

**BELMOND-KLEMME  
COMMUNITY SCHOOL DISTRICT**

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

JUNE 30, 2010

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**BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2009 Election)</b>		
Jim Swenson	President	2009
Steve Tenold	Vice President	2011
Lynn Loux		2011
Claude Post		2011
Mark Jenison		2009
Becky Kindwall		2009
Curt Stadtländer		2011

**(After September, 2009 Election)**

Steve Tenold	President	2011
Mark Jenison	Vice President	2011
Curt Stadtländer		2011
Claude Post		2011
Jim Swenson		2013
Lynn Loux		2011
Sue Berkland		2013

**School Officials**

Larry Frakes	Superintendent
Lisa Nelson (Resigned June, 2010)	District Secretary
Diane Trampel	District Treasurer

**BRUCE D. FRINK**  
Certified Public Accountant

Independent Auditor's Report

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Belmond-Klemme Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of Belmond-Klemme 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. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion 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 and each major fund of Belmond-Klemme 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 21, 2011 on our consideration of Belmond-Klemme 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 and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 11 and 34 through 36 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Belmont-Klemme Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 4, 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 financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bruce D. Frink*

**BRUCE D. FRINK**  
**Certified Public Accountant**

March 21, 2011

# BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

Belmond-Klemme Community School District's 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

- The District's General Fund balance decreased by over \$377,000. The District had revenues of \$6,955,924 and \$7,336,083 was spent during the year.
- Revenues showed a 2% decrease from the prior year. State revenues decreased, due to a 10% midyear state aid cut.
- The District has actively pursued grants from various sources and is investigating sharing options in order to enhance the District's course offerings.
- The District collects statewide sales, services and use tax money. It is being used to address infrastructure needs in the District and provide property tax relief for debt payments.
- The District has issued \$1.9 million of revenue bonds to perform improvements at the high school building.

### 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 Belmond-Klemme 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 Belmond-Klemme 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 Belmond-Klemme Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Other Supplementary Information provides detailed information about the Student Activities and fiduciary funds as well as a multiyear comparison of revenues and expenditures. In addition, the Schedule of Expenditures of Federal Awards provides details of various 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-1**  
**Belmond-Klemme Community School District Annual Financial Report**

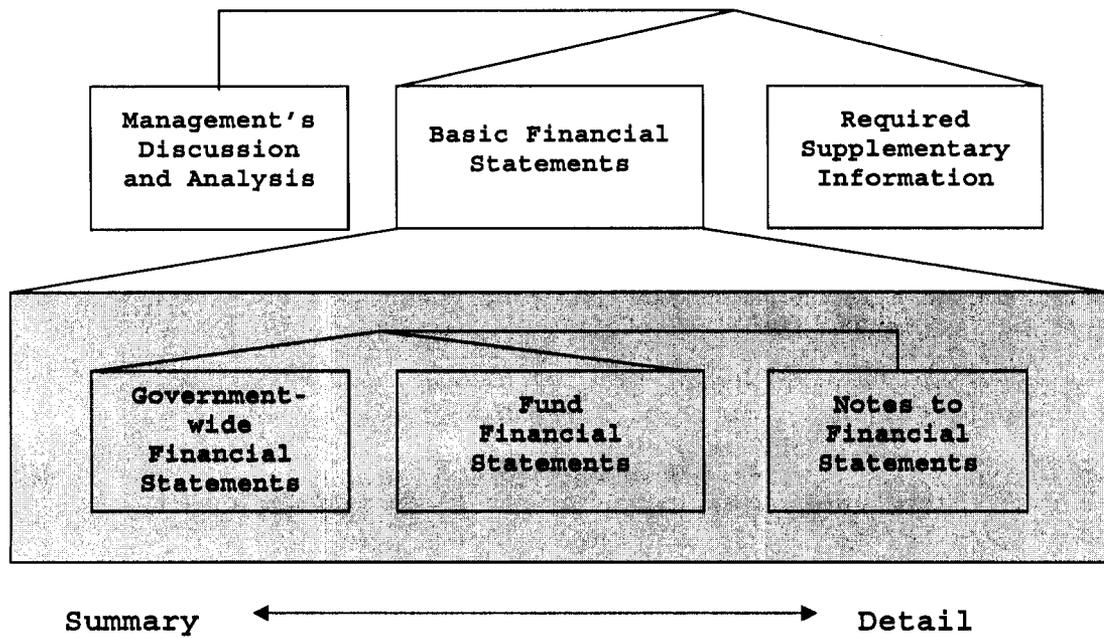


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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 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, the Special Revenue Funds, Debt Service Fund, Physical Plant and Equipment Levy and the Capital Projects Fund.

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

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

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses, 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 Funds.

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

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

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

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-2010
Current assets	\$ 10,283	9,938	82	49	10,365	9,987	3.78%
Capital assets	9,752	9,407	82	86	9,834	9,493	3.59%
Total assets	20,035	19,345	164	135	20,199	19,480	3.69%
Current liabilities	5,172	7,117	-	-	5,172	7,117	-27.33%
Non-current liabilities	7,707	5,945	-	-	7,707	5,945	100.00%
Total liabilities	12,879	13,062	-	-	12,879	13,062	-1.40%
<b>Net Assets</b>							
Invested in capital assets, net of related debt	2,122	3,462	82	86	2,204	3,548	-37.88%
Restricted	5,683	2,928	-	-	5,683	2,928	94.09%
Unrestricted	(649)	(107)	82	49	(567)	(58)	-922.41%
Total net assets	\$ 7,156	6,283	164	135	7,320	6,418	14.05%

The combined net assets of the District increased by 14%. This was due primarily to the increase in restricted assets as the District received generous donations in order to complete the elementary school project.

