

ALGONA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2010

Contents

	<u>Page</u>	
Officials	3	
Independent Auditor's Report	5-6	
Management's Discussion and Analysis (MD&A)	7-15	
Basic Financial Statements:		<u>Exhibit</u>
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Net Assets	H	25
Statement of Cash Flows	I	26
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities	J	27
Notes to Financial Statements		28-40
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		42
Notes to Required Supplementary Information - Budgetary Reporting		43
Schedule of Funding Progress for the Retiree Health Plan		44
Component Unit Financial Statements:		
Statement of Assets, Liabilities, and Net Assets - Cash Basis - Component Unit		45
Statement of Support, Revenues and Expenses and Changes in Net Assets - Cash Basis - Component Unit		46
Other Supplementary Information:		<u>Schedule</u>
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	48
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	50-51
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	52
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	53
Schedule of Expenditures of Federal Awards	6	54
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		55-56
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133		57-58
Schedule of Findings and Questioned Costs		59-62

Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2009 Election)</b>		
David Fenchel	President	2009
Floyd Lavrenz	Vice President	2011
Keith Kuecker	Board Member	2009
Cheryl Grether	Board Member	2009
Rodney Davis	Board Member	2011
Bruce Knudsen	Board Member	2011
Marc Singer	Board Member	2011
<b>Board of Education (After September 2009 Election)</b>		
Floyd Lavrenz	President	2011
Marc Singer	Vice President	2011
Keith Kuecker	Board Member	2013
Cheryl Grether	Board Member	2013
Jay Limbaugh	Board Member	2013
Bruce Knudsen	Board Member	2011
Rodney Davis	Board Member	2011
<b>School Officials</b>		
Marty Fonley	Superintendent	2010
Gail Carroll	District Secretary	2010
Mary Beth Wubben	District Treasurer	2010
Stephen Avery	Attorney	2010

**Algona Community School District**

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Algona 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 Algona Community School District, Algona, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

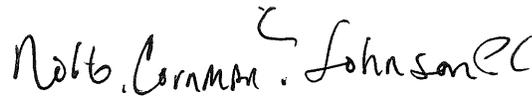
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Algona Community School District at June 30, 2010, 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 March 9, 2011 on our consideration of Algona 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, Budgetary Comparison Information, Schedule of Funding Progress for the Retiree Health Plan and Component Unit Financial Statements on pages 7 through 15 and 42 through 46 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 an opinion on the financial statements that collectively comprise Algona 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 eight years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2011

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

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Algona 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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$12,924,050 in fiscal 2009 to \$13,502,881 in fiscal 2010, while General Fund expenditures increased from \$12,253,919 in fiscal 2009 to \$12,734,455 in fiscal 2010. This resulted in an increase in the District's General Fund balance from a deficit of \$90,224 in fiscal 2009 to a positive balance of \$678,202 in fiscal 2010.
- The increase in General Fund revenues was attributable to increases in local tax and federal revenue in fiscal 2010. The increase in expenditures was due primarily to increases in negotiated salaries and benefits.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the District.

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

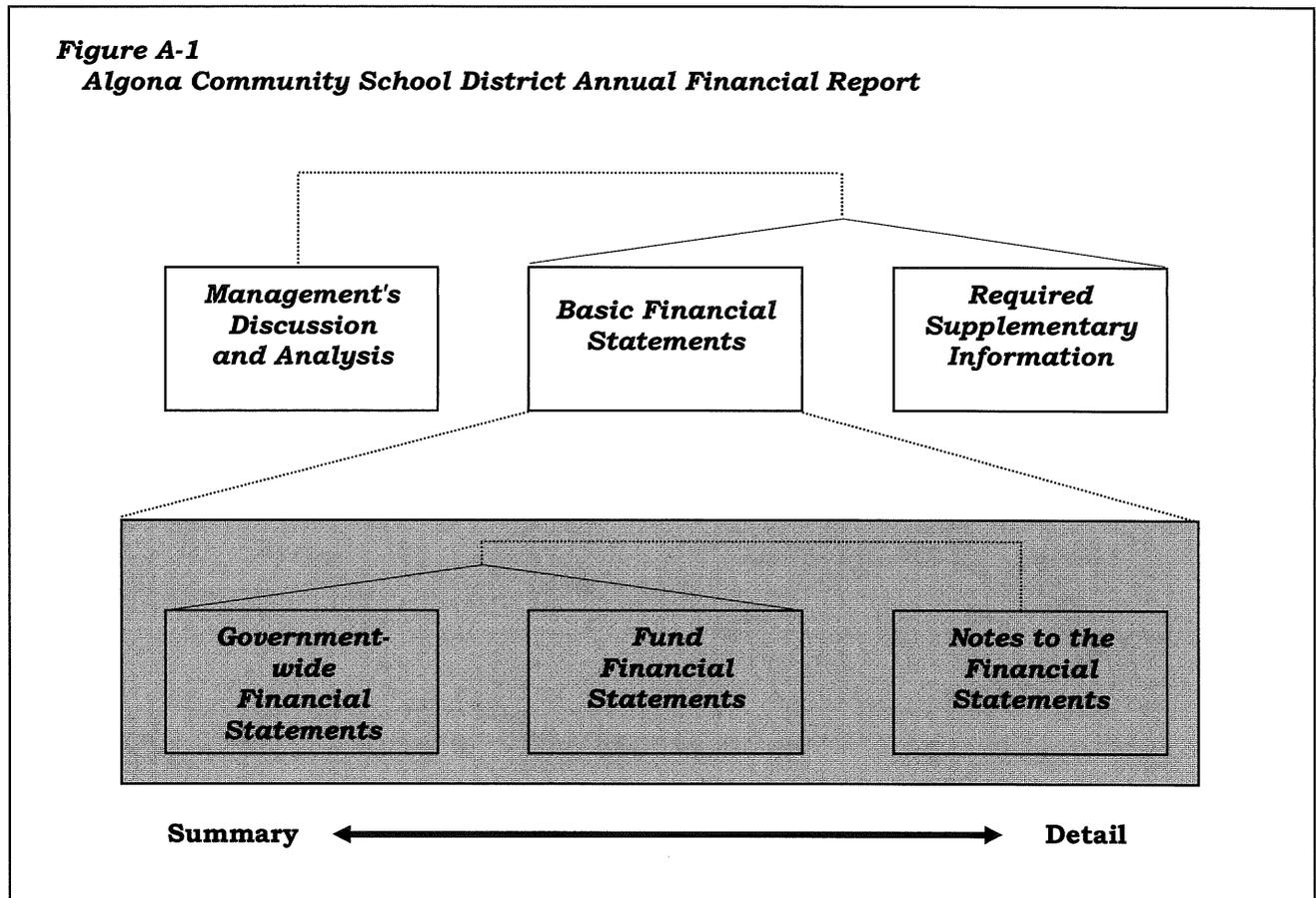


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Preschool Fund. The District's internal service fund, one type of proprietary fund, is the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds, which include the Self-Funded Health Insurance Fund and Flex Benefit Fund.

