

WALNUT 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
Walnut 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 Walnut Community School District, Walnut, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the District's 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 Walnut Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 13, 2010, on our consideration of Walnut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 4 through 12 and 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Walnut 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

August 13, 2010

WALNUT MANAGEMENT'S DISCUSSION AND ANALYSIS

Walnut 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 decreased from \$2,630,640 in fiscal 2008 to \$2,354,758 in fiscal 2009, while General Fund expenditures decreased from \$2,388,411 in fiscal 2008 to \$2,370,961 in fiscal 2009. The District's General Fund increased from \$579,453 in fiscal 2008 to \$612,640 in fiscal 2009
- The decrease in General Fund revenues was attributable to sharing incentives created by sharing classes and teachers with a neighboring school district. The decrease in expenditures was due primarily to a decrease in the negotiated salary and benefits and restricted grant expenditures.

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 Walnut 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 Walnut 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 Walnut Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

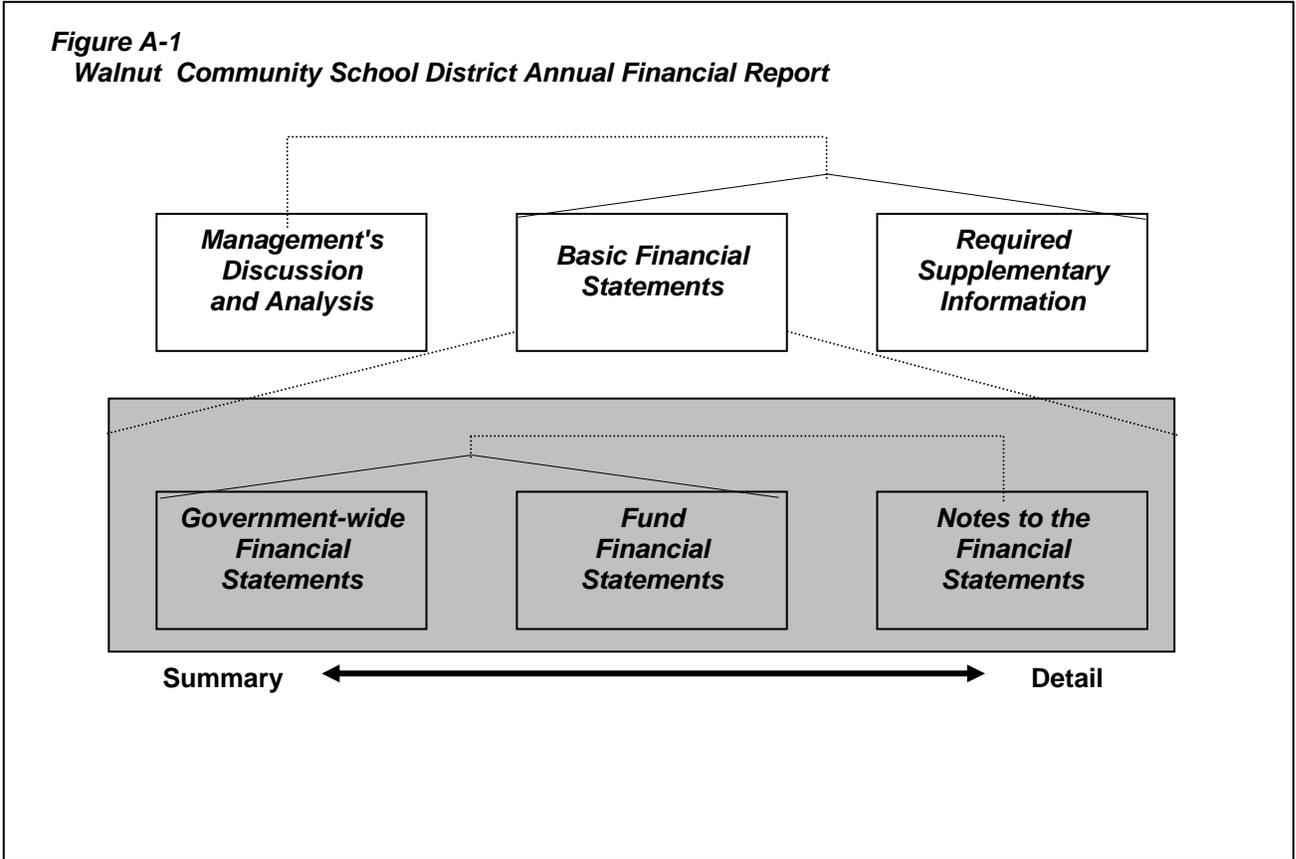


Figure A-2 summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain.

