-	95,914
Capital projects funds	-	-	60,017	60,017
Total fund balances	73,461	22,453	60,017	155,931
Total liabilities and fund balances	209,994	23,182	64,445	297,621

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Fund			Total
	Management Levy	Student Activity Fund	Capital Projects Fund	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	135,075	-	123,698	258,773
Other	9,849	40,920	918	51,687
Total revenues	<u>144,924</u>	<u>40,920</u>	<u>124,616</u>	<u>310,460</u>
Expenditures:				
Current:				
Instruction:				
Regular	57,660	-	4,650	62,310
Other	-	52,956	-	52,956
Support services:				
Instructional staff	-	-	31,217	31,217
Administration	1,973	-	-	1,973
Operation and maintenance of plant	34,983	-	-	34,983
Transportation	8,480	-	4,428	12,908
Other expenditures:				
Facilities acquisition	-	-	228,296	228,296
Total expenditures	<u>103,096</u>	<u>52,956</u>	<u>268,591</u>	<u>424,643</u>
Excess (deficiency) of revenues over (under) expenditures	41,828	(12,036)	(143,975)	(114,183)
Fund balances beginning of year	<u>31,633</u>	<u>34,489</u>	<u>203,992</u>	<u>270,114</u>
Fund balances end of year	<u><u>73,461</u></u>	<u><u>22,453</u></u>	<u><u>60,017</u></u>	<u><u>155,931</u></u>

POMEROY-PALMER

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2009

	Nonmajor Enterprise Funds		
	School Nutrition	Childcare	Total
	\$	\$	\$
Assets			
Accounts receivable	523	1,941	2,464
Inventories	1,900	-	1,900
Capital assets, net of accumulated depreciation	5,424	-	5,424
Total assets	7,847	1,941	9,788
Liabilities			
Accounts payable	100	185	285
Deferred revenue	385	-	385
Total liabilities	485	185	670
Net assets			
Invested in capital assets	5,424	-	5,424
Unrestricted	1,938	1,756	3,694
Total net assets	7,362	1,756	9,118

POMEROY-PALMER

Combining Schedule Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2009

	NonmJOR Enterprise Funds		
	School Nutrition	Childcare	Total
	\$	\$	\$
Operating revenues:			
Local sources:			
Charges for service	48,691	64,761	113,452
Operating expenses:			
Non-instructional programs:			
Salaries	43,082	56,679	99,761
Benefits	14,492	7,336	21,828
Supplies	49,278	8,482	57,760
Depreciation	1,033	-	1,033
Total operating expenses	107,885	72,497	180,382
Operating gain (loss)	(59,194)	(7,736)	(66,930)
Non-operating revenues:			
State sources	1,153	-	1,153
Federal sources	48,775	-	48,775
Interest income	30	-	30
Total non-operating revenues	49,958	-	49,958
Gain (loss) before transfers	(9,236)	(7,736)	(16,972)
Transfers in	8,837	6,463	15,300
Change in net assets	(399)	(1,273)	(1,672)
Net assets beginning of year	7,761	3,029	10,790
Net assets end of year	7,362	1,756	9,118

POMEROY-PALMER
Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2009

	Nonmajor Enterprise Funds		
	School		Total
	Nutrition	Childcard	
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	48,096	-	48,096
Cash received from other services	-	64,709	64,709
Cash payments to employees for services	(57,574)	(64,015)	(121,589)
Cash payments to suppliers for goods or services	(44,732)	(8,297)	(53,029)
Net cash used by operating activities	<u>(54,210)</u>	<u>(7,603)</u>	<u>(61,813)</u>
Cash flows from non-capital financing activities			
Transfer from General Fund	8,837	6,463	15,300
State grants received	1,153	-	1,153
Federal grants received	43,231	-	43,231
Net cash provided by non-capital financing activities	<u>53,221</u>	<u>6,463</u>	<u>59,684</u>
Cash flows from capital and related financing activities	-	-	-
Cash flows from investing activities:			
Interest on investments	30	-	30
Net increase (decrease) in cash and cash equivalents	(959)	(1,140)	(2,099)
Cash and cash equivalents at beginning of year	959	1,140	2,099
Cash and cash equivalents at end of year	<u>-</u>	<u>-</u>	<u>-</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(59,194)	(7,736)	(66,930)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	5,588	-	5,588
Depreciation	1,033	-	1,033
Decrease (increase) in inventories	(863)	-	(863)
Decrease (increase) in accounts receivable	(311)	(52)	(363)
(Decrease) increase in accounts payable	(179)	185	6
(Decrease) increase in deferred revenue	(284)	-	(284)
Net cash used by operating activities	<u>(54,210)</u>	<u>(7,603)</u>	<u>(61,813)</u>