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

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

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds through which the District administers and accounts for certain outside organizations.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's total net assets at June 30, 2010 compared to June 30, 2009.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 16,116,045	13,135,962	152,453	32,864	16,268,498	13,168,826	23.54%
Capital assets	9,746,918	3,769,256	31,041	16,756	9,777,959	3,786,012	158.27%
Total assets	25,862,963	16,905,218	183,494	49,620	26,046,457	16,954,838	53.62%
Long-term obligations	9,992,886	384,306	5,568	3,495	9,998,454	387,801	2478.24%
Other liabilities	7,159,785	9,390,563	11,949	8,345	7,171,734	9,398,908	-23.70%
Total liabilities	17,152,671	9,774,869	17,517	11,840	17,170,188	9,786,709	75.44%
Net assets:							
Invested in capital assets, net of related debt	3,597,128	3,769,256	31,041	16,756	3,628,169	3,786,012	-4.17%
Restricted	2,292,033	1,597,564	131,610	23,262	2,423,643	1,620,826	49.53%
Unrestricted	2,821,131	1,763,529	3,326	(2,238)	2,824,457	1,761,291	60.36%
Total net assets	\$ 8,710,292	7,130,349	165,977	37,780	8,876,269	7,168,129	23.83%

The District's combined net assets increased by 23.83%, or \$1,708,140, over the prior year. The largest portion of the District's net assets is the invested in capital assets, 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 \$802,817, or 49.53% over the prior year. The increase in restricted net assets can be attributed to the increase in fund balance of the Capital Projects Fund and Debt Service Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$1,063,166 or 60.36%. The increase in unrestricted net assets can be attributed to the increase in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4  
Changes of Net Assets

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	
	2010	2009	2010	2009	2010	2009	2009-10
Program revenues:							
Charges for services	\$ 1,747,509	1,652,371	241,088	317,759	1,988,597	1,970,130	0.94%
Operating grants and contributions and restricted interest	2,796,870	1,768,538	514,651	239,181	3,311,521	2,007,719	64.94%
General revenues:							
Property tax	5,409,266	5,092,378	-	-	5,409,266	5,092,378	6.22%
Income surtax	686,234	632,102	-	-	686,234	632,102	8.56%
Statewide sales, services and use tax	926,115	920,565	-	-	926,115	920,565	0.60%
Unrestricted state grants	3,727,934	4,477,426	-	-	3,727,934	4,477,426	-16.74%
Other	233,246	355,722	13,364	25	246,610	355,747	-30.68%
Total revenues	15,527,174	14,899,102	769,103	556,965	16,296,277	15,456,067	5.44%
Program expenses:							
Governmental activities:							
Instruction	9,677,659	9,259,874	147,693	44,572	9,825,352	9,304,446	5.60%
Support services	3,216,322	3,063,958	9,636	2,236	3,225,958	3,066,194	5.21%
Non-instructional programs	-	-	483,577	491,825	483,577	491,825	-1.68%
Other expenses	1,053,250	787,898	-	-	1,053,250	787,898	33.68%
Total expenses	13,947,231	13,111,730	640,906	538,633	14,588,137	13,650,363	6.87%
Change in net assets	1,579,943	1,787,372	128,197	18,332	1,708,140	1,805,704	5.40%
Net assets beginning of year	7,130,349	5,342,977	37,780	19,448	7,168,129	5,362,425	33.67%
Net assets end of year	\$ 8,710,292	7,130,349	165,977	37,780	8,876,269	7,168,129	23.83%

In fiscal 2010, property tax, income surtax, statewide sales and services tax and unrestricted state grants account for 69.23% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.26% of the revenue from business type activities.

The District's total revenues were approximately \$16.3 million of which approximately \$15.5 million was for governmental activities and approximately \$0.8 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 5.44% in revenues and a 6.87% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits and support services costs during the year. The increase in revenues was related to increases in local tax and federal revenues.

## Governmental Activities

Revenues for governmental activities were \$15,527,174 and expenses were \$13,947,231.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
	Instruction	\$ 9,677,659	9,259,874	4.51%	5,786,080	6,430,087
Support services	3,216,322	3,063,958	4.97%	3,118,938	2,965,277	5.18%
Other expenses	1,053,250	787,898	33.68%	497,834	295,457	68.50%
Totals	<u>\$ 13,947,231</u>	<u>13,111,730</u>	<u>6.37%</u>	<u>9,402,852</u>	<u>9,690,821</u>	<u>-2.97%</u>

- The cost financed by users of the District's programs was \$1,747,509.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,796,870.
- The net cost of governmental activities was financed with \$5,409,266 in property tax, \$686,234 in income surtax, \$926,115 in statewide sales, services and use tax, \$3,727,934 in unrestricted state grants, \$59,320 in interest income and \$173,926 in other general revenues.

## Business type Activities

Revenues for the District's business type activities were \$769,103 and expenses were \$640,906. The District's business type activities include the School Nutrition Fund and the Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$6,612,477, compared to last year's ending fund balances of \$1,739,285. However, the primary reason for the increase was due to the increase in fund balance of the Capital Projects Fund.

## Governmental Fund Highlights

- The District's General Fund balance increased from a deficit \$90,224 on June 30, 2009 to \$678,202 on June 30, 2010. The District's General Fund financial position is the product of many factors. Increases in local and federal source revenues in 2010 lead to an increase in revenues for the General Fund when compared to the previous year.
- The Capital Projects Fund balance increased from \$1,021,802 to \$3,626,194, due to the District issuing revenue bonds and not completing the construction projects.
- The Debt Service Fund balance increased from \$0 to \$1,434,340, due to the transfer of the revenue bond reserve the District is required to maintain.

## Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$43,704 at June 30, 2009 to \$66,063 at June 30, 2010, representing an increase of 51.16%. The District's Preschool Fund net assets increased from a deficit \$5,924 at June 30, 2009 to \$99,914 at June 30, 2010, representing an increase of 1,786.60%.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional expenditures associated with the other expenditures functions.

The District's revenues were \$69,612 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$9,777,959, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 158.27% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$363,991.

The original cost of the District's capital assets was \$19,482,554. Governmental funds account for \$19,386,284 with the remainder of \$96,270 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$527,449 at June 30, 2009 compared to \$6,677,239 at June 30, 2010. This increase resulted from start of construction on the new middle school building project that was not completed at year end.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2009-10
Land	\$ 87,674	37,674	-	-	87,674	37,674	132.72%
Construction in progress	6,677,239	527,449	-	-	6,677,239	527,449	1165.95%
Buildings	2,341,494	2,586,047	-	-	2,341,494	2,586,047	-9.46%
Land improvements	90,363	103,621	-	-	90,363	103,621	-12.79%
Machinery and equipment	550,148	514,465	31,041	16,756	581,189	531,221	9.41%
Total	\$ 9,746,918	3,769,256	31,041	16,756	9,777,959	3,786,012	158.27%

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## Long-Term Debt

At June 30, 2010, the District had long-term debt outstanding of \$9,998,454 in long-term debt outstanding. This represents an increase of 2,478.24% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding Revenue Bonds payable of \$9,645,000 at June 30, 2010.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$250,148 at June 30, 2010.