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:

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

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

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

- 1) *Proprietary funds:* Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The district's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The district currently has two Enterprise Funds, the School Nutrition Fund and the Day Care fund.
- 2) The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 3) *Fiduciary funds:* The district is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust 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	3,007,158	2,679,571	5	607	3,007,163	2,680,178	12%
Capital assets	1,979,971	2,025,864	32,570	35,520	2,012,541	2,061,384	-2%
Total assets	4,987,129	4,705,435	32,575	36,127	5,019,704	4,741,562	6%
Long-term liabilities	938,030	1,092,556	-	-	938,030	1,092,556	-14%
Other liabilities	1,494,143	1,411,974	28,394	12,355	1,522,537	1,424,329	7%
Total liabilities	2,432,173	2,504,530	28,394	12,355	2,460,567	2,516,885	-2%
Net Assets:							
Invested in capital assets, net of related debt	1,054,971	960,864	32,570	35,520	1,087,541	996,384	9%
Restricted	906,417	650,810	-	-	906,417	650,810	39%
Unrestricted	593,568	589,231	(28,389)	(11,748)	565,179	577,483	-2%
TOTAL NET ASSETS	2,554,956	2,200,905	4,181	23,772	2,559,137	2,224,677	15%

The district's combined net assets increased by nearly 15%, or approximately \$334,460, 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 increased approximately \$255,607 or 39% over the prior year.

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 \$12,304, or 2%.

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

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	204,372	443,486	91,690	95,388	296,062	538,874	-45%
Operating grants & contributions	386,516	370,504	55,333	59,378	441,849	429,882	3%
Capital grants & contributions	-	-	-	11,721	-	11,721	-100%
General Revenues:							
Property taxes	1,188,680	1,203,364	-	-	1,188,680	1,203,364	-1%
Income Surtax	66,148	55,159	-	-	66,148	55,159	20%
Local option sales tax	186,961	178,100	-	-	186,961	178,100	5%
Unrestricted state grants	877,569	963,979	-	-	877,569	963,979	-9%
Unrestricted investment earnings	9,802	29,218	60	139	9,862	29,357	-66%
Other revenue	61,365	9,051	-	-	61,365	9,051	578%
Total Revenues	2,981,413	3,252,861	147,083	166,626	3,128,496	3,419,487	-9%
Expenses:							
Instruction	1,618,143	1,644,935	-	-	1,618,143	1,644,935	-2%
Support services	821,649	867,147	-	-	821,649	867,147	-5%
Non-instructional programs	-	-	166,674	174,316	166,674	174,316	-4%
Other expenditures	187,570	264,853	-	-	187,570	264,853	-29%
Total expenses	2,627,362	2,776,935	166,674	174,316	2,794,036	2,951,251	-5%
CHANGE IN NET ASSETS	354,051	475,926	(19,591)	(7,690)	334,460	468,236	-29%
Net assets beginning of year	2,200,905	1,724,979	23,772	31,462	2,224,677	1,756,441	27%
Net assets end of year	2,554,956	2,200,905	4,181	23,772	2,559,137	2,224,677	15%

Property tax and unrestricted state grants account for 66% of the total revenue. The district's expenses primarily relate to instruction and support services, which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,981,413 and expenses were \$2,627,362. The district was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2009 \$	Total Cost of Services 2008 \$	Net Cost of Services 2009 \$	Net Cost of Services 2008 \$
Instruction	1,618,143	1,644,935	1,154,777	982,036
Support Services	821,649	867,147	775,915	824,749
Non-instructional Programs	-	-	-	-
Other Expenses	187,570	264,853	105,782	156,160
TOTAL	2,627,362	2,776,935	2,036,474	1,962,945

- The cost financed by users of the district's programs was \$204,372.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$386,516.
- The net cost of governmental activities was financed with \$1,441,792 in property and other taxes and \$877,569 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$147,083 and expenses were \$166,674. The district's business type activities include the School Nutrition Fund and Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the district as a whole is reflected in its governmental funds, as well. As the district completed the year, its governmental funds reported a combined fund balance of \$1,465,164 well above last year's ending fund balances of \$1,230,717.

Governmental Fund Highlights

- The General Fund balance increased from \$579,453 to \$612,640.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$6,265 at June 30, 2008 to \$7,969 at June 30, 2009, while the Daycare Fund net assets decreased from \$17,507 to \$(3,788).

BUDGETARY HIGHLIGHTS

Over the course of the year, Walnut Community School District did not amend its budget.

The district's receipts were \$244,654 less than budgeted receipts. The most significant variance resulted from the District receiving more from sharing incentives than originally anticipated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the district had invested \$2.012 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the district's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$117,880.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2008-2009
	2009	2008	2009	2008	2009	2008	
	\$	\$	\$	\$	\$	\$	
Land	40,125	40,125	-	-	40,125	40,125	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,636,026	1,668,002	30,564	32,695	1,666,590	1,700,697	-2%
Improvements	74,776	58,490	-	-	74,776	58,490	28%
Equipment & Furniture	229,044	259,247	2,006	2,824	231,050	262,071	-12%
TOTAL	1,979,971	2,025,864	32,570	35,519	2,012,541	2,061,383	-2%

Long-Term Debt

At June 30, 2009, the district had \$938,030 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 14% from last year. (See Figure A-7) Additional information about the district's long-term debt is presented in Note 5 to the financial statements.