See accompanying independent auditor's report

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Annual	5,888	2,130	2,891	5,127
Cheerleader	285	101	101	285
Class of 2007	365	-	-	365
Class of 2008	768	-	-	768
Class of 2009	2,012	429	1,919	522
Class of 2010	1,204	6,793	6,378	1,619
Class of 2011	96	-	-	96
Class of 2012	-	225	-	225
Electathon	-	345	345	-
FFA	1,485	6,256	6,206	1,535
FCCLA	2,790	196	2,986	-
General athletics	6,788	1,704	1,543	6,949
Interest	-	773	83	690
Student council	8,342	2,633	6,881	4,094
French club	4,288	19,335	23,623	-
Auto club	178	-	-	178
	<u>34,489</u>	<u>40,920</u>	<u>52,956</u>	<u>22,453</u>
Total				

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	1,544,618	1,368,088	1,301,636	1,333,763	1,213,063	1,276,624
Tuition	112,187	83,320	139,824	169,631	68,997	60,876
Other	80,729	93,119	123,599	147,319	118,209	140,128
Intermediate sources	-	-	3,502	-	-	-
State sources	865,122	911,061	861,614	950,086	1,010,057	887,071
Federal sources	89,958	127,582	105,546	118,684	111,530	114,753
Total revenues	<u>2,692,614</u>	<u>2,583,170</u>	<u>2,535,721</u>	<u>2,719,483</u>	<u>2,521,856</u>	<u>2,479,452</u>
Expenditures:						
Instruction:						
Regular	1,234,288	1,296,649	1,125,600	1,098,207	1,265,579	1,134,862
Special	292,764	268,087	260,584	192,645	193,204	222,482
Other	362,960	320,304	459,546	485,038	330,069	313,740
Support services:						
Student	24,275	25,340	36,718	38,221	53,332	48,263
Instructional staff	112,031	115,482	75,870	75,414	70,033	70,333
Administration	289,259	262,474	301,306	301,837	225,825	244,025
Operation and maintenance	274,407	266,175	271,784	245,881	251,280	268,099
Transportation	122,514	197,878	119,815	105,727	173,901	83,183
Non-instructional programs	-	-	1,862	739	10,307	18,894
Other expenditures:						
Facilities acquisition	487,558	61,149	67,303	50,478	39,685	-
AEA flowthrough	90,707	89,500	87,592	85,659	87,570	89,601
Total expenditures	<u>3,290,763</u>	<u>2,903,038</u>	<u>2,807,980</u>	<u>2,679,846</u>	<u>2,700,785</u>	<u>2,493,482</u>

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
Pomeroy-Palmer 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 Pomeroy-Palmer 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 March 12, 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 Pomeroy-Palmer 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 Pomeroy-Palmer Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pomeroy-Palmer 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 Pomeroy-Palmer 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 Pomeroy-Palmer Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pomeroy-Palmer Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

Pomeroy-Palmer Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Pomeroy-Palmer 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 Pomeroy-Palmer Community School District and other parties to whom Pomeroy-Palmer Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

March 12, 2010

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

09-I-B Signatures on Checks: We noted that District is using a computer program to print checks with the signatures included. The person that enters the invoices, posts the invoices and prints the checks has access to the computer disk that contains the signatures.