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 in Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-2010
<b>Revenues:</b>							
<b>Program revenues:</b>							
Charges for service and sales	\$ 310	293	147	146	457	439	4.10%
Operating grants, contributions and restricted interest	2,515	1,223	188	165	2,703	1,388	94.74%
Capital grants, contributions and restricted interest	-	2,342	-	-	-	2,342	-100.00%
<b>General revenues:</b>							
Property tax	3,296	3,079	-	-	3,296	3,079	7.05%
Income surtax	113	100	-	-	113	100	13.00%
Statewide sales, services and use tax	393	301	-	-	393	301	30.56%
Unrestricted state grants	2,307	2,925	-	-	2,307	2,925	-21.13%
Unrestricted investment earnings	37	107	-	-	37	107	-65.42%
Other	40	47	-	-	40	47	-14.89%
<b>Total revenues</b>	<u>9,011</u>	<u>10,417</u>	<u>335</u>	<u>311</u>	<u>9,346</u>	<u>10,728</u>	<u>-12.88%</u>
<b>Program expenses:</b>							
<b>Governmental activities:</b>							
Instruction	5,210	4,635	-	-	5,210	4,635	12.41%
Support services	1,949	1,961	-	-	1,949	1,961	-0.61%
Non-instructional programs	5	8	313	307	318	315	0.95%
Other expenses	975	927	-	-	975	927	5.18%
<b>Total expenses</b>	<u>8,139</u>	<u>7,531</u>	<u>313</u>	<u>307</u>	<u>8,452</u>	<u>7,838</u>	<u>7.83%</u>
<b>Change in net assets</b>	<u>\$ 872</u>	<u>2,886</u>	<u>22</u>	<u>4</u>	<u>894</u>	<u>2,890</u>	<u>-69.07%</u>

Property tax and unrestricted state grants account for 60% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$9,011,263 and expenses were \$8,139,144 for the year ended June 30, 2010. The District reduced discretionary spending in an effort to restore a positive General Fund balance, however, a midyear state aid cut of historic proportion kept that from occurring.

Inadequate allowable growth prevents obtaining additional revenues from normal funding sources. Normal payroll increases exceed new money generated by the state formula each year.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenditures, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

<b>Figure A-5</b>						
<b>Total and Net Cost of Governmental Activities</b>						
<b>(Expressed in Thousands)</b>						
	<u>Total Cost of Services</u>			<u>Net Cost of Services</u>		
			Change			Change
	2010	2009	2009-2010	2010	2009	2009-2010
Instruction	\$ 5,210	4,635	12.41%	3,667	3,397	7.95%
Support services	1,949	1,961	-0.61%	1,926	1,954	-1.43%
Non-instructional programs	5	8	-37.50%	5	8	-37.50%
Other expenses	975	927	5.18%	(284)	(1,685)	-83.15%
<b>Totals</b>	<b>\$ 8,139</b>	<b>7,531</b>	<b>8.07%</b>	<b>5,314</b>	<b>3,674</b>	<b>44.64%</b>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$310,058.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,084,068.
- The net cost of governmental activities was financed with \$3,296,130 in property tax and \$2,306,548 in state foundation aid.
- The District received over \$900,000 in contributions for the elementary school project.

#### **Proprietary-Type Activities**

Revenues for the District's School Nutrition Fund were \$335,240 and expenses were \$313,101. The revenues include: charges for services, contributions, and federal and state reimbursements.

#### **Fiduciary Fund Activities**

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

#### **FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The Belmond-Klemme Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported combined fund balances of \$5,125,375, which is much greater than last year's ending fund balance of \$2,851,375.

The major difference was an increase in the Capital Projects Fund from the issuance of \$1.92 million of revenue bonds in June, 2010. This will show a similar reversal in 2011 when the funds are spent on the high school remodeling projects.

#### **Governmental Fund Highlights**

- The District controlled its General Fund expenses by holding the line on payroll and discretionary spending and obtaining outside grants.
- Allowable growth of 4% or less is inadequate to maintain educational programs at their current level without dipping into existing reserves.
- A 10% midyear cut in state aid negated some savings planned by the District.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

It is the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. Expenditures did not exceed the budget as a total, however, the instruction and non-instructional programs did exceed budgeted amounts. The District did not exceed its General Fund unspent authorized budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

By the end of fiscal year 2009, the District has invested almost \$10,000,000, net of depreciation, in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses, and other vehicles, library holdings and textbooks. Total depreciation expense for the year exceeded \$479,000.

### **Long-term Debt**

The District has \$5,710,000 of general obligation bonds outstanding at June 30, 2010. These bonds will be repaid from a combination of property tax and statewide sales, services and use tax through 2026.

The District issued \$1,920,000 of revenue bonds in June, 2010 for the improvements to the high school building.

## **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:

- Enrollment changes will have a major effect on the District's General Fund.
- The District is undertaking improvements to the high school building.
- Inadequate funding and state aid cuts by the Legislature have forced the District to deplete its reserves and look for alternative sources of funding and areas to further cut costs.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marshall Lewis, Superintendent, Belmond-Klemme Community Schools, 411 10<sup>th</sup> Avenue NE, Belmond, Iowa 50421.