The District had a net OPEB liability of \$103,306 at June 30, 2010.

Figure A-7  
Outstanding Long-Term Obligations

	Total		Total
	School		Change
	June 30,		June 30,
	2010	2009	2009-10
Revenue bonds	\$ 9,645,000	-	100.00%
Early retirement	250,148	322,950	22.54%
Net OPEB liability	103,306	64,851	100.00%
Total	<u>\$ 9,998,454</u>	<u>387,801</u>	<u>2478.24%</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:

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 8 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

## 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 Mary Beth Wubben, Business Manager, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

**Algona Community School District**

BASIC FINANCIAL STATEMENTS

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Algona Community School Foundation
<b>Assets</b>				
Cash and pooled investments:	\$ 8,844,388	124,028	8,968,416	2,348,900
Receivables:				
Property tax:				
Delinquent	76,741	-	76,741	-
Succeeding year	5,975,293	-	5,975,293	-
Income surtax	578,306	-	578,306	-
Accounts	8,181	12,807	20,988	-
Due from other governments	633,136	-	633,136	-
Inventories	-	15,618	15,618	-
Capital assets, net of accumulated depreciation	9,746,918	31,041	9,777,959	-
<b>Assets</b>	<b>25,862,963</b>	<b>183,494</b>	<b>26,046,457</b>	<b>2,348,900</b>
<b>Liabilities</b>				
Accounts payable	922,991	2,639	925,630	-
Salaries and benefits payable	68,017	841	68,858	-
Accrued interest payable	36,636	-	36,636	-
Incurred but not reported	150,000	-	150,000	-
Deferred revenue:				
Succeeding year property tax	5,975,293	-	5,975,293	-
Other	6,848	-	6,848	-
Unearned revenue	-	8,469	8,469	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	395,000	-	395,000	-
Early retirement	67,954	-	67,954	-
Portion due after one year:				
Revenue bonds	9,250,000	-	9,250,000	-
Early retirement	182,194	-	182,194	-
Net OPEB liability	97,738	5,568	103,306	-
<b>Total Liabilities</b>	<b>17,152,671</b>	<b>17,517</b>	<b>17,170,188</b>	<b>-</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	3,597,128	31,041	3,628,169	-
Restricted for:				
Investment	-	-	-	2,135,343
Categorical funding	103,116	131,610	234,726	-
Capital projects	130,984	-	130,984	-
Physical plant and equipment levy	223,559	-	223,559	-
Management levy	229,772	-	229,772	-
Other special revenue purposes	170,262	-	170,262	-
Debt service	1,434,340	-	1,434,340	-
Unrestricted	2,821,131	3,326	2,824,457	213,557
<b>Total Net Assets</b>	<b>\$ 8,710,292</b>	<b>165,977</b>	<b>8,876,269</b>	<b>2,348,900</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

Functions/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Algona Community School Foundation
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Primary Government		Total	
				Governmental Activities	Business Type Activities		
<b>Governmental activities:</b>							
Instruction:							
Regular	\$ 4,679,607	627,099	1,640,627	(2,411,881)	-	(2,411,881)	-
Special	2,818,792	653,372	297,326	(1,868,094)	-	(1,868,094)	-
Other	2,179,260	462,947	210,208	(1,506,105)	-	(1,506,105)	-
	<u>9,677,659</u>	<u>1,743,418</u>	<u>2,148,161</u>	<u>(5,786,080)</u>	<u>-</u>	<u>(5,786,080)</u>	<u>-</u>
Support services:							
Student	286,559	-	-	(286,559)	-	(286,559)	-
Instructional staff	245,149	-	-	(245,149)	-	(245,149)	-
Administration	970,361	-	-	(970,361)	-	(970,361)	-
Operation and maintenance of plant	1,271,892	-	-	(1,271,892)	-	(1,271,892)	-
Transportation services	442,361	4,091	93,293	(344,977)	-	(344,977)	-
	<u>3,216,322</u>	<u>4,091</u>	<u>93,293</u>	<u>(3,118,938)</u>	<u>-</u>	<u>(3,118,938)</u>	<u>-</u>
Other expenditures:							
Facilities acquisitions	12,388	-	-	(12,388)	-	(12,388)	-
Long-term debt interest	224,728	-	-	(224,728)	-	(224,728)	-
AEA flowthrough	555,416	-	555,416	-	-	-	-
Depreciation (unallocated)*	260,718	-	-	(260,718)	-	(260,718)	-
	<u>1,053,250</u>	<u>-</u>	<u>555,416</u>	<u>(497,834)</u>	<u>-</u>	<u>(497,834)</u>	<u>-</u>
Total governmental activities	<u>13,947,231</u>	<u>1,747,509</u>	<u>2,796,870</u>	<u>(9,402,852)</u>	<u>-</u>	<u>(9,402,852)</u>	<u>-</u>
<b>Business Type activities:</b>							
Instruction:							
Regular	147,693	-	-	-	(147,693)	(147,693)	-
Support services:							
Administration	5,036	-	-	-	(5,036)	(5,036)	-
Operation and maintenance of plant	4,600	-	-	-	(4,600)	(4,600)	-
	<u>9,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,636)</u>	<u>(9,636)</u>	<u>-</u>
Non-instructional programs:							
Nutrition services	483,577	241,088	514,651	-	272,162	272,162	-
Total business type activities	<u>640,906</u>	<u>241,088</u>	<u>514,651</u>	<u>-</u>	<u>114,833</u>	<u>114,833</u>	<u>-</u>
Total primary government	<u>\$ 14,588,137</u>	<u>1,988,597</u>	<u>3,311,521</u>	<u>(9,402,852)</u>	<u>114,833</u>	<u>(9,288,019)</u>	<u>-</u>
Total component unit	<u>\$ 248,955</u>	<u>434,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>185,112</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 5,264,235	-	5,264,235	-
Capital outlay				145,031	-	145,031	-
Income surtax				686,234	-	686,234	-
Statewide sales, service and use tax				926,115	-	926,115	-
Unrestricted state grants				3,727,934	-	3,727,934	-
Unrestricted investment earnings				59,320	16	59,336	45,511
Realized gain or loss on investments				-	-	-	(211,452)
Unrealized gain on investments				-	-	-	625,536
Other general revenues				173,826	13,348	187,274	-
Total general revenues				<u>10,982,795</u>	<u>13,364</u>	<u>10,996,159</u>	<u>459,595</u>
Changes in net assets				<u>1,579,943</u>	<u>128,197</u>	<u>1,708,140</u>	<u>644,707</u>
Net assets beginning of year				<u>7,130,349</u>	<u>37,780</u>	<u>7,168,129</u>	<u>1,704,193</u>
Net assets end of year				<u>\$ 8,710,292</u>	<u>165,977</u>	<u>8,876,269</u>	<u>2,348,900</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:	\$ 403,238	4,185,185	1,434,340	869,512	6,892,275
Receivables:					
Property tax:					
Delinquent	69,008	-	-	7,733	76,741
Succeeding year	5,515,584	-	-	459,709	5,975,293
Income surtax	578,306	-	-	-	578,306
Accounts	4,555	-	-	3,626	8,181
Due from other governments	476,021	157,115	-	-	633,136
<b>Total Assets</b>	<b>\$ 7,046,712</b>	<b>4,342,300</b>	<b>1,434,340</b>	<b>1,340,580</b>	<b>14,163,932</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 199,755	716,106	-	7,130	922,991
Salaries and benefits payable	68,017	-	-	-	68,017
Deferred revenue:					
Succeeding year property tax	5,515,584	-	-	459,709	5,975,293
Income surtax	578,306	-	-	-	578,306
Other	6,848	-	-	-	6,848
<b>Total Liabilities</b>	<b>6,368,510</b>	<b>716,106</b>	<b>-</b>	<b>466,839</b>	<b>7,551,455</b>
Fund balances:					
Reserved for:					
Categorical funding	103,116	-	-	-	103,116
Debt service	-	-	1,434,340	-	1,434,340
Construction	-	3,495,210	-	-	3,495,210
Unreserved	575,086	130,984	-	873,741	1,579,811
Total fund balances	678,202	3,626,194	1,434,340	873,741	6,612,477
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,046,712</b>	<b>4,342,300</b>	<b>1,434,340</b>	<b>1,340,580</b>	<b>14,163,932</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2010