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

	Total School District		Percentage Change
	2009	2008	2008-2009
	\$	\$	
General obligation bonds	925,000	1,065,000	-13%
Termination benefits	13,030	27,556	-53%
	<u>938,030</u>	<u>1,092,556</u>	<u>-14%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Annually the district negotiates a new Master Contract with the WISEA. The district will negotiate a new agreement during fiscal year 2010. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the district's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the district's citizens, taxpayers, customers, investors and creditors with a general overview of the district's finances and to demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jim Hammrich, Walnut Superintendent, Walnut Community School District, 415 Antique City Drive, Walnut, Iowa, 51577.

BASIC FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	1,636,096	5,315	1,641,411
Receivables:			
Property tax:			
Delinquent	16,207	-	16,207
Succeeding year	1,235,493	-	1,235,493
Accounts	-	934	934
Due from other governments	112,781	-	112,781
Internal balances	6,581	(6,581)	-
Inventories	-	337	337
Capital assets, net of accumulated depreciation	1,979,971	32,570	2,012,541
	<u>4,987,129</u>	<u>32,575</u>	<u>5,019,704</u>
Total assets			
Liabilities			
Warrants issued in excess of bank balance	226,942	27,770	254,712
Accrued interest payable	2,286	-	2,286
Deferred revenue:			
Succeeding year property tax	1,235,493	-	1,235,493
Other	29,422	624	30,046
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	150,000	-	150,000
Termination benefits	13,030	-	13,030
Portion due after one year:			
General obligation bonds payable	775,000	-	775,000
	<u>2,432,173</u>	<u>28,394</u>	<u>2,460,567</u>
Total liabilities			

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2009

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,054,971	32,570	1,087,541
Restricted for:			
Categorical funding	69,209	-	69,209
Management levy	115,965	-	115,965
Physical plant and equipment levy	157,550	-	157,550
Other special revenue purposes	36,386	-	36,386
Sales tax capital projects	451,164	-	451,164
Debt service	76,143	-	76,143
Unrestricted	<u>593,568</u>	<u>(28,389)</u>	<u>565,179</u>
Total net assets	<u><u>2,554,956</u></u>	<u><u>4,181</u></u>	<u><u>2,559,137</u></u>

WALNUT 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	1,183,367	153,925	205,839	-
Special	156,365	-	12,235	-
Other	278,411	49,093	42,274	-
	<u>1,618,143</u>	<u>203,018</u>	<u>260,348</u>	<u>-</u>
Support services:				
Student	54,112	-	-	-
Instructional staff	119,007	450	4,449	-
Administration	330,948	-	-	-
Operation and maintenance of plant	231,800	718	-	-
Transportation	85,782	186	39,931	-
	<u>821,649</u>	<u>1,354</u>	<u>44,380</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	32,299	-	-	-
AEA flowthrough	81,788	-	81,788	-
Depreciation (unallocated)*	73,483	-	-	-
	<u>187,570</u>	<u>-</u>	<u>81,788</u>	<u>-</u>
Total governmental activities	<u>2,627,362</u>	<u>204,372</u>	<u>386,516</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	108,866	55,226	55,333	-
Daycare	57,808	36,464	-	-
Total business-type activities	<u>166,674</u>	<u>91,690</u>	<u>55,333</u>	<u>-</u>
Total	<u>2,794,036</u>	<u>296,062</u>	<u>441,849</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(823,603)	-	(823,603)
(144,130)	-	(144,130)
(187,044)	-	(187,044)
<u>(1,154,777)</u>	<u>-</u>	<u>(1,154,777)</u>
(54,112)	-	(54,112)
(114,108)	-	(114,108)
(330,948)	-	(330,948)
(231,082)	-	(231,082)
(45,665)	-	(45,665)
<u>(775,915)</u>	<u>-</u>	<u>(775,915)</u>
(32,299)	-	(32,299)
-	-	-
(73,483)	-	(73,483)
<u>(105,782)</u>	<u>-</u>	<u>(105,782)</u>
<u>(2,036,474)</u>	<u>-</u>	<u>(2,036,474)</u>
-	1,693	1,693
-	(21,344)	(21,344)
-	(19,651)	(19,651)
<u>(2,036,474)</u>	<u>(19,651)</u>	<u>(2,056,125)</u>
944,764	-	944,764
175,945	-	175,945
67,971	-	67,971
66,148	-	66,148
186,961	-	186,961
877,569	-	877,569
9,802	60	9,862
61,365	-	61,365
<u>2,390,525</u>	<u>60</u>	<u>2,390,585</u>
354,051	(19,591)	334,460
<u>2,200,905</u>	<u>23,772</u>	<u>2,224,677</u>
<u>2,554,956</u>	<u>4,181</u>	<u>2,559,137</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2009