## Basic Financial Statements

## BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments	\$ 5,851,022	70,184	5,921,206
Receivables:			
Property tax:			
Current year	40,404	-	40,404
Succeeding year	3,973,325	-	3,973,325
Income surtax - succeeding year	97,459	-	97,459
Due from other governments	152,408	-	152,408
Other receivables	168,435	-	168,435
Inventories	-	11,997	11,997
Capital assets, net of accumulated depreciation	<u>9,751,710</u>	<u>82,173</u>	<u>9,833,883</u>
<b>Total assets</b>	<u>20,034,763</u>	<u>164,354</u>	<u>20,199,117</u>
<b>Liabilities</b>			
Accounts payable	224,490	-	224,490
Accrued salary and benefits	621,998	7,020	629,018
Accrued interest payable	112,683	-	112,683
Deferred revenue:			
Succeeding year property tax	3,973,325	-	3,973,325
Federal programs	240,424	-	240,424
Long term liabilities:			
Portion due within one year:			
Early retirement	21,792	-	21,792
General obligation bonds payable	250,000	-	250,000
Portion due after one year:			
Early retirement	21,793	-	21,793
Net OPEB liability	32,946	-	32,946
Revenue bonds payable	1,920,000	-	1,920,000
General obligation bonds payable	<u>5,460,000</u>	<u>-</u>	<u>5,460,000</u>
<b>Total liabilities</b>	<u>12,879,451</u>	<u>7,020</u>	<u>12,886,471</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,121,710	82,173	2,203,883
Restricted for:			
Capital Projects	4,714,854	-	4,714,854
Physical Plant and Equipment Levy	688,227	-	688,227
Management Fund	80,696	-	80,696
Debt Service	74,280	-	74,280
Categorical funding	126,218	-	126,218
Unrestricted	<u>(650,673)</u>	<u>75,161</u>	<u>(575,512)</u>
<b>Total net assets</b>	<u>\$ 7,155,312</u>	<u>157,334</u>	<u>7,312,646</u>

See notes to financial statements.

**BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT**

Statement of Activities

Year ended June 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction	\$ 5,210,266	309,118	1,234,101	(3,667,047)	-	(3,667,047)
Support services:						
Student services	157,874	-	-	(157,874)	-	(157,874)
Instructional staff services	254,868	-	-	(254,868)	-	(254,868)
Administration services	766,063	-	-	(766,063)	-	(766,063)
Operation and maintenance of plant services	437,317	-	22,063	(415,254)	-	(415,254)
Transportation services	332,830	940	-	(331,890)	-	(331,890)
	<u>1,948,952</u>	<u>940</u>	<u>22,063</u>	<u>(1,925,949)</u>	<u>-</u>	<u>(1,925,949)</u>
Non-instructional programs:						
Food service operations	4,678	-	-	(4,678)	-	(4,678)
Other expenditures:						
Facilities acquisition and construction	-	-	944,824	944,824	-	944,824
AEA flowthrough	313,836	-	313,836	-	-	-
Interest on long term debt	230,300	-	142	(230,158)	-	(230,158)
Services on long term debt	1,400	-	-	(1,400)	-	(1,400)
Depreciation (unallocated)*	429,712	-	-	(429,712)	-	(429,712)
	<u>975,248</u>	<u>-</u>	<u>1,258,802</u>	<u>283,554</u>	<u>-</u>	<u>283,554</u>
Total governmental activities	<u>8,139,144</u>	<u>310,058</u>	<u>2,514,966</u>	<u>(5,314,120)</u>	<u>-</u>	<u>(5,314,120)</u>

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities:					
Non-instructional programs:					
Nutrition services	313,101	147,061	188,179	-	22,139
Total	<u>\$ 8,452,245</u>	<u>457,119</u>	<u>2,703,145</u>	<u>(5,314,120)</u>	<u>(5,291,981)</u>
<b>General Revenues:</b>					
Property tax levied for:					
General purposes			\$ 2,727,893	-	2,727,893
Management fund			99,954	-	99,954
Capital outlay			224,907	-	224,907
Debt service			243,376	-	243,376
Income surtax			113,076	-	113,076
Statewide sales, services and use tax			393,472	-	393,472
Unrestricted state grants			2,306,548	-	2,306,548
Unrestricted investment earnings			37,224	-	37,224
Sale of property and materials			2,725	-	2,725
Other			37,064	-	37,064
Total general revenues			<u>6,186,239</u>	-	<u>6,186,239</u>
Change in net assets			872,119	22,139	894,258
Net assets beginning of year			6,283,193	135,195	6,418,388
Net assets end of year			<u>\$ 7,155,312</u>	<u>157,334</u>	<u>7,312,646</u>

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

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
<b>Assets</b>							
Cash and pooled investments	\$ 367,231	32,829	79,447	734,250	4,566,016	71,249	5,851,022
Receivables:							
Property tax:							
Current year	34,098	-	1,249	2,026	-	3,031	40,404
Succeeding year	3,064,646	-	400,001	242,314	-	266,364	3,973,325
Income surtax - succeeding year	97,459	-	-	-	-	-	97,459
Due from other governments	-	-	-	-	152,408	-	152,408
Other receivables	136,746	-	-	4,388	27,301	-	168,435
<b>Total assets</b>	<b>\$ 3,700,180</b>	<b>32,829</b>	<b>480,697</b>	<b>982,978</b>	<b>4,745,725</b>	<b>340,644</b>	<b>10,283,053</b>