<b>Total fund balances of governmental funds (page 20)</b>	\$	6,612,477
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		9,746,918
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		1,802,113
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		578,306
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.		(36,636)
Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore are not reported in governmental funds.		<u>(9,992,886)</u>
<b>Net assets of governmental activities (page 18)</b>	<b>\$</b>	<b><u><u>8,710,292</u></u></b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 5,497,457	926,115	-	545,369	6,968,941
Tuition	1,267,199	-	-	-	1,267,199
Other	238,591	25,721	1,037	473,377	738,726
State sources	5,157,985	-	-	-	5,157,985
Federal sources	1,341,649	-	-	-	1,341,649
Total revenues	13,502,881	951,836	1,037	1,018,746	15,474,500
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	4,677,404	-	-	146,416	4,823,820
Special	2,912,652	-	-	-	2,912,652
Other	1,695,553	-	-	495,525	2,191,078
	9,285,609	-	-	641,941	9,927,550
Support services:					
Student	283,596	-	-	7,516	291,112
Instructional staff	211,147	11,555	-	26,751	249,453
Administration	952,462	29,590	-	13,154	995,206
Operation and maintenance of plant	1,026,821	50,740	-	187,000	1,264,561
Transportation	419,404	-	-	76,350	495,754
	2,893,430	91,885	-	310,771	3,296,086
Other expenditures:					
Facilities acquisitions	-	6,211,994	-	-	6,211,994
Long-term debt:					
Interest	-	-	188,092	-	188,092
AEA flowthrough	555,416	-	-	-	555,416
	555,416	6,211,994	188,092	-	6,955,502
Total expenditures	12,734,455	6,303,879	188,092	952,712	20,179,138
Excess(Deficiency) of revenues over(under) expenditures	768,426	(5,352,043)	(187,055)	66,034	(4,704,638)
Other financing sources:					
Issuance of bonds	-	9,645,000	-	-	9,645,000
Discount on bond issuance	-	(119,329)	-	-	(119,329)
Premium on bond issuance	-	52,159	-	-	52,159
Transfers in	-	-	1,621,395	-	1,621,395
Transfers out	-	(1,621,395)	-	-	(1,621,395)
Total other financing sources	-	7,956,435	1,621,395	-	9,577,830
Net change in fund balances	768,426	2,604,392	1,434,340	66,034	4,873,192
Fund balance beginning of year	(90,224)	1,021,802	-	807,707	1,739,285
Fund balance end of year	\$ 678,202	3,626,194	1,434,340	873,741	6,612,477

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA 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, 2010

Net change in fund balances - total governmental funds (page 22) \$ 4,873,192

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

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

Capital expenditures	\$ 6,359,098	
Depreciation expense	(359,778)	
Loss on disposal of assets	(21,658)	5,977,662

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

Issued	(9,645,000)
--------	-------------

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.

	(36,636)
--	----------

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

	52,674
--	--------

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.

	321,631
--	---------

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 fund.

Early retirement	\$ 72,802	
Other postemployment benefits	(36,382)	36,420

**Changes in net assets of governmental activities (page 19) \$ 1,579,943**

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Funds		
	School			Self-Funded	Flex	Total
	Nutrition	Preschool	Total	Insurance	Benefit	
<b>Assets</b>						
Cash and cash equivalents	\$ 21,936	102,092	124,028	1,928,876	23,237	1,952,113
Accounts receivable	12,807	-	12,807	-	-	-
Inventories	15,618	-	15,618	-	-	-
Capital assets, net of accumulated depreciation	31,041	-	31,041	-	-	-
<b>Total Assets</b>	81,402	102,092	183,494	1,928,876	23,237	1,952,113
<b>Liabilities</b>						
Current liabilities:						
Accounts payable	1,329	1,310	2,639	-	-	-
Salaries and benefits payable	841	-	841	-	-	-
Unearned revenue	8,469	-	8,469	-	-	-
Incurred but not reported	-	-	-	150,000	-	150,000
Total current liabilities	10,639	1,310	11,949	150,000	-	150,000
Long-term liabilities:						
Net OPEB liability	4,700	868	5,568	-	-	-
Total long-term liabilities	4,700	868	5,568	-	-	-
<b>Total Liabilities</b>	15,339	2,178	17,517	150,000	-	150,000
<b>Net Assets</b>						
Invested in capital assets	31,041	-	31,041	-	-	-
Reserved for categorial funding	-	131,610	131,610	-	-	-
Unrestricted	35,022	(31,696)	3,326	1,778,876	23,237	1,802,113
<b>Total Net Assets</b>	\$ 66,063	99,914	165,977	1,778,876	23,237	1,802,113