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	850,901	452,375	76,003	255,558	1,634,837
Receivables:					
Property tax:					
Delinquent	11,762	-	2,426	2,019	16,207
Succeeding year	825,511	-	177,434	232,548	1,235,493
Interfund receivable	-	-	-	65,354	65,354
Due from other governments	81,992	30,789	-	-	112,781
Total assets	<u>1,770,166</u>	<u>483,164</u>	<u>255,863</u>	<u>555,479</u>	<u>3,064,672</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants issued in excess of bank balance	217,705	9,237	-	-	226,942
Interfund payable	36,010	22,763	-	-	58,773
Deferred revenue:					
Succeeding year property tax	825,511	-	177,434	232,548	1,235,493
Income surtax	48,878	-	-	-	48,878
Other	29,422	-	-	-	29,422
Total liabilities	<u>1,157,526</u>	<u>32,000</u>	<u>177,434</u>	<u>232,548</u>	<u>1,599,508</u>
Fund balances:					
Reserved for:					
Categorical funding	69,209	-	-	-	69,209
Debt service	-	-	78,429	-	78,429
Unreserved reported in:					
General Fund	543,431	-	-	-	543,431
Special Revenue Funds	-	-	-	322,931	322,931
Capital Projects Fund	-	451,164	-	-	451,164
Total fund balances	<u>612,640</u>	<u>451,164</u>	<u>78,429</u>	<u>322,931</u>	<u>1,465,164</u>
Total liabilities and fund balances	<u>1,770,166</u>	<u>483,164</u>	<u>255,863</u>	<u>555,479</u>	<u>3,064,672</u>

WALNUT 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)	1,465,164
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,979,971
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	48,878
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,286)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	1,259
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(938,030)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,554,956</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	General Fund	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	927,272	186,961	175,945	147,533	1,437,711
Tuition	84,835	-	-	-	84,835
Other	78,566	2,418	843	59,487	141,314
Intermediate sources	8,252	-	-	-	8,252
State sources	1,176,420	-	-	-	1,176,420
Federal sources	79,413	-	-	-	79,413
Total revenues	<u>2,354,758</u>	<u>189,379</u>	<u>176,788</u>	<u>207,020</u>	<u>2,927,945</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,179,328	-	-	19,484	1,198,812
Special	156,365	-	-	-	156,365
Other	220,264	-	-	58,147	278,411
	<u>1,555,957</u>	<u>-</u>	<u>-</u>	<u>77,631</u>	<u>1,633,588</u>
Support services:					
Student	54,112	-	-	-	54,112
Instructional staff	119,007	-	-	-	119,007
Administration	330,948	-	-	-	330,948
Operation and maintenance of plant	165,751	29,361	-	61,486	256,598
Transportation	63,398	-	-	-	63,398
	<u>733,216</u>	<u>29,361</u>	<u>-</u>	<u>61,486</u>	<u>824,063</u>
Other expenditures:					
Facilities acquisition	-	21,479	-	5,083	26,562
Long-term debt:					
Principal	-	-	140,000	-	140,000
Interest and fiscal charges	-	-	36,887	-	36,887
AEA flowthrough	81,788	-	-	-	81,788
	<u>81,788</u>	<u>21,479</u>	<u>176,887</u>	<u>5,083</u>	<u>285,237</u>
Total expenditures	<u>2,370,961</u>	<u>50,840</u>	<u>176,887</u>	<u>144,200</u>	<u>2,742,888</u>
Excess (deficiency) of revenues over (under) expenditures	(16,203)	138,539	(99)	62,820	185,057
Other financing sources (uses):					
Compensation for loss of fixed assets	49,390	-	-	-	49,390
Net change in fund balances	33,187	138,539	(99)	62,820	234,447
Fund balances beginning of year	579,453	312,625	78,528	260,111	1,230,717
Fund balances end of year	<u>612,640</u>	<u>451,164</u>	<u>78,429</u>	<u>322,931</u>	<u>1,465,164</u>

WALNUT 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)		234,447
<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. Depreciation expense exceeded Capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	69,037	
Depreciation expense	<u>(114,930)</u>	(45,893)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		4,078
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		140,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		4,588
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		14,526
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>2,305</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>354,051</u></u>

WALNUT 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	5,315	1,259
Accounts receivable	934	-
Inventories	337	-
Capital assets, net of accumulated depreciation	<u>32,570</u>	<u>-</u>
Total assets	<u>39,156</u>	<u>1,259</u>
Liabilities		
Interfund Payable	6,581	-
Excess of Warrants Issued Over Bank Balance	27,770	-
Deferred revenue	<u>624</u>	<u>-</u>
Total liabilities	<u>34,975</u>	<u>-</u>
Net assets		
Invested in capital assets	32,570	-
Unrestricted	<u>(28,389)</u>	<u>1,259</u>
Total net assets	<u><u>4,181</u></u>	<u><u>1,259</u></u>