Liabilities and Fund Balances

<b>Liabilities:</b>							
Accounts payable	\$ 140,082	1,100	-	52,437	30,871	-	224,490
Accrued salary and benefits	621,998	-	-	-	-	-	621,998
Deferred revenue:							
Succeeding year property tax	3,064,646	-	400,001	242,314	-	266,364	3,973,325
Succeeding year income surtax	97,459	-	-	-	-	-	97,459
Federal programs	240,424	-	-	-	-	-	240,424
Total liabilities	4,164,609	1,100	400,001	294,751	30,871	266,364	5,157,696
<b>Fund balances:</b>							
Reserved for:							
Categorical funding	126,218	-	-	-	-	-	126,218
Debt service	-	-	-	-	-	74,280	74,280
Unreserved, reported in:							
Capital projects	-	-	-	-	4,714,854	-	4,714,854
Special revenue	-	31,729	80,696	688,227	-	-	800,652
General fund	(590,647)	-	-	-	-	-	(590,647)
Total fund balance	(464,429)	31,729	80,696	688,227	4,714,854	74,280	5,125,357
<b>Total liabilities and fund balances</b>	<b>\$ 3,700,180</b>	<b>32,829</b>	<b>480,697</b>	<b>982,978</b>	<b>4,745,725</b>	<b>340,644</b>	<b>10,283,053</b>

See notes to financial statements.

## BELMOND-KLEMM 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 (Exhibit C)</b>	\$ 5,125,357
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Income surtax receivable at June 30, 2010 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	97,459
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,751,710
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.	(112,683)
Long-term liabilities, including bonds payable, early retirement payments and other OPEB liability are not due and payable in the current period and, therefore, are not reported as liabilities in governmental funds	<u>(7,706,531)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u>\$ 7,155,312</u>

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
<b>Revenues:</b>							
Local sources:							
Local tax	\$ 2,830,835	-	99,954	224,907	393,472	243,376	3,792,544
Tuition	309,118	-	-	-	-	-	309,118
Other	111,848	113,742	14,116	7,760	944,824	-	1,192,290
State sources	3,137,562	-	58	129	-	142	3,137,891
Federal sources	566,561	-	-	-	-	-	566,561
Total revenues	6,955,924	113,742	114,128	232,796	1,338,296	243,518	8,998,404
<b>Expenditures:</b>							
Instruction	5,031,113	116,427	30,070	-	-	-	5,177,610
Support services:							
Student services	157,874	-	-	-	-	-	157,874
Instructional staff services	313,050	-	-	-	-	-	313,050
Administration services	656,716	-	109,301	46	-	-	766,063
Operation and maintenance of plant services	541,947	-	35,045	-	-	-	576,992
Transportation services	321,547	-	4,717	-	-	-	326,264
	1,991,134	-	149,063	46	-	-	2,140,243
Non-instructional programs:							
Food service operations	-	-	4,678	-	-	-	4,678
Other expenditures:							
Facilities acquisition and construction	-	-	-	11,480	527,665	-	539,145
Long-term debt:							
Principal	-	-	-	-	-	235,000	235,000
Interest	-	-	-	-	-	235,235	235,235
Services	-	-	-	-	-	1,400	1,400
AEA flowthrough	313,836	-	-	-	-	-	313,836
	313,836	-	-	11,480	527,665	471,635	1,324,616
Total expenditures	7,336,083	116,427	183,811	11,526	527,665	471,635	8,647,147

**BELMONT-KLEMM COMMUNITY SCHOOL DISTRICT**

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

Year ended June 30, 2010

	General	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Excess (deficiency) of revenues over (under) expenditures	(380,159)	(2,685)	(69,683)	221,270	810,631	(228,117)	351,257
Other financing sources (uses):							
Sale of property and materials	2,585	-	-	140	-	-	2,725
Revenue bond proceeds	-	-	-	-	1,920,000	-	1,920,000
Operating transfers in	-	-	-	-	-	207,204	207,204
Operating transfers (out)	-	-	-	-	(207,204)	-	(207,204)
Total other financial sources (uses)	2,585	-	-	140	1,712,796	207,204	1,922,725
Net change in fund balance	(377,574)	(2,685)	(69,683)	221,410	2,523,427	(20,913)	2,273,982
Fund balances beginning of year	(86,855)	34,414	150,379	466,817	2,191,427	95,193	2,851,375
Fund balances end of year	\$ (464,429)	31,729	80,696	688,227	4,714,854	74,280	5,125,357

## BELMOND-KLEMME 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 (Exhibit E) \$ 2,273,982

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

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities. This represents the change from FY09 to FY10

10,134

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 817,472	
Depreciation expense	<u>(472,873)</u>	344,599

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

4,935

Some expenses reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(43,585)	
Other postemployment benefits	<u>(32,946)</u>	(76,531)

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. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issued exceeded repayments, as follows

Issued	(1,920,000)	
Repaid	<u>235,000</u>	<u>(1,685,000)</u>

Change in net assets of governmental activities (Exhibit B) \$ 872,119

See notes to financial statements.

## BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	<u>School Nutrition</u>
Operating revenue:	
Local sources:	
Charges for services	\$ <u>147,061</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	92,711
Benefits	33,845
Supplies	179,491
Depreciation	<u>7,054</u>
Total operating expenses	<u>313,101</u>
Operating (loss)	<u>(166,040)</u>
Non-operating revenues:	
Interest on investments	51
State sources	4,162
Federal sources	<u>183,966</u>
Total non-operating revenues	<u>188,179</u>
Change in fund net assets	22,139
Net assets beginning of year	<u>135,195</u>
Net assets end of year	<u>\$ 157,334</u>

See notes to financial statements.

## BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	<u>Enterprise</u>
	School
	<u>Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 147,061
Cash payments to employees for services	(119,536)
Cash payments to suppliers for goods or services	<u>(158,058)</u>
Net cash (used by) operating activities	<u>(130,533)</u>
Cash flows from non-capital financing activities:	
State grants received	4,162
Federal grants received	<u>153,466</u>
Net cash provided by non-capital financing activities	<u>157,628</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	(2,909)
Cash flows from investing activities:	
Interest on investments	<u>51</u>
Net (decrease) in cash and cash equivalents	24,237
Cash and cash equivalents beginning of year	<u>45,947</u>
Cash and cash equivalents end of year	<u>\$ 70,184</u>
<b>Reconciliation of operating (loss) to net cash (used by) operating activities:</b>	
Operating (loss)	\$ (166,040)
Adjustments to reconcile operating (loss) to net cash (used by) operating activities:	
Depreciation	7,054
Commodities used	30,500
(Increase) in inventory	(9,067)
Increase in accrued salary and benefits	<u>7,020</u>
	<u>\$ (130,533)</u>

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

During the year ended June 30, 2010, the District received federal commodities valued at \$30,500.

See notes to financial statements.

BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	<u>Private Purpose Trusts</u>
<b>Assets</b>	
Cash and pooled investments	\$1,200,932
<b>Total assets</b>	<u>1,200,932</u>
<b>Net Assets</b>	
Reserved for scholarships	<u>1,200,932</u>
<b>Total net assets</b>	<u>\$1,200,932</u>

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	<u>Private Purpose Trusts</u>
Additions:	
Local sources:	
Other	\$ 7,852
Deductions:	
Support services:	
Other	<u>75,609</u>
Change in net assets	(67,757)
Net assets beginning of year	<u>1,268,689</u>
Net assets end of year	<u>\$ 1,200,932</u>

See notes to financial statements.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

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

Belmond-Klemme 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. The geographic area served includes the Cities of Belmond and Klemme, Iowa, and agricultural territory in Wright, Hancock and Franklin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Belmond-Klemme 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. Belmond-Klemme Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The District has elected to present all funds as major funds for clarity of presentation.

The District reports the following major governmental funds:

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

The Student Activity Fund is used to account for extra curricular activities conducted on behalf of the students.

The Physical Plant and Equipment Levy Fund is utilized to account for the maintenance and equipping of the District's facilities.

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

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

The District reports the following major proprietary fund:

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years. No intangible assets were noted that exceeded the threshold amount.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000
Intangible assets	50,000

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

<u>Asset Class</u>	<u>Amount</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 represents 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 in 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 and unspent grant proceeds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability is deemed to be immaterial at June 30, 2010.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures exceeded the amounts budgeted in the instruction and non-instructional programs functions. The District did not exceed its General Fund unspent authorized budget.

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

The District's deposits 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 \$3,754,372 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 51,314	-	-	51,314
Construction in progress	-	249,073	-	249,073
Total capital assets not being depreciated	<u>51,314</u>	<u>249,073</u>	<u>-</u>	<u>300,387</u>
Capital assets being depreciated:				
Land Improvements	14,191	-	-	14,191
Buildings	11,610,437	429,747	-	12,040,184
Furniture and Equipment	3,664,030	138,652	-	3,802,682
Total capital assets being depreciated	<u>15,288,658</u>	<u>568,399</u>	<u>-</u>	<u>15,857,057</u>
Less accumulated depreciation for:				
Land Improvements	3,407	567	-	3,974
Buildings	2,975,941	242,200	-	3,218,141
Furniture and Equipment	2,953,513	230,106	-	3,183,619
Total accumulated depreciation	<u>5,932,861</u>	<u>472,873</u>	<u>-</u>	<u>6,405,734</u>
Total capital assets being depreciated, net	<u>9,355,797</u>	<u>95,526</u>	<u>-</u>	<u>9,451,323</u>
Governmental activities, capital assets, net	<u>9,407,111</u>	<u>344,599</u>	<u>-</u>	<u>9,751,710</u>
<b>Business type activities</b>				
Furniture and Equipment	\$ 113,609	2,909	-	116,518
Less accumulated depreciation	27,291	7,054	-	34,345
Business type activities capital assets, net	<u>\$ 86,318</u>	<u>(4,145)</u>	<u>-</u>	<u>82,173</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Student transportation		\$ 43,161
Unallocated		<u>429,712</u>
		<u>\$ 472,873</u>
Business type activities:		
Food service operations		<u>\$ 7,054</u>

**(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 the 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 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%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010.

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2009-10A	6/25/09	6/23/10	\$ -	-	-	-

During the year ended June 30, 2010, the District paid \$21,277 of interest on the ISCAP warrants.

**(5) 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, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.30% of their annual 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 \$281,176, \$258,740, and \$235,306 respectively, equal to the required contributions for each year.

**(6) Risk Management**

Belmond-Klemme 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) 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 \$313,836 for year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(8) Long-Term Liabilities

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

	<u>Balance Beginning Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Net OPEB Liability	\$ -	32,946	-	32,946	-
Early Retirement	-	43,585	-	43,585	21,792
General Obligation Bonds	5,945,000	-	235,000	5,710,000	250,000
Revenue Bonds	-	1,920,000	-	1,920,000	-
Total	<u>\$5,945,000</u>	<u>1,996,531</u>	<u>235,000</u>	<u>7,706,531</u>	<u>271,792</u>

