

FORT MADISON 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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Fort Madison Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 election)		
Judy Gerdes	President	2011
Peggy Booten	Vice President	2009
Duane Sherwood	Board Member	2011
George Wheeler	Board Member	2011
Rob Hogan	Board Member	2011
Donald Ward	Board Member	2009
Denise Gray	Board Member	2009
Board of Education (After September 2009 election)		
Judy Gerdes	President	2011
George Wheeler	Vice President	2011
Duane Sherwood	Board Member	2011
Timm Lamb	Board Member	2013
Rob Hogan	Board Member	2011
Tim Wondra	Board Member	2013
Denise Gray	Board Member	2013
School Officials		
Dr. Kenneth Marang	Superintendent	2010
Greg Smith	Director of Student Services	2010
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2010
Gruhn Law Firm	Attorney	2010

FORT MADISON COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Fort Madison 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 24, 2011 on our consideration of Fort Madison 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 Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information

required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fort Madison 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 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fort Madison Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$21,646,202 as of June 30, 2010 compared to \$20,400,403 as of June 30, 2009, an increase of 6.11%.
- General Fund revenues increased from \$21,057,398 in fiscal 2009 to \$21,392,824 in fiscal 2010, while General Fund expenditures decreased from \$21,285,483 in fiscal 2009 to \$21,000,109 in fiscal 2010. This resulted in a increase in the District's General Fund balance from \$1,264,619 in fiscal 2009 to \$1,657,334 in fiscal 2010.
- The decrease in General Fund expenditures was due primarily to a decrease in the expenditures in the instruction and support service functions.
- The October 2009 Certified Enrollment count resulted in an increase of 24.2 students, representing an increase of 1.00% compared to the prior year.
- The District issued new revenue bonds during the year totaling approximately \$16.3 million.

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 Fort Madison 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 Fort Madison 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 Fort Madison Community School District acts solely as an agent or custodian for the benefit of those outside of the School 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 nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides detail 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
Fort Madison Community School District Annual Financial Report