WALNUT 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	<u>91,690</u>	<u>24,846</u>
Operating expenses:		
Non-instructional programs:		
Salaries	76,136	-
Benefits	17,623	22,542
Purchased services	2,405	-
Supplies	64,824	-
Depreciation	2,950	-
Other	2,736	-
Total operating expenses	<u>166,674</u>	<u>22,542</u>
Operating gain (loss)	<u>(74,984)</u>	<u>2,304</u>
Non-operating revenues:		
State sources	1,169	-
Federal sources	54,164	-
Interest income	60	1
Total non-operating revenues	<u>55,393</u>	<u>1</u>
Change in net assets	(19,591)	2,305
Net assets beginning of year	<u>23,772</u>	<u>(1,046)</u>
Net assets end of year	<u><u>4,181</u></u>	<u><u>1,259</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2009

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from contributions	-	24,846
Cash received from sale of lunches and breakfasts	55,267	-
Cash received from daycare services	36,464	-
Cash payments to employees for services/benefits	(93,759)	(22,542)
Cash payments to suppliers for goods or services	(65,141)	-
Net cash used by operating activities	<u>(67,169)</u>	<u>2,304</u>
Cash flows from non-capital financing activities:		
State grants received	1,169	-
Federal grants received	46,473	-
Net cash provided by non-capital financing activities	<u>47,642</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	60	1
Net increase (decrease) in cash and cash equivalents	(19,467)	2,305
Cash and cash equivalents at beginning of year	<u>(2,988)</u>	<u>(1,046)</u>
Cash and cash equivalents at end of year	<u><u>(22,455)</u></u>	<u><u>1,259</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(74,984)	2,304
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	7,691	-
Depreciation	2,950	-
Decrease (increase) in inventories	155	-
Decrease (increase) in accounts receivable	143	-
(Decrease) increase in accounts payable	(3,022)	-
(Decrease) increase in deferred revenue	(102)	-
Net cash used by operating activities	<u>(67,169)</u>	<u>2,304</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2009, the District received \$7,691 of federal commodities.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2009

	Private Purpose Trust Scholarship <u> </u> \$	<u> </u> Agency \$
Assets		
Cash and pooled investments	3,229	-
Accounts receivable	<u> -</u>	<u> 261</u>
Total Assets	3,229	261
Liabilities		
Accounts payable	<u> -</u>	<u> 261</u>
Net assets		
Reserved for scholarships	<u> 3,229</u>	<u> -</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2009

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	<u>1,718</u>
Deductions	
Support services:	
Supplies	249
Scholarships awarded	<u>1,450</u>
Total deductions	<u>1,699</u>
Change in net assets	19
Net assets beginning of year	<u>3,210</u>
Net assets end of year	<u><u>3,229</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

1. Summary of Significant Accounting Policies

Walnut 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 City of Walnut, Iowa and the predominately agricultural territory in a portion of Pottawattamie, Shelby and Cass 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, Walnut 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 Walnut 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 that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

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

The District's proprietary fund consists of the Enterprise, School Nutrition Fund and Day Care Fund. These funds are used to account for the operations of the District's food service and day care 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.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds 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	5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-20 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.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures did not exceed the amounts budgeted.

2. **Cash and Pooled Investments**

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

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

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	1,123,714

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>
Nonmajor Governmental:		\$
Management Fund	Capital Projects-Lost	22,763
Nonmajor Governmental:		
Physical Plant and Equipment Levy Fund	General Fund	30,000
Nonmajor Governmental:	Nonmajor Enterprise:	
Physical Plant and Equipment Levy Fund	Day Care Fund	6,581
Nonmajor Governmental:		
Management Fund	General Fund	6,010

The PPEL Fund has advanced funds to the General Fund and Day Care Fund to help cash flow in those funds. Capital Projects Fund owes Management Fund for funds advanced to the Capital Projects Fund. These advances are to be repaid in the next fiscal year.

4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	40,125	-	-	40,125
Capital assets being depreciated:				
Buildings	4,199,926	33,531	-	4,233,457
Improvements other than buildings	63,946	18,670	-	82,616
Furniture and equipment	899,216	16,836	-	916,052
Total capital assets being deprec.	<u>5,163,088</u>	<u>69,037</u>	-	<u>5,232,125</u>
Less accumulated depreciation for:				
Buildings	2,531,924	65,507	-	2,597,431
Improvements other than buildings	5,456	2,384	-	7,840
Furniture and equipment	639,969	47,039	-	687,008
Total accumulated depreciation	<u>3,177,349</u>	<u>114,930</u>	-	<u>3,292,279</u>
Total capital assets being depreciated, net	<u>1,985,739</u>	<u>(45,893)</u>	-	<u>1,939,846</u>
Governmental activities capital assets, net	<u>2,025,864</u>	<u>(45,893)</u>	-	<u>1,979,971</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Capital assets being depreciated:				
Buildings	42,645	-	-	42,645
Furniture and equipment	<u>37,913</u>	-	-	<u>37,913</u>
Total capital assets being deprec.	<u>80,558</u>	-	-	<u>80,558</u>
Less accumulated depreciation for:				
Buildings	9,949	2,132	-	12,081
Furniture and equipment	<u>35,089</u>	<u>818</u>	-	<u>35,907</u>
Total accumulated depreciation	<u>45,038</u>	<u>2,950</u>	-	<u>47,988</u>
Business type activities capital assets, net	<u>35,520</u>	<u>(2,950)</u>	-	<u>32,570</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	17,922
Support services:	
Operation and maintenance of plant	1,141
Transportation	<u>22,384</u>
	41,447
Unallocated depreciation	<u>73,483</u>
Total depreciation expense – governmental activities	<u>114,930</u>
Business type activities:	
Day Care	2,132
Food services	<u>818</u>
Total depreciation expense - business type activities	<u>2,950</u>