Recommendation: This practice negates the control established by requiring two signatures on a check. The person that enters the invoices into the system and posts the invoices should not have access to the signature disk.

District Response: We will review our current procedures.

Conclusion: Response accepted.

09-I-C Financial Reporting: During the audit, we identified material amounts of receivables and payables not recorded in the District's financial records and we identified an interfund loan that was recorded in the books as a transfer. Adjustments were subsequently made by the District to correct these amounts in the financial statements.

Recommendation: The District should implement procedures to ensure all receivables, are identified and included in the District's financial statements and that all interfund transactions are reviewed and correctly identified as loans or transfers.

District Response: We will double check these in the future to avoid missing any receivables or misclassifying interfund loans and transfers.

Conclusion: Response accepted.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

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

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

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

Conclusion: Response accepted.

09-I-E Supporting Documentation: We noted credit card payments that were not supported by detailed invoices or receipts.

Recommendation: The District should have receipts that identify the items purchased in detail for credit card charges. The receipts should be reconciled to the credit card statement each month.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, exceeded the amounts budgeted in the non-instructional programs and other expenditures functions. The District also exceeded its unspent authorized budget for the year ended June 30, 2009 by approximately \$12,000.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review committee to resolve the unspent authorized budget issue.

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion: Response accepted.

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

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

09-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Roger Eichelberger, board member, owner of R & J Lumber, co-owner of Manson Lumber and co-owner of Pocahontas Lumber	supplies	530

The transactions with the Board member do not appear to be a conflict of interest because the amount is lower than the \$2,500 limit set by the Code of Iowa.

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

09-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

09-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 7 of the Certified Enrollment Certification Form for October 2008, was overstated by two students. Also the calculations for supplemental weighting on line 12 included open enrollment in students.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

Recommendation: The District should review all of the Certified Enrollment instructions for supplemental weighting before filing future reports.

District Response: We will review the filing requirements.

Conclusion: Response accepted.

09-II-H 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.

09-II-I Certified Annual Report (CAR): The Certified Annual Report was filed with the Iowa Department of Education timely.

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

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

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

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

Conclusion: Response accepted.

09-II-K Statewide Sales and Services Tax: The District's revenue purpose statement allows the District to use its sales tax revenues for any purposes that are allowable for the Public Education and Recreation property tax levy. The District spent \$35,867 of sales tax proceeds on its child care program based on its determination that this would be allowable under the Public Education and Recreation property tax levy. The Iowa Department of Education issued Chapter 98 of the Administrative Code during the summer of 2009. Chapter 98 states that programs for which the District could charge a fee, such as before and after school programs, are not allowable expenditures from the Public Educational and Recreational Property Tax Levy.

Recommendation: The District should consult with its attorney to determine if expenditures for child care programs are allowable from sales tax proceeds.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

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		123,698
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements		<u>123,698</u>
Ending balance		<u><u>-</u></u>

09-II-L Old outstanding checks: We noted that the District's bank reconciliations included approximately \$4,700 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then, reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.

09-II-M Construction Contract Change Orders: We noted that the Board of Directors did not approve change orders.

Recommendation: All contract changes should be approved by the Board and documented in the minutes.

District Response: All future contract changes will be documented in the minutes.

Conclusion: Response accepted.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

09-II-N Deficit Balances: The District has an unreserved deficit fund balance in the General Fund of \$114,420 at June 30, 2009.

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

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.

09-II-O Physical Plant and Equipment Levy Fund Expenditures (PPEL): The PPEL property tax levy may be spent to purchase and improve grounds; to construct buildings; to purchase or lease a single unit of equipment or technology exceeding \$500 in value per unit; to repair, remodel improve, or expand buildings; for energy conservation; and to purchase transportation equipment.

We noted that the District used the PPEL Fund to pay \$2,140 for computer repairs. Equipment repairs do not appear to be allowable from the PPEL Fund.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund. And the General Fund should reimburse the PPEL Fund for these expenditures.

District Response: We will monitor expenditures from the PPEL Fund and make the reimbursement.

Conclusion: Response accepted.