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	Business Type Activities:			Governmental Activities:		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
<b>OPERATING REVENUE:</b>						
Local sources:						
Charges for services	\$ 241,088	-	241,088	-	-	-
Miscellaneous	5,656	7,692	13,348	1,866,722	63,044	1,929,766
	<u>246,744</u>	<u>7,692</u>	<u>254,436</u>	<u>1,866,722</u>	<u>63,044</u>	<u>1,929,766</u>
<b>OPERATING EXPENSES:</b>						
Instructional:						
Regular:						
Salaries	-	44,754	44,754	-	-	-
Benefits	-	18,567	18,567	-	-	-
Supplies	-	84,372	84,372	-	-	-
	<u>-</u>	<u>147,693</u>	<u>147,693</u>	<u>-</u>	<u>-</u>	<u>-</u>
Support services:						
Administration:						
Benefits	-	-	-	1,303,618	-	1,303,618
Services	4,626	-	4,626	265,219	61,350	326,569
Supplies	-	-	-	13	-	13
Other	410	-	410	-	-	-
Operation and maintenance of plant services:						
Services	-	4,600	4,600	-	-	-
	<u>5,036</u>	<u>4,600</u>	<u>9,636</u>	<u>1,568,850</u>	<u>61,350</u>	<u>1,630,200</u>
Non-instructional programs:						
Food service operations:						
Salaries	130,442	-	130,442	-	-	-
Benefits	81,902	-	81,902	-	-	-
Supplies	267,020	-	267,020	-	-	-
Depreciation	4,213	-	4,213	-	-	-
	<u>483,577</u>	<u>-</u>	<u>483,577</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OPERATING EXPENSES</b>	<u>488,613</u>	<u>152,293</u>	<u>640,906</u>	<u>1,568,850</u>	<u>61,350</u>	<u>1,630,200</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(241,869)</u>	<u>(144,601)</u>	<u>(386,470)</u>	<u>297,872</u>	<u>1,694</u>	<u>299,566</u>
<b>NON-OPERATING REVENUES:</b>						
Interest	12	4	16	22,065	-	22,065
State sources	5,558	250,435	255,993	-	-	-
Federal sources	258,658	-	258,658	-	-	-
<b>TOTAL NON-OPERATING REVENUES</b>	<u>264,228</u>	<u>250,439</u>	<u>514,667</u>	<u>22,065</u>	<u>-</u>	<u>22,065</u>
Change in net assets	22,359	105,838	128,197	319,937	1,694	321,631
Net assets beginning of year	43,704	(5,924)	37,780	1,458,939	21,543	1,480,482
Net assets end of year	\$ <u>66,063</u>	<u>99,914</u>	<u>165,977</u>	<u>1,778,876</u>	<u>23,237</u>	<u>1,802,113</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	Business Type Activities:			Governmental Activities		
	Enterprise Funds			Internal Service Funds		
	School Nutrition	Preschool	Total	Self-Funded Insurance	Flex Benefit	Total
Cash flows from operating activities:						
Cash received from sale of lunches and breakfasts	\$ 237,719	-	237,719	-	-	-
Cash received from miscellaneous operating activities	5,656	7,692	13,348	1,866,722	63,044	1,929,766
Cash payments to employees for services	(209,753)	(62,998)	(272,751)	(1,303,619)	(61,350)	(1,364,969)
Cash payments to suppliers for goods or services	(228,286)	(87,662)	(315,948)	(265,231)	-	(265,231)
Net cash provided by(used in) operating activities	(194,664)	(142,968)	(337,632)	297,872	1,694	299,566
Cash flows from non-capital financing activities:						
State grants received	5,558	250,435	255,993	-	-	-
Federal grants received	219,771	-	219,771	-	-	-
Net cash provided by non-capital financing activities	225,329	250,435	475,764	-	-	-
Cash flows from investing activities:						
Interest on investments	12	4	16	22,065	-	22,065
Cash flows from capital financing activities:						
Purchase of assets	(18,498)	-	(18,498)	-	-	-
Net increase in cash and cash equivalents	12,179	107,471	119,650	319,937	1,694	321,631
Cash and cash equivalents at beginning of year	9,757	(5,379)	4,378	1,608,939	21,543	1,630,482
Cash and cash equivalents at end of year	\$ 21,936	102,092	124,028	1,928,876	23,237	1,952,113
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:						
Operating income(loss)	\$ (241,869)	(144,601)	(386,470)	297,872	1,694	299,566
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:						
Commodities consumed	38,887	-	38,887	-	-	-
Depreciation	4,213	-	4,213	-	-	-
Decrease in inventories	3,554	-	3,554	-	-	-
Increase in accounts receivable	(3,493)	-	(3,493)	-	-	-
Increase in accounts payable	1,329	1,310	2,639	-	-	-
Increase in salaries and benefits payable	841	-	841	-	-	-
Increase in unearned revenue	124	-	124	-	-	-
Increase in other postemployment benefits payable	1,750	323	2,073	-	-	-
Net cash provided by(used in) operating activities	\$ (194,664)	(142,968)	(337,632)	297,872	1,694	299,566

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

During the year ended June 30, 2010, the District received \$38,887 of federal commodities.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2010

	<u>Agency</u>
ASSETS	
Cash and pooled investments	\$ 4,132
TOTAL ASSETS	<u>\$ 4,132</u>
LIABILITIES	
Due to other groups	\$ 4,132
TOTAL LIABILITIES	<u>\$ 4,132</u>

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010

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

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

For financial reporting purposes, Algona 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.

These financial statements present the Algona Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Algona Community School Foundation was created to financially support the Algona Community School system and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a component unit in these financial statements with the year ending December 31, 2009.

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

District is a member of the Kossuth County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some

other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The 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 long-term debt.

The District reports the following nonmajor propriety funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, the Enterprise, Preschool Fund, the Internal Service, Self-Funded Insurance Fund and the Internal Service, Flex Benefit Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Preschool Fund is used to account for preschool operations of the District. The Internal Service, Self-Funded Insurance Fund is used to account for the District's self-funded health insurance plan. The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by the District.

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

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue

items are considered to be measurable and available only when cash is received by the District.

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

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

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

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

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

D. Assets, Liabilities and Fund 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.

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Land improvements	3,500
Machinery and equipment:	
Intangibles	75,000
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 or more
Machinery and equipment	5-12 years

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

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

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2010 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$892 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

**(3) Transfers**

The detail of transfers for the year ended June 30, 2010 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 1,621,395</u>

The transfer from the Capital Projects Fund to the Debt Service Fund was to pay interest on the District's revenue bond indebtedness as well as creating a debt reserve and a debt sinking account for the District's revenue bond issuance dated July 28, 2009.

**(4) 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

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. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year	Interest Payable
2009-10A	6/25/09	6/23/10	\$ -	500,000	500,000	-	-

During the year ended June 30, 2010, the District paid \$21,242 of interest on the ISCAP warrants.