General Obligation Bonds

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	4.000%	\$ 225,365	250,000	475,365
2012	4.000	215,365	260,000	475,365
2013	4.000	204,965	275,000	479,965
2014	4.000	193,965	290,000	483,965
2015	4.000	182,365	300,000	482,365
2016	4.000	170,365	320,000	490,365
2017	4.000	157,565	335,000	492,565
2018	4.000	145,003	345,000	490,003
2019	4.000	131,893	360,000	491,893
2020	4.050	118,033	375,000	493,033
2021	4.100	103,408	390,000	493,408
2022	4.125	88,198	405,000	493,198
2023	4.150	72,200	425,000	497,200
2024	4.200	55,200	440,000	495,200
2025	4.250	37,600	460,000	497,600
2026	4.300	19,200	480,000	499,200
Total		<u>\$2,120,690</u>	<u>5,710,000</u>	<u>7,830,890</u>

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of September 1, 2007</u>			
	<u>Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2011	%	\$ 26,044	-	26,044
2012	2.50	47,013	250,000	297,013
2013	2.50	40,637	260,000	300,637
2014	2.50	33,388	320,000	353,388
2015	2.50	26,137	260,000	286,137
2016	2.50	19,575	265,000	284,575
2017	2.75	12,481	275,000	287,481
2018	3.00	4,350	290,000	294,350
Total		<u>\$209,625</u>	<u>1,920,000</u>	<u>2,129,625</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,920,000 of bonds issued in June, 2010. The bonds were issued for the purpose of financing a portion of the costs of remodeling the high school building. 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 2018. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 100 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$2,129,625. For the current year, no principal or interest was paid on the bonds and total statewide sales, services and use tax revenues were \$238,790.

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

- a) \$192,000 of the proceeds from the issuance of the revenue bonds shall be deposited to a 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.

The District fully complied with all of the revenue bond provisions during the year ended June 30, 2010.

**(9) Financial Condition**

The General Fund had a negative fund balance of \$464,429 at June 30, 2010.

**(10) Interfund Transfers**

The detail of Interfund 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>\$207,204</u>

**(11) 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 93 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan through Mid-America Solutions. Retirees under age 65 pay the same premium for the medical benefit as active employees, which result 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 benefits 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	\$38,508
Interest on net OPEB Obligation	-
Adjustment to annual required contribution	-
Annual OPEB Cost	<u>38,508</u>
Contributions made	<u>(5,562)</u>
Increase in net OPEB obligation	32,946
Net OPEB obligation beginning of year	-
Net OPEB obligation end of year	<u>\$32,946</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the 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 \$5,562 to the medical plan.

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2010	\$38,508	14.4%	\$32,946

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$310,652, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$310,652. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,305,000 and the ratio of the UAAL to covered payroll was 7.2%. 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, 2009 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 annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from information provided by the District.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**Required Supplementary Information**

**BELMOND-KLEMM COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule 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 Fund Types		Proprietary Fund Type		Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual		Actual			Original	Final	
<b>Revenues</b>								
Local sources	\$ 5,293,952		147,112		5,441,064	4,207,883	4,207,883	1,233,181
State sources	3,137,891		4,162		3,142,053	4,168,730	4,168,730	(1,026,677)
Federal sources	566,561		183,966		750,527	309,620	309,620	440,907
Total revenues	<u>8,998,404</u>		<u>335,240</u>		<u>9,333,644</u>	<u>8,686,233</u>	<u>8,686,233</u>	<u>647,411</u>
<b>Expenditures/Expenses</b>								
Instruction	5,177,610		-		5,177,610	5,065,000	5,065,000	(112,610)
Support services	2,015,243		-		2,015,243	2,721,000	2,721,000	705,757
Non-instructional programs	4,678		313,101		317,779	308,000	308,000	(9,779)
Other expenditures	1,449,616		-		1,449,616	1,791,026	1,791,026	341,410
Total expenditures/expenses	<u>8,647,147</u>		<u>313,101</u>		<u>8,960,248</u>	<u>9,885,026</u>	<u>9,885,026</u>	<u>924,778</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	351,257		22,139		373,396	(1,198,793)	(1,198,793)	1,572,189
Other financing sources (uses)	<u>1,922,725</u>		-		<u>1,922,725</u>	-	-	<u>1,922,725</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	2,273,982		22,139		2,296,121	(1,198,793)	(1,198,793)	3,494,914
Balance beginning of year	<u>2,851,375</u>		<u>135,195</u>		<u>2,986,570</u>	<u>4,036,425</u>	<u>4,036,425</u>	<u>(1,049,855)</u>
Balance end of year	<u>\$ 5,125,357</u>		<u>157,334</u>		<u>5,282,691</u>	<u>2,837,632</u>	<u>2,837,632</u>	<u>2,445,059</u>

See accompanying independent auditor's report.

**BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT**

**Note 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 s GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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, expenditures exceeded the amounts budgeted in the instruction and non-instructional programs functions. The District did not exceed the General Fund unspent authorized budget.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the  
Retiree Health Plan  
(In Thousands)

Required Supplementary Information

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)
2010	Jul 1, 2009	\$0	\$311	\$311	0.0%	\$4,305	7.2%

See Note 11 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.