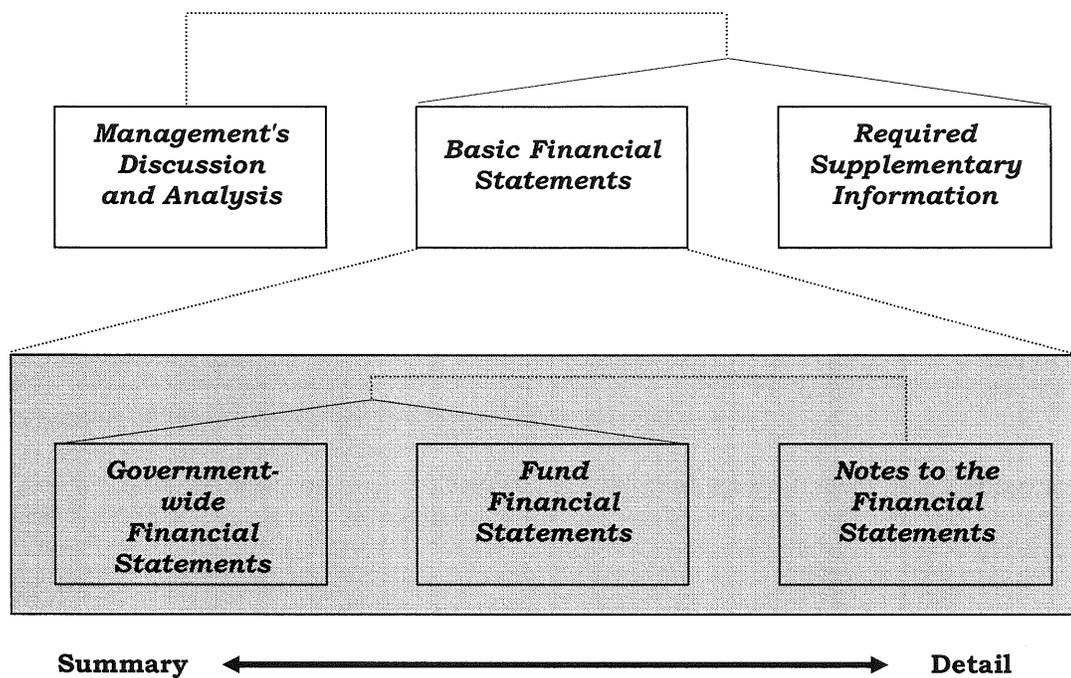


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
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
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 37,974,961	23,125,633	338,859	266,455	38,313,820	23,392,088	63.79%
Capital assets	11,251,477	10,433,153	94,704	102,349	11,346,181	10,535,502	7.69%
Total assets	<u>49,226,438</u>	<u>33,558,786</u>	<u>433,563</u>	<u>368,804</u>	<u>49,660,001</u>	<u>33,927,590</u>	<u>46.37%</u>
Long-term liabilities	16,691,398	447,979	0	0	16,691,398	447,979	3625.93%
Other liabilities	11,198,859	13,030,366	123,542	48,842	11,322,401	13,079,208	-13.43%
Total liabilities	<u>27,890,257</u>	<u>13,478,345</u>	<u>123,542</u>	<u>48,842</u>	<u>28,013,799</u>	<u>13,527,187</u>	<u>107.09%</u>
Net assets:							
Invested in capital assets	9,052,284	10,433,153	94,704	102,349	9,146,988	10,535,502	-13.18%
Restricted	11,300,218	8,648,705	0	0	11,300,218	8,648,705	30.66%
Unrestricted	983,679	998,583	215,317	217,613	1,198,996	1,216,196	-1.41%
Total net assets	<u>\$ 21,336,181</u>	<u>20,080,441</u>	<u>310,021</u>	<u>319,962</u>	<u>21,646,202</u>	<u>20,400,403</u>	<u>6.11%</u>

The District's combined net assets decreased by 6.11%, or \$1,245,799, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment).

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$2,651,513, or 30.66% from the prior year. The increase was primarily a result of the increase in the Debt Service Fund balance due to the issuance of revenue bonds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$17,200, or 1.41%. This decrease in unrestricted net assets was a result of the increase in the reserve for categorical funding in the General Fund.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 747,752	856,923	313,941	358,426	1,061,693	1,215,349	-12.64%
Operating grants and contributions and restricted interest	5,233,293	3,967,251	654,204	593,765	5,887,497	4,561,016	29.08%
General revenues:							
Property tax	7,020,596	6,603,976	0	0	7,020,596	6,603,976	6.31%
Statewide sales, services and use tax	1,879,433	1,796,131	0	0	1,879,433	1,796,131	4.64%
Unrestricted state grants	9,277,281	10,686,135	0	0	9,277,281	10,686,135	-13.18%
Unrestricted investment earnings	47,751	101,504	156	1,310	47,907	102,814	-53.40%
Other	64,949	139,892	13,909	0	78,858	139,892	-43.63%
Total revenues	24,271,055	24,151,812	982,210	953,501	25,253,265	25,105,313	0.59%
Program expenses:							
Governmental activities:							
Instructional	15,546,564	15,979,459	0	0	15,546,564	15,979,459	-2.71%
Support services	5,488,464	5,570,140	0	0	5,488,464	5,570,140	-1.47%
Non-instructional programs	0	0	992,151	962,813	992,151	962,813	3.05%
Other expenses	1,980,287	1,459,710	0	0	1,980,287	1,459,710	35.66%
Total expenses	23,015,315	23,009,309	992,151	962,813	24,007,466	23,972,122	0.15%
Changes in net assets	1,255,740	1,142,503	(9,941)	(9,312)	1,245,799	1,133,191	9.94%
Beginning net assets	20,080,441	18,937,938	319,962	329,274	20,400,403	19,267,212	5.88%
Ending net assets	\$ 21,336,181	20,080,441	310,021	319,962	21,646,202	20,400,403	6.11%

In fiscal 2010, property tax, statewide sales and services tax, and unrestricted state grants account for 74.89% of the revenue from governmental activities while charges for services and operating grants and contributions account for 98.57% of the revenue from business type activities.

The District's total revenues were approximately \$25.25 million of which approximately \$24.27 million was for governmental activities and approximately \$0.98 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 0.59% in revenues and a 0.15% increase in expenses. The increase in expenses was related to the increase in other expenditure function during the year.

Governmental Activities

Revenues for governmental activities were \$24,271,055 and expenses were \$23,015,315 for the year ended June 30, 2010.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 15,546,564	15,979,459	-2.71%	10,687,526	12,204,641	-12.43%
Support services	5,488,464	5,570,140	-1.47%	5,369,788	5,408,776	-0.72%
Other expenses	1,980,287	1,459,710	35.66%	976,956	571,718	70.88%
Totals	<u>\$ 23,015,315</u>	<u>23,009,309</u>	<u>0.03%</u>	<u>17,034,270</u>	<u>18,185,135</u>	<u>-6.33%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$747,752.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$5,233,293.
- The net cost of governmental activities was financed with \$7,020,596 in property tax, \$1,879,433 in statewide sales, service and use tax, \$9,277,281 in unrestricted state grants, \$47,751 in interest income and \$64,949 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$982,210 and expenses were \$992,151. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$27,121,103, significantly above last year's ending fund balances of \$10,073,220. However, the primary reason for the increase in combined fund balances in fiscal 2010 is due to the issuance of approximately \$16.3 million in revenue bonds during the year.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. An increase during the year in tax and federal grants resulted in an increase in revenues. The increase in revenues was greater than the District's increase in General Fund expenditures increasing the District's fund balance by 31.05%.
- The Capital Projects fund balance increased from \$8,011,536 to \$23,216,297, due to the issuance of the aforementioned revenue bonds during the year.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$319,962 at June 30, 2009 to \$310,021 at June 30, 2010, representing a decrease of 3.11%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$691,170 less than budgeted revenues, a variance of 2.66%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$11,346,181, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 7.69% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$713,712.