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,674	50,000	-	87,674
Construction in progress	527,449	6,149,790	-	6,677,239
Total capital assets not being depreciated	565,123	6,199,790	-	6,764,913
Capital assets being depreciated:				
Buildings	8,486,876	8,329	13,040	8,482,165
Land improvements	644,771	6,961	-	651,732
Machinery and equipment	3,419,681	144,018	76,225	3,487,474
Total capital assets being depreciated	12,551,328	159,308	89,265	12,621,371
Less accumulated depreciation for:				
Buildings	5,900,829	240,494	652	6,140,671
Land improvements	541,150	20,219	-	561,369
Machinery and equipment	2,905,216	99,065	66,955	2,937,326
Total accumulated depreciation	9,347,195	359,778	67,607	9,639,366
Total capital assets being depreciated, net	3,204,133	(200,470)	21,658	2,982,005
Governmental activities capital assets, net	\$ 3,769,256	5,999,320	21,658	9,746,918
Business type activities:				
Machinery and equipment	\$ 112,229	18,498	34,457	96,270
Less accumulated depreciation	95,473	4,213	34,457	65,229
Business type activities capital assets, net	\$ 16,756	14,285	-	31,041

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 8,738
Other		10,206
Support services:		
Administration services		3,849
Operation and maintenance of plant services		21,749
Transportation		54,518
		<u>99,060</u>
Unallocated depreciation		<u>260,718</u>
		<u>\$ 359,778</u>
Business type activities:		
Food services		<u>\$ 4,213</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
Revenue bonds	-	9,645,000	-	9,645,000	395,000
Early retirement	\$ 322,950	-	72,802	250,148	67,954
Net OPEB liability	61,356	36,382	-	97,738	-
Total	<u>\$ 384,306</u>	<u>9,681,382</u>	<u>72,802</u>	<u>9,992,886</u>	<u>462,954</u>
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 3,495	2,073	-	5,568	-

Revenue Bonds Payable

Details of the District's June 30, 2010 revenue bond indebtedness are as follows:

Year Ending June 30,	Interest Rate	Bond Issue of July 28, 2009		
		Principal	Interest	Total
2011	4.00	% \$ 395,000	431,728	826,728
2012	4.00	395,000	415,928	810,928
2013	4.00	400,000	400,028	800,028
2014	4.00	405,000	383,928	788,928
2015	4.00	410,000	367,628	777,628
2016-2020	4.00-4.38	2,190,000	1,579,742	3,769,742
2021-2025	4.50-5.00	2,500,000	1,062,093	3,562,093
2026-2030	5.00-5.20	2,950,000	389,889	3,339,889
Total		<u>\$ 9,645,000</u>	<u>5,030,964</u>	<u>14,675,964</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$9,645,000 bonds issued July 28, 2009. The bonds were issued for the purpose of defraying a portion of

the cost of construction for the new Middle School for the District. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2030. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 89 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$14,675,964. For the current year \$186,842 in interest was paid on the bonds and total statewide sales and services tax revenues were \$926,115.

The resolution providing for the issuance of the statewide sales and services tax revenue bonds includes the following provisions:

- a) \$818,828 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

#### Early Retirement

During the year ended June 30, 2008, the District offered a voluntary early retirement plan to its employees. Eligible employees must be a full-time teacher or administrator that will reach age 55 before June 30, 2008. Eligible employees must have completed fourteen years of full-time service to the District and must be currently under contract with the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is equal to \$7,500 per year for a maximum of five years. Two equal payments are made on July 30 and January 30 of each year. Eligible employees have the option to use the early retirement incentive to pay premiums to remain on the District's health insurance plan.

Early retirement incentive benefits of \$72,802 were paid during the year ended June 30, 2010. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund early retirement.

(7) **Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 170 active and 10 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 128,249
Interest on net OPEB obligation	1,621
Adjustment to annual required contribution	(3,021)
Annual OPEB cost	<u>126,849</u>
Contributions made	<u>(88,394)</u>
Increase in net OPEB obligation	38,455
Net OPEB obligation beginning of year	64,851
Net OPEB obligation end of year	<u>\$ 103,306</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$88,394 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 126,849	69.68%	\$ 103,306

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1,360,117, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,360,117. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,545,082, and the ratio of the UAAL to covered payroll was 20.8%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2008 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The health cost trend rate is 6% a year.

Mortality rates are from a modest table (light) was assumed.

Projected claim costs of the medical plan are \$543 per month for retirees and spouses less than 65. The implicit subsidy portion of UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial

statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$504,294, \$455,617, and \$452,061, respectively, equal to the required contributions for each year.

**(9) Risk Management**

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$555,416 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Construction Commitment**

The District entered into various contracts totaling \$9,107,731 for construction of a new middle school. At June 30, 2010, \$6,429,906 of the contracts were completed. The remaining \$2,677,825 of the contracts will be paid as work on the project progresses.

**(12) Categorical Funding**

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

Projects	Amount
Gifted and talented	\$ 42,474
LEP weighting	6,350
Model core curriculum	45,280
Market factor	8,697
Statewide voluntary preschool	102,013
Empowerment	29,597
Nonpublic textbook services	315
Total	<u>\$ 234,726</u>

**(13) Deficit Fund Balance/Net Assets**

The District had negative unrestricted net assets in the Enterprise, Preschool Fund of \$31,696.

REQUIRED SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
Revenues:						
Local sources	\$ 8,974,866	254,452	9,229,318	9,126,710	9,126,710	102,608
Intermediate sources	-	-	-	1,000	1,000	(1,000)
State sources	5,157,985	255,993	5,413,978	6,606,281	6,606,281	(1,192,303)
Federal sources	1,341,649	258,658	1,600,307	440,000	440,000	1,160,307
Total revenues	15,474,500	769,103	16,243,603	16,173,991	16,173,991	69,612
Expenditures/expenses:						
Instruction	9,927,550	147,693	10,075,243	10,283,833	10,283,833	208,590
Support services	3,296,086	9,636	3,305,722	4,912,251	4,912,251	1,606,529
Non-instructional programs	-	483,577	483,577	503,902	503,902	20,325
Other expenditures	6,955,502	-	6,955,502	2,067,019	8,600,000	1,644,498
Total expenditures/expenses	20,179,138	640,906	20,820,044	17,767,005	24,299,986	3,479,942
Excess(deficiency) of revenues over(under) expenditures/expenses	(4,704,638)	128,197	(4,576,441)	(1,593,014)	(8,125,995)	3,549,554
Other financing sources, net	9,577,830	-	9,577,830	-	-	9,577,830
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	4,873,192	128,197	5,001,389	(1,593,014)	(8,125,995)	13,127,384
Balance beginning of year	1,739,285	37,780	1,777,065	2,412,913	2,412,913	(635,848)
Balance end of year	\$ 6,612,477	165,977	6,778,454	819,899	(5,713,082)	12,491,536

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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 or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2010, the District adopted one budget amendment for \$6,532,981.