**Other Supplementary Information**

## BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest on Investments	\$ -	42	-	42
Pictures	947	993	165	1,775
Student Activities	234	1,601	1,835	-
Gifts & Donations	548	322	-	870
DARE/FREE FORCE	1,257	-	400	857
Nursing Services	2,202	660	358	2,504
Diversity Team	73	206	279	-
Elementary Activities	1,970	5,717	5,455	2,232
Elementary Band	1,648	534	522	1,660
Elementary Chorus	1,346	499	308	1,537
5th Grade Activities	907	-	198	709
Boxtops for Education	5,193	-	-	5,193
Special Ed Track Fund	343	-	-	343
Basket Auction	1	-	-	1
JH Student Council	199	422	542	79
JH Vocal	1,642	209	309	1,542
JH Band	3,480	337	2,591	1,226
JH Cheerleaders	80	-	-	80
JH Annual	-	713	713	-
Student Council	3,702	3,826	5,356	2,172
Pop Machine	-	2,352	2,352	-
Drama	4,379	4,720	5,475	3,624
Vocal Activity	72	8,009	4,082	3,999
Choir Robes	698	350	-	1,048
Band Activity	3,355	7,434	6,007	4,782
Athletics	(16,958)	31,084	35,450	(21,324)
Cheerleaders	2,372	1,982	2,014	2,340
Spanish Club	76	175	175	76
Speech	2,673	-	97	2,576
Yearbook	-	11,234	10,670	564
FFA	3,746	13,436	12,721	4,461
NHS	631	1,402	1,484	549
Peer Helper	103	13	13	103
After Prom Party CD	3,500	-	-	3,500
At Risk Activities	3,149	-	1,200	1,949
Class of 2010	-	137	137	-
Class of 2014	-	37	37	-
Class of 2015	-	44	44	-
Band & Vocal Trip	-	-	-	-
Jr Class Prom Account	410	485	253	642
Uniform Account	436	6,473	6,891	18
Magazine Fund Raiser	-	8,294	8,294	-
Totals	<u>34,414</u>	<u>113,742</u>	<u>116,427</u>	<u>31,729</u>

See accompanying independent auditor's report.

## BELMOND-KLEMMER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Private Purpose Trusts

Year ended June 30, 2010

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Courson Memorial	\$ 2,567	62	300	2,329
Luin Cox Memorial	5,150	1,445	1,500	5,095
George Heginger Fund	41,277	1,292	1,600	40,969
Dr. Samuel Leinbach Fund	10,739	307	500	10,546
Al Mattison Music Scholarship	9,411	494	-	9,905
Archie Stockseth Fund	78,848	2,579	1,200	80,227
Belmond-Klemme Scholarship Foundation	989,463	-	68,259	921,204
Dana & Avis Howell Fund	113,520	1,171	1,600	113,091
King Solomon Scholarship	10,863	320	400	10,783
Mark J. Schmidt Scholarship	6,851	182	250	6,783
Totals	<u>1,268,689</u>	<u>7,852</u>	<u>75,609</u>	<u>1,200,932</u>

See accompanying independent auditor's report.

**BELMONT-KLEMME COMMUNITY SCHOOL DISTRICT**

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2005
<b>Revenues:</b>							
Local sources:							
Local tax	\$ 3,792,544	\$ 3,477,795	3,397,022	3,391,473	3,143,961	3,010,728	2,906,114
Tuition	309,118	253,437	278,062	337,280	457,240	228,547	175,999
Other	1,192,290	2,467,926	1,072,977	1,217,864	482,802	271,543	344,871
State sources	3,137,891	3,847,134	3,654,615	3,425,385	3,407,790	3,194,457	2,949,118
Federal sources	566,561	363,432	452,036	170,950	141,935	270,606	226,927
<b>Total</b>	<b>\$ 8,998,404</b>	<b>\$10,409,724</b>	<b>8,854,712</b>	<b>8,542,952</b>	<b>7,633,728</b>	<b>6,975,881</b>	<b>6,603,029</b>
<b>Expenditures:</b>							
Instruction	\$ 5,177,610	\$ 5,196,757	5,033,150	4,751,479	4,795,854	4,411,373	4,489,812
Support services:							
Student	157,874	158,483	152,856	146,282	186,191	184,943	214,585
Instructional staff	313,050	278,353	255,652	210,654	318,198	481,458	407,296
Administration	766,063	659,990	829,602	767,274	716,342	632,174	531,506
Operation and maintenance of plant	576,992	557,868	579,071	545,827	528,848	872,689	670,750
Transportation	326,264	268,095	365,530	289,803	387,171	307,041	267,735
Central support	-	-	-	-	-	-	23,639
Non-instructional programs:							
Food service operations	4,678	8,017	8,373	7,156	4,722	3,697	2,954
Other expenditures:							
Facilities acquisition	539,145	2,497,287	6,078,383	1,245,276	52,278	-	1,012
Debt Service:							
Principal	235,000	225,000	100,000	-	-	-	-
Interest and service charges	236,635	245,198	353,217	-	-	-	-
ABA flowthrough	313,836	270,167	249,656	242,705	235,017	253,391	237,069
<b>Total</b>	<b>\$ 8,647,147</b>	<b>\$10,365,215</b>	<b>14,005,490</b>	<b>8,206,456</b>	<b>7,224,621</b>	<b>7,146,766</b>	<b>6,846,358</b>

See accompanying independent auditor's report.

## BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	\$ 28,559
Food Distribution (non-cash)	10.555	FY10	30,500
National School Lunch Program	10.555	FY10	<u>124,907</u>
			<u>183,966</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY10	96,637
Title I School Improvement Stabilization	84.388	FY10	16,500
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	64,173
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY10	2,302
Improving Teacher Quality States Grants	84.367	FY10	52,458
Grants for Assessments and Related Activities	84.369	FY10	4,355
Vocational Education Basic Grants to States	84.048	FY10	4,872
Title III - English Language Acquisition State Grants	84.357	FY10	825
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	165,234
Area Education Agency 267:			
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	105,928
Special Education - Grants to States (IDEA Part B)	84.027	FY10	<u>38,739</u>
Total			<u>\$ 735,989</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Belmond-Klemme 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 basis financial statements.

See accompanying independent auditor's report.