5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,065,000	-	140,000	925,000	150,000
Termination benefits	<u>27,556</u>	-	<u>14,526</u>	<u>13,030</u>	<u>13,030</u>
Total	<u>1,092,556</u>	-	<u>154,526</u>	<u>938,030</u>	<u>163,030</u>

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. At June 30, 2009, the District has obligations to two participants with a total liability of \$13,030. Actual early retirement expenditures for the year ended June 30, 2009 totaled \$14,526.

General Obligation Bonds Payable

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

Year Ending June 30,	Refunding Bond Issue of April, 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2010	2.60	150,000	27,433	177,433
2011	2.75	160,000	23,533	183,533
2012	2.90	160,000	19,132	179,132
2013	3.05	165,000	14,493	179,493
2014	3.20	170,000	9,460	179,460
2015	3.35	120,000	4,020	124,020
		<u>925,000</u>	<u>98,071</u>	<u>1,023,071</u>

6. Pension and Retirement Benefits

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

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008, and 2007 were \$77,786, \$70,764, and \$64,905 respectively, equal to the required contributions for each year.

7. 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.

8. 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 \$81,788 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.

9. Deficit Fund Balances

At June 30, 2009 the District had a deficit net assets balance of \$3,788 in the Enterprise Daycare Fund.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT 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	1,663,860	91,750	1,755,610	1,771,150	1,771,150	(15,540)
Intermediate sources	8,252	-	8,252	45,000	45,000	(36,748)
State sources	1,176,420	1,169	1,177,589	1,433,532	1,433,532	(255,943)
Federal sources	79,413	54,164	133,577	70,000	70,000	63,577
Total revenues	<u>2,927,945</u>	<u>147,083</u>	<u>3,075,028</u>	<u>3,319,682</u>	<u>3,319,682</u>	<u>(244,654)</u>
Expenditures/Expenses:						
Instruction	1,633,588	-	1,633,588	1,944,954	1,944,954	311,366
Support services	824,063	-	824,063	1,474,500	1,474,500	650,437
Non-instructional programs	-	166,674	166,674	319,226	319,226	152,552
Other expenditures	285,237	-	285,237	385,077	385,077	99,840
Total expenditures/expenses	<u>2,742,888</u>	<u>166,674</u>	<u>2,909,562</u>	<u>4,123,757</u>	<u>4,123,757</u>	<u>1,214,195</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	185,057	(19,591)	165,466	(804,075)	(804,075)	969,541
Other financing sources (uses) net	<u>49,390</u>	<u>-</u>	<u>49,390</u>	<u>-</u>	<u>-</u>	<u>49,390</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	234,447	(19,591)	214,856	(804,075)	(804,075)	1,018,931
Balance beginning of year	<u>1,230,717</u>	<u>23,772</u>	<u>1,254,489</u>	<u>1,376,233</u>	<u>1,376,233</u>	<u>(121,744)</u>
Balance end of year	<u>1,465,164</u>	<u>4,181</u>	<u>1,469,345</u>	<u>572,158</u>	<u>572,158</u>	<u>897,187</u>

See accompanying independent auditor's report.

WALNUT 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 did not exceed the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2009

Assets	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Management</u>	<u>Student</u>	<u>Physical</u>	
	<u>Levy</u>	<u>Activity</u>	<u>Plant and</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cash and pooled investments	99,141	36,386	120,031	255,558
Receivables:				
Property tax:				
Delinquent	1,081	-	938	2,019
Succeeding year	150,000	-	82,548	232,548
Interfund receivable	28,773	-	36,581	65,354
Total assets	<u>278,995</u>	<u>36,386</u>	<u>240,098</u>	<u>555,479</u>
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	150,000	-	82,548	232,548
Fund balances:				
Unreserved fund balance reported in:				
Special Revenue Funds	<u>128,995</u>	<u>36,386</u>	<u>157,550</u>	<u>322,931</u>
Total liabilities and fund balances	<u>278,995</u>	<u>36,386</u>	<u>240,098</u>	<u>555,479</u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	79,563	-	67,970	147,533
Other	9,535	49,114	838	59,487
Total revenues	<u>89,098</u>	<u>49,114</u>	<u>68,808</u>	<u>207,020</u>
Expenditures:				
Current:				
Instruction:				
Regular	19,484	-	-	19,484
Other	-	58,147	-	58,147
Support services:				
Operation and maintenance of plant	54,316	-	7,170	61,486
Other expenditures:				
Facilities acquisition	-	-	5,083	5,083
Total expenditures	<u>73,800</u>	<u>58,147</u>	<u>12,253</u>	<u>144,200</u>
Net change in fund balance	15,298	(9,033)	56,555	62,820
Fund balances beginning of year	<u>113,697</u>	<u>45,419</u>	<u>100,995</u>	<u>260,111</u>
Fund balances end of year	<u><u>128,995</u></u>	<u><u>36,386</u></u>	<u><u>157,550</u></u>	<u><u>322,931</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2009