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION

For Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1 ,2008	\$ -	\$ 1,360,117	\$ 1,360,117	0.0%	\$ 6,971,296	19.5%
2010	July 1 ,2008	-	1,360,117	1,360,117	0.0%	6,545,082	20.8%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

ALGONA COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS  
 COMPONENT UNIT  
 DECEMBER 31, 2009

	Algona Community School Foundation
ASSETS	
Cash, savings, and investments	\$ 2,348,900
TOTAL ASSETS	2,348,900
LIABILITIES	-
NET ASSETS	
Restricted	2,135,343
Unrestricted	213,557
NET ASSETS	\$ 2,348,900

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
COMPONENT UNIT  
YEAR ENDED DECEMBER 31, 2009

		Algona Community School Foundation
Revenue:		
Contributions, gifts, grants and similar amounts	\$	434,067
Interest		45,511
Unrealized gain or loss on investments		625,536
Realized gain or loss on investments		(211,452)
Total revenue		893,662
Expenses:		
Grants		7,960
Scholarships		222,272
Management		6,870
Accounting		6,300
Advertising and promotion		225
Insurance		200
Fundraising supplies		3,466
Postage and shipping		1,021
Foreign tax on dividends		391
Dues		250
Total expenses		248,955
Excess of revenue over expenses		644,707
Net assets beginning of year		1,704,193
Net assets end of year	\$	2,348,900

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

OTHER SUPPLEMENTARY INFORMATION

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2010

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 474,240	174,566	220,706	869,512
Receivables:				
Property tax:				
Delinquent	5,680	-	2,053	7,733
Succeeding year	299,999	-	159,710	459,709
Accounts	-	2,826	800	3,626
<b>Total Assets</b>	<b>\$ 779,919</b>	<b>177,392</b>	<b>383,269</b>	<b>1,340,580</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	-	7,130	-	7,130
Deferred revenue:				
Succeeding year property tax	299,999	-	159,710	459,709
Total liabilities	299,999	7,130	159,710	466,839
Unreserved fund balances	479,920	170,262	223,559	873,741
<b>Liabilities and Fund Balances</b>	<b>\$ 779,919</b>	<b>177,392</b>	<b>383,269</b>	<b>1,340,580</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 400,338	-	145,031	545,369
Other	23,605	449,004	768	473,377
TOTAL REVENUES	423,943	449,004	145,799	1,018,746
EXPENDITURES:				
Current:				
Instruction:				
Regular	146,416	-	-	146,416
Other	-	495,525	-	495,525
	146,416	495,525	-	641,941
Support services:				
Student	7,516	-	-	7,516
Instructional staff	-	-	26,751	26,751
Administration	13,154	-	-	13,154
Operation and maintenance of plant	149,188	-	37,812	187,000
Transportation	-	-	76,350	76,350
	169,858	-	140,913	310,771
TOTAL EXPENDITURES	316,274	495,525	140,913	952,712
Net change in fund balances	107,669	(46,521)	4,886	66,034
Fund balance beginning of year	372,251	216,783	218,673	807,707
Fund balance end of year	\$ 479,920	170,262	223,559	873,741

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Concession	\$ (12,159)	53,124	52,105	(11,140)
Concession equipment	2,647	1,622	739	3,530
Interest	-	1,085	1,085	-
Public broadcasting	204	748	-	952
Special advertising	28,277	10,316	11,460	27,133
Leadership-Bertha Godfrey	7,761	13,397	20,683	475
Leadership-Bryant	1,532	501	1,532	501
Leadership-Lucia Wallace	22,728	17,957	40,685	-
MS boys baseball	1,000	1,686	368	2,318
MS-vocal music	208	73	110	171
MS-instrumental music	-	595	60	535
MS-vocal/band uniforms	2,255	6	338	1,923
MS-cheerleaders	775	257	560	472
MS-leadership	2,013	33,793	35,806	-
MS-quiz bowl	674	340	284	730
MS-science fair	-	961	868	93
MS-student senate	5,437	690	2,588	3,539
MS-teams	5,821	7,521	12,687	655
MS-teams 6th grade	3,443	908	-	4,351
MS-teams 7th grade	3,125	882	1,264	2,743
MS-teams 8th grade	1,151	1,059	2,210	-
MS-yearbook	-	2,695	3,038	(343)
HS drama/speech	654	8,081	6,153	2,582
HS-vocal music	1,290	1,438	2,286	442
HS-instrumental music	197	926	567	556
HS-vocal/band uniforms	53	1,107	888	272
HS swing choir & band	1,442	-	113	1,329
HS band tour	20,257	28,343	30,585	18,015
HS vocal tour	11,297	30,199	32,128	9,368
HS athletics general	30,147	17,372	21,257	26,262
HS cross country	-	1,072	1,072	-
HS boys basketball	-	5,562	5,562	-
HS boys football	-	17,216	17,216	-
HS baseball	-	6,109	6,065	44
HS boys track	-	3,782	3,782	-
HS boys golf	-	380	380	-
HS wrestling	-	3,925	3,925	-
HS girls basketball	-	5,016	5,016	-
HS volleyball	-	4,970	4,970	-
HS softball	-	2,501	2,389	112
HS girls track	-	6,736	6,736	-
HS girls golf	-	758	758	-
HS acedemics	4,521	3,621	8,352	(210)
HS-ACT-ELC	561	4,093	1,544	3,110
HS AFS	6,828	5	-	6,833

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS cheerleaders	3,071	6,014	6,846	2,239
Class of 2010	636	-	636	-
Class of 2011	861	5,318	5,455	724
Class of 2012	1,188	3,187	2,468	1,907
Class of 2013	726	626	-	1,352
Class of 2014	379	874	-	1,253
Class of 2015	127	435	-	562
Class of 2016	-	435	-	435
HS drill team	2,356	14,852	14,606	2,602
FFA	1,700	42,565	44,133	132
Construction club	244	-	-	244
Env. science	-	1,514	450	1,064
Hosa	10	-	-	10
HS leadership	418	42	-	460
MMH	2,315	300	1	2,614
HS mock trial/ACAD	324	1,201	1,525	-
Model UN	684	1,502	1,451	735
National honor society	480	-	-	480
Outdoor club	1,580	310	1,396	494
P.E. club	8,301	12,689	5,433	15,557
Peer helpers	1,245	-	-	1,245
Pep council	1	-	-	1
Prom improvement	715	443	489	669
HS quiz bowl	1,782	473	417	1,838
HS spanish club	2,690	-	-	2,690
HS student senate	256	887	675	468
TV. productions	3,606	2,055	3,079	2,582
Weight lifting club	284	369	883	(230)
HS yearbook	4,757	17,969	17,812	4,914
HS special math	64	-	20	44
HS special bowling	377	-	-	377
HS special cross country	2,425	1,018	3,436	7
HS special swim team	4,370	1,591	1,336	4,625
HS special boys basketball	4,002	1,971	4,369	1,604
HS special football	483	2,986	2,120	1,349
HS special baseball	1,925	6,328	4,819	3,434
HS special boys track	1,386	2,956	2,917	1,425
HS special boys golf	642	1,400	774	1,268
HS special wrestling	458	-	30	428
HS special girls basketball	2,350	7,475	12,152	(2,327)
HS special volleyball	1,324	2,269	1,415	2,178
HS special softball	1,524	787	1,638	673
HS special girls track	91	1,592	1,224	459
HS special girls golf	487	1,143	1,306	324
Total	\$ 216,783	449,004	495,525	170,262

ALGONA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2010

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ -	9,047	4,915	4,132
<b>LIABILITIES</b>				
Due to other groups	\$ -	9,047	4,915	4,132