**BRUCE D. FRINK**  
Certified Public Accountant

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

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of the  
Belmond-Klemme 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 Belmond-Klemme 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 21, 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 Belmond-Klemme 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 Belmond-Klemme Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Belmond-Klemme 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 a deficiency which we consider to be a significant deficiency.

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 deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10 and II-B-10 to be material weaknesses.

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-C-10 to be a significant deficiency.

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## Compliance and Other Matters

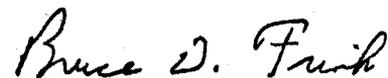
As part of obtaining reasonable assurance about whether Belmond-Klemme Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could 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.

Belmond-Klemme 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 Belmond-Klemme 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 Belmond-Klemme Community School District and other parties to whom Belmond-Klemme Community School District may report, including federal awarding agencies and pass-through entities, and 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 Belmond-Klemme 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.



**BRUCE D. FRINK**  
Certified Public Accountant

March 21, 2011

**BRUCE D. FRINK**  
Certified Public Accountant

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

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

To the Board of Education of  
Belmond-Klemme Community School District:

Compliance

We have audited the compliance of Belmond-Klemme Community School District with the types of compliance requirements described in the 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. Belmond-Klemme 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 Belmond-Klemme Community School District's management. Our responsibility is to express an opinion on Belmond-Klemme 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 Belmond-Klemme 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 Belmond-Klemme Community School District's compliance with those requirements.

In our opinion Belmond-Klemme 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 Belmond-Klemme 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 Belmond-Klemme 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Belmond-Klemme Community School District's internal control over compliance.

**Services:**

- Individual, Partnership and Corporate Tax Preparation
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Bank Loan Assistance

**Plus:**

- Over 30 years of Expertise and Experience
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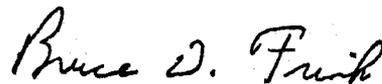
Phone: (515) 532-6659  
Fax: (515) 532-3677  
bruce@frinkcpa.com

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Belmond-Klemme Community School District's responses to the 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 Belmond-Klemme 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 Belmond-Klemme Community School District and other parties to whom Belmond-Klemme Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



**BRUCE D. FRINK**  
Certified Public Accountant

March 21, 2011

BELMOND-KLEMME 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 material weaknesses 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) A material weakness in internal control over major programs was 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 no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery ActClustered programs:
  - CFDA Number 10.553 - School Breakfast Program
  - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Belmond-Klemme Community School District did not qualify as a low-risk auditee.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 Segregation of Duties - One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

II-B-10 Auditor Drafting of the Financial Statements and Related Footnote Disclosures

Comment - As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. SAS 115, an auditing standard from the American Institute of Certified Public Accountants, requires auditors to communicate this situation as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do this with organizations of your size. However, based on this auditing standard, it is our responsibility to inform you that this deficiency could result in a misstatement to the financial statements that could have been prevented or detected by the District's management. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy, we have answered any questions they might have, and encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in your financial statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements.

Recommendation - It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - We feel our review of the draft financials is adequate for us to accept this risk.

Conclusion - Response accepted.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

(continued)

II-C-10 Financial Reporting

Comment - During the audit, we identified material amounts of ISCAP assets and liabilities in the General Fund which were not removed in the District's financial statements from the prior fiscal year. Adjustments were subsequently made by the District to properly include these amounts in the financial statements. The effect on the fund balance and change in net assets was less than \$10,000.

Recommendation - The District should implement procedures to ensure all assets and liabilities are properly identified and included in the District's financial statements.

Response - We will double check these in the future to avoid missing any payables.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**INTERNAL CONTROL DEFICIENCIES:**

**CFDA Number 84.394: ARRA State Fiscal Stabilization Fund Education (SFSF) - State Grants, Recovery Act**

**Federal Award Year: 2010**

**US Department of Education**

**Passed through Iowa Department of Education**

**CFDA Number: 10.553: School Breakfast Program**

**10.555: National School Lunch Program**

**Federal Award Year: 2010**

**US Department of Agriculture**

**Passed through Iowa Department of Education**

III-A-10 Segregation of Duties - The District did not properly segregate custody, record keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response and Corrective Action Planned - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

**Part IV: Other Findings Related to Required Statutory Reporting:**

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010, exceed the amount budgeted in the instruction and non-instructional programs functions. The District did not exceed its unspent authorized budget for the year ended June 30, 2010.

Recommendation - While not exceeding the total amount budgeted, the budget for the individual functions should have been amended.

Response - We will amend future budgets

Conclusion - Response accepted.

IV-B-10 Questionable Expenditures - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-10 Business Transactions - No business transactions between the District and District officials or employees were noted.

IV-D-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 ensure that the coverage is adequate for current operations.

IV-E-10 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-F-10 Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.

IV-G-10 Deposit and Investments - 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 were noted.

IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

IV-I-10 Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.

IV-J-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IV-K-10 Deficit Balance - Several student activity accounts had deficit balances at June 30, 2010. The General Fund had a deficit balance of \$464,429 at June 30, 2010.

Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - The District is continuing to investigate alternatives to eliminate deficits in the General Fund and student activity accounts at the end of the fiscal year.

Conclusion - Response accepted.

BELMOND-KLEMME COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:  
(continued)

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	\$	-
Statewide sales, services and use tax revenue		393,472
Expenditures/transfers out:		
School infrastructure:		
Building		<u>(393,472)</u>
Ending balance	\$	<u>          -</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	<u>Per \$1,000 Of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt Service	\$1.10	\$150,000
Physical Plant and Equipment Levy	<u>.46</u>	<u>149,981</u>
Total	<u>\$1.56</u>	<u>\$299,981</u>