	<u>Nonmajor Enterprise Funds</u>		
	<u>School Nutrition</u>	<u>Daycare</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and cash equivalents	5,315	-	5,315
Accounts receivable	934	-	934
Inventories	337	-	337
Capital assets, net of accumulated depreciation	<u>2,007</u>	<u>30,563</u>	<u>32,570</u>
Total assets	<u>8,593</u>	<u>30,563</u>	<u>39,156</u>
Liabilities			
Interfund Payable	-	6,581	6,581
Excess of Warrants Issued Over Bank Balance	-	27,770	27,770
Deferred revenue	<u>624</u>	<u>-</u>	<u>624</u>
Total liabilities	<u>624</u>	<u>34,351</u>	<u>34,975</u>
Net assets			
Invested in capital assets	2,007	30,563	32,570
Unrestricted	<u>5,962</u>	<u>(34,351)</u>	<u>(28,389)</u>
Total net assets	<u><u>7,969</u></u>	<u><u>(3,788)</u></u>	<u><u>4,181</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2009

	Nonmajor Enterprise Funds		Total
	Nutrition	Daycare	
	\$	\$	\$
Operating revenues:			
Local sources:			
Charges for service	55,226	36,464	91,690
Operating expenses:			
Non-instructional programs:			
Salaries	29,900	46,236	76,136
Benefits	11,419	6,204	17,623
Purchased services	861	1,544	2,405
Supplies	63,132	1,692	64,824
Depreciation	818	2,132	2,950
Other	2,736	-	2,736
Total operating expenses	108,866	57,808	166,674
Operating gain (loss)	(53,640)	(21,344)	(74,984)
Non-operating revenues:			
State sources	1,169	-	1,169
Federal sources	54,164	-	54,164
Interest income	11	49	60
Total non-operating revenues	55,344	49	55,393
Change in net assets	1,704	(21,295)	(19,591)
Net assets beginning of year	6,265	17,507	23,772
Net assets end of year	7,969	(3,788)	4,181

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2009

	Nonmajor Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	55,267	-	55,267
Cash received from daycare services	-	36,464	36,464
Cash payments to employees for services	(41,319)	(52,440)	(93,759)
Cash payments to suppliers for goods or services	(61,905)	(3,236)	(65,141)
Net cash used by operating activities	<u>(47,957)</u>	<u>(19,212)</u>	<u>(67,169)</u>
Cash flows from non-capital financing activities:			
State grants received	1,169	-	1,169
Federal grants received	46,473	-	46,473
Net cash provided by non-capital financing activities	<u>47,642</u>	<u>-</u>	<u>47,642</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:			
Interest on investments	<u>11</u>	<u>49</u>	<u>60</u>
Net increase (decrease) in cash and cash equivalents	(304)	(19,163)	(19,467)
Cash and cash equivalents at beginning of year	<u>5,619</u>	<u>(8,607)</u>	<u>(2,988)</u>
Cash and cash equivalents at end of year	<u><u>5,315</u></u>	<u><u>(27,770)</u></u>	<u><u>(22,455)</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(53,640)	(21,344)	(74,984)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	7,691	-	7,691
Depreciation	818	2,132	2,950
Decrease (increase) in inventories	155	-	155
Decrease (increase) in accounts receivable	143	-	143
(Decrease) increase in accounts payable	(3,022)	-	(3,022)
(Decrease) increase in deferred revenue	(102)	-	(102)
Net cash used by operating activities	<u>(47,957)</u>	<u>(19,212)</u>	<u>(67,169)</u>

See accompanying independent auditor's report.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2009

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Music	1,569	3,054	5,387	1,122	358
Show choir	278	172	287	-	163
Vocal	(4,174)	-	1,521	5,695	-
Drama/Class play	310	622	318	-	614
Athletics	25,264	22,775	27,743	-	20,296
Cheerleaders	1	673	692	-	(18)
Student services	800	2,067	2,342	450	975
FFA	2,237	-	100	-	2,137
FHA	791	-	-	-	791
Middle school leadership	771	567	504	-	834
Industrial arts	88	-	-	-	88
Class of 2007	127	-	-	-	127
Class of 2008	(465)	466	-	-	1
Class of 2009	6,577	50	4,954	-	1,673
Class of 2010	615	9,210	6,243	-	3,582
Class of 2011	30	1,754	528	-	1,256
National Honor Society	70	191	143	-	118
Student council	2,638	354	250	-	2,742
Annual	(6,792)	2,172	3,705	2,676	(5,649)
Speech	(49)	135	92	57	51
Academic programs	(72)	1,664	1,288	-	304
Dare	571	-	-	-	571
PBS program	1,299	3,188	2,050	-	2,437
K-2 classroom	480	-	-	-	480
Wetlands	10,000	-	-	(10,000)	-
AR/Reading	2,455	-	-	-	2,455
Total	45,419	49,114	58,147	-	36,386