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis					Modified Accrual Basis			
	Years Ended June 30,					Years Ended June 30,			
	2010	2009	2008	2007	2006	2005	2004	2003	2002
Revenues:									
Local sources:									
Local tax	\$ 6,968,941	6,592,594	5,497,239	5,469,034	5,614,630	5,742,171	5,725,990	5,161,361	5,047,733
Tuition	1,267,199	1,296,138	1,404,416	1,262,663	1,247,756	1,112,659	886,818	840,316	650,778
Other	739,104	746,318	771,663	734,547	720,612	649,007	689,877	560,056	747,444
Intermediate sources	-	-	1,050	1,050	1,050	-	-	-	-
State sources	5,157,985	5,913,874	5,632,742	5,375,888	5,447,395	5,285,230	5,335,106	5,512,326	5,730,077
Federal sources	1,341,271	297,727	314,753	370,835	487,067	676,384	427,455	323,790	307,432
Total	\$ 15,474,500	14,846,651	13,621,863	13,214,017	13,518,510	13,465,451	13,065,246	12,397,849	12,483,464
Expenditures:									
Instruction:									
Regular	\$ 4,823,820	4,831,081	5,263,175	5,608,779	4,965,295	4,920,243	5,123,535	4,831,378	4,865,825
Special	2,912,652	2,825,044	2,758,170	2,519,046	2,531,517	2,610,995	2,538,533	2,414,339	2,311,376
Other	2,191,078	1,888,804	1,776,378	1,376,050	1,591,941	1,526,829	1,344,987	1,245,368	1,279,893
Support services:									
Student	291,112	103,162	335,840	318,336	298,708	294,861	302,558	284,007	278,741
Instructional staff	249,453	283,131	209,754	221,585	317,399	207,896	283,626	241,899	218,150
Administration	995,206	1,026,874	1,214,120	1,106,860	1,167,238	1,092,163	935,202	886,629	836,813
Operation and maintenance of plant	1,264,561	1,356,167	1,186,106	1,220,355	1,282,805	1,043,524	941,734	905,488	814,676
Transportation	495,754	437,541	658,449	484,594	605,476	482,887	318,694	249,530	306,768
Non-instructional programs	-	-	-	-	-	-	17,800	8,432	7,375
Other expenditures:									
Facilities acquisitions	6,211,994	561,541	93,584	459,868	737,059	416,316	576,657	515,566	510,240
Long-term debt:									
Principal	-	-	-	-	-	-	600,000	24,180	235,285
Interest	188,092	-	-	-	-	-	34,740	1,059	8,486
AEA flowthrough	555,416	492,441	465,680	450,954	434,384	430,727	440,718	472,533	477,549
Total	\$ 20,179,138	13,805,786	13,961,256	13,766,427	13,931,822	13,026,441	13,458,784	12,080,408	12,151,177

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	34,582
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	224,076 *
			<u>258,658</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	115,226
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES RECOVERY ACT	84.389	FY 09	12,732
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES RECOVERY ACT	84.389	FY 10	63,781
			<u>191,739</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	3,723
ADVANCED PLACEMENT PROGRAM	84.330	FY 10	280
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 10	68,106
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 09	2,634
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 10	6,556
			<u>9,190</u>
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 09	104,731
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	469,064
			<u>573,795</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 10	78,875
SPECIAL EDUCATION - PRESCHOOL GRANTS (PART B), RECOVERY ACT	84.173	FY 10	2,377
SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 09	43,135
SPECIAL EDUCATION - GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	172,539
			<u>296,926</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	10,983
SPECIAL EDUCATION - STATE PERSONNEL DEVELOPMENT	84.323	FY 10	378
SPECIAL EDUCATION - GRANTS FOR INFANTS AND FAMILIES WITH DISABILITIES, RECOVERY ACT	84.393	FY 10	400
IOWA LAKES COMMUNITY COLLEGE:			
COMPREHENSIVE CENTERS (TECH-PREP EDUCATION)	84.243	FY 10	2,500
TOTAL			<u>\$ 1,416,678</u>

\* -Includes \$38,887 in non-cash awards.

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Algona Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

(a professional corporation)

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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 the  
Algona 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 Algona Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 9, 2011. 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 Algona 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 Algona Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Algona 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Algona 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2011

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

**Certified Public Accountants**

(a professional corporation)

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Algona Community School District

Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Algona Community School District's compliance with those requirements.

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Algona Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Algona Community School District's internal control over compliance.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 9, 2011

ALGONA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No matters in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
  - Clustered Programs:
    - CFDA Number 84.027 - Special Education - Grants to States (Part B)
    - CFDA Number 84.391 - Special Education - Grants to States (Part B), Recovery Act
  - Individual Program:
    - CFDA Number 84.394 - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-10 Payments without Documentation - We noted that a credit card bill for a hotel stay was paid without a detailed receipt from the hotel.

Recommendation- The District should have detailed receipts to document all travel expense payments.

Response - We will make sure that we have a detailed receipt for all expense payments.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No Matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Chris Gerhardt, Teacher Owns C&D Construction	Services	\$ 990
Heather Young, Teacher Assistant Owns Dazzlin Design	Services	\$ 3,119
Mary Kae Hanson, Teacher Owns of Hanson Studio	Services	\$ 92
Lynn Elliot, Teacher Assistant Son was Prom DJ	Services	\$ 200
Rodney Davis, Board Member Winter sports duty	Services	\$ 580
Paul and Theresa DeLange, Bus Drivers Owns Premier Choice	Fundraising items	\$ 29,086

Name, Title and Business Connection	Transaction Description	Amount
Paul and Theresa DeLange, Bus Drivers Owns Premier Pizza	Pizza/Concession	\$ 7,996
Jan Struck, Building Secretary Spouse	Official	\$ 665
Rich Collision, Teacher Father	Official	\$ 240
Tyler Bjustrom, Teacher Mother was bike rip assistant	Services	\$ 700
Jay Limbaugh, Board Member Father owns Jacks's OK Tires	Purchased goods	\$ 9,009

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Chris Gerhardt, Heather Young, Mary Kae Hanson, and Paul and Theresa DeLange do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with son, spouse, father and mother of the District's employees and board members do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member Rodney Davis does not appear to be a conflict of interest.

- IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 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.
- IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning balance		\$	103,158
Statewide sales, services and use tax			926,115
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	78,245	
Other improvements		45,551	
Debt service for school infrastructure:			
Revenue bond debt		188,092	311,888
		<u>          </u>	<u>          </u>
Ending balance		\$	<u>717,385</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010 the District reduced the following levies:

	<u>Per \$1000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Physical Plant and Equipment Levy	\$ 1.34000	\$ 588,437

**IV-M-10 Financial Condition** - We noted during our audit that there were negative individual account balances totaling \$14,250 in the Student Activity Fund. The District also had deficit unrestricted net assets in the Enterprise, Preschool Fund of \$31,696.

**Recommendation** - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit fund balances.

**Response** - The District will continue to monitor and investigate alternative to make the necessary corrections needed.

**Conclusion** - Response accepted.