WALNUT 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	1,437,711	1,430,486	1,391,325	1,353,605	1,181,776	1,223,342
Tuition	84,835	89,027	110,488	101,699	103,592	102,756
Other	141,314	424,473	312,915	136,432	157,984	217,241
Intermediate sources	8,252	-	3,712	-	-	8,653
State sources	1,176,420	1,242,027	1,186,901	1,163,532	1,156,676	947,343
Federal sources	79,413	63,513	69,375	101,510	96,168	62,578
Total revenues	<u>2,927,945</u>	<u>3,249,526</u>	<u>3,074,716</u>	<u>2,856,778</u>	<u>2,696,196</u>	<u>2,561,913</u>
Expenditures:						
Instruction:						
Regular instruction	1,198,812	1,164,182	1,069,698	985,505	1,047,186	1,068,045
Special instruction	156,365	283,397	259,215	283,536	214,994	186,190
Other instruction	278,411	245,763	232,989	241,488	307,833	326,994
Support services:						
Student services	54,112	51,170	42,422	41,132	7,010	6,922
Instructional staff services	119,007	63,013	64,883	53,640	61,268	72,740
Administration services	330,948	307,244	282,857	255,348	316,334	329,441
Operation and maintenance	256,598	374,956	325,228	213,562	173,457	182,263
Transportation services	63,398	105,085	81,249	90,836	57,201	56,063
Central support services	-	-	-	-	-	33,251
Non-instructional programs	-	-	-	-	35	-
Other expenditures:						
Facilities acquisition	26,562	75,589	177,857	62,000	41,530	67,185
Long-term debt:						
Principal	140,000	1,180,000	120,000	131,310	120,315	114,380
Interest and other charges	36,887	78,349	63,303	71,108	78,552	84,194
AEA flowthrough	81,788	79,750	77,505	73,640	74,175	71,495
Total expenditures	<u>2,742,888</u>	<u>4,008,498</u>	<u>2,797,206</u>	<u>2,503,105</u>	<u>2,499,890</u>	<u>2,599,163</u>

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

To the Board of Education of
Walnut 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 Walnut 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 August 13, 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 Walnut 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 Walnut Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walnut 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 Walnut 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 Walnut Community School District's financial statements that is more than inconsequential will not be prevented or detected by Walnut 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 Walnut 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 Walnut 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.

Walnut 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 Walnut 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 Walnut Community School District and other parties to whom Walnut 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 Walnut 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

August 13, 2010

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

09-I-B Accounting System: We noted that the bank reconciliations were not completed monthly and had not been completed for the whole fiscal year. We also noted several errors recording revenues in the wrong funds during the year and the accounting system did not reconcile to the cash in bank. Also, some payments were credited to expense accounts when they should have been recorded in revenue accounts.

Recommendation: The District should ensure that the bank reconciles to the District records each month without adjustments and that all receipts are recorded as revenues so the board has a more accurate reporting of actual expenses with which to make decisions and for proper reporting to governmental agencies.

District Response: We will review our procedures and make any necessary changes.

Conclusion: Response accepted.

09-I-C Supporting Documentation: We noted some expenditures that were not supported by detailed invoices.

Recommendation: The District should receive sufficient documentation for expenditures.

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

Conclusion: Response accepted.

WALNUT 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.

Instances of Noncompliance:

No matters were reported.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

09-II-A Certified Budget: Expenditures for the year ended June 30, 2009, did not exceed the amount budgeted.

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

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

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

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

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

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

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

09-II-I Certified Annual Report (CAR): The Certified Annual Report was not certified to the Iowa Department of Education by the due date.

Recommendation: The CAR should be filed with the Department of Education by its due date.

District Response: We will file by the due date in the future.

Conclusion: Response accepted.

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

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

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

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

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

Conclusion: Response accepted.

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

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

Beginning balance	\$	\$	-
Statewide sales and services tax revenue			186,961
Expenditures/transfers out:			
School infrastructure:			
Buildings and building improvements			<u>50,840</u>
Ending balance			<u>136,121</u>

09-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend the accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

09-II-M Plant and Equipment Levy Fund: We noted that the Physical Plant and Equipment Levy Fund was used to purchase equipment costing less than \$500 per item.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund and consider reimbursing the Physical Plant and Equipment Fund for the purchases.

District Response: We will monitor the expenditures from this fund in the future.

Conclusion: Response accepted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2009

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

09-II-N Deficit Balances: The District has a \$3,788 deficit net assets balance in the Enterprise Daycare Fund 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.