The original cost of the District's capital assets was \$20,508,816. Governmental funds account for \$20,284,606 with the remainder of \$224,210 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$904,278 at June 30, 2010 compared to \$194,970 at June 30, 2009. This increase was the result of the 4-8 school building being remodeled.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change June 30, 2009-10
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2010	2009	2010	2009	2010	2009	
Land	\$ 919,088	919,088	0	0	919,088	919,088	0.00%
Construction in progress	904,278	194,970	0	0	904,278	194,970	363.80%
Buildings	7,974,578	8,164,908	0	0	7,974,578	8,164,908	-2.33%
Improvements other than buildings	889,403	470,383	0	0	889,403	470,383	89.08%
Machinery and equipment	564,130	683,804	94,704	102,349	658,834	786,153	-16.20%
Total	\$ 11,251,477	10,433,153	94,704	102,349	11,346,181	10,535,502	7.69%

Long-Term Debt

At June 30, 2010, the District had \$16,691,398 in long-term debt outstanding. This represents an increase of 3,625.93% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding Revenue Bonds payable of \$16,290,000 at June 30, 2010.

The District had outstanding early retirement payable from the Special Revenue, Management Fund of \$270,000, and from the General Fund of \$20,000, at June 30, 2010.

The District had outstanding compensated absences payable from the General Fund of \$111,398 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
Revenue bonds	16,290,000	0	100
Early retirement	\$ 290,000	338,047	-14.21%
Compensated absences	111,398	109,932	1.33%
Totals	\$ 16,691,398	447,979	3625.93%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- With the District's current financial challenges, the FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sandra K. Elmore, District Secretary/Treasurer and Business Manager, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

FORT MADISON COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:	\$ 29,069,363	274,335	29,343,698
Receivables:			
Property tax:			
Delinquent	98,070	0	98,070
Succeeding year	7,725,732	0	7,725,732
Accounts	25,170	37,718	62,888
Due from other governments	1,006,458	2,708	1,009,166
Inventories	0	23,651	23,651
Capital assets, net of accumulated depreciation	11,251,477	94,704	11,346,181
Net OPEB asset	50,168	447	50,615
Total Assets	49,226,438	433,563	49,660,001
Liabilities			
Accounts payable	545,133	66,969	612,102
Salaries and benefits payable	2,179,342	44,848	2,224,190
Unearned revenue	0	11,725	11,725
Accrued interest payable	395,169	0	395,169
Deferred revenue:			
Succeeding year property tax	7,725,732	0	7,725,732
Other	353,483	0	353,483
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	915,000	0	915,000
Early retirement	140,000	0	140,000
Compensated absences	111,398	0	111,398
Portion due after one year:			
Revenue bonds	15,375,000	0	15,375,000
Early retirement	150,000	0	150,000
Total Liabilities	27,890,257	123,542	28,013,799
Net Assets			
Invested in capital assets	9,052,284	94,704	9,146,988
Restricted for:			
Categorical funding	217,256	0	217,256
Debt service	2,620,338	0	2,620,338
Management levy	464,162	0	464,162
Capital projects	7,815,321	0	7,815,321
Physical plant and equipment levy	13,259	0	13,259
Other special revenue purposes	169,882	0	169,882
Unrestricted	983,679	215,317	1,198,996
Total Net Assets	\$ 21,336,181	310,021	21,646,202

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Operating Grants, Contributions		Governmental Activities	Business Type Activities	
		Charges for Services	and Restricted Interest			
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 8,796,065	196,992	3,007,287	(5,591,786)	0	(5,591,786)
Special	3,957,571	124,038	456,614	(3,376,919)	0	(3,376,919)
Other	2,792,928	426,722	647,385	(1,718,821)	0	(1,718,821)
	<u>15,546,564</u>	<u>747,752</u>	<u>4,111,286</u>	<u>(10,687,526)</u>	<u>0</u>	<u>(10,687,526)</u>
Support services:						
Student	383,016	0	0	(383,016)	0	(383,016)
Instructional staff	529,738	0	0	(529,738)	0	(529,738)
Administration	2,057,560	0	0	(2,057,560)	0	(2,057,560)
Operation and maintenance of plant	1,638,933	0	0	(1,638,933)	0	(1,638,933)
Transportation	879,217	0	118,676	(760,541)	0	(760,541)
	<u>5,488,464</u>	<u>0</u>	<u>118,676</u>	<u>(5,369,788)</u>	<u>0</u>	<u>(5,369,788)</u>
Other expenditures:						
Facilities acquisitions	58,104	0	0	(58,104)	0	(58,104)
Long-term debt interest	395,669	0	0	(395,669)	0	(395,669)
AEA flowthrough	1,003,331	0	1,003,331	0	0	0
Depreciation(unallocated)*	523,183	0	0	(523,183)	0	(523,183)
	<u>1,980,287</u>	<u>0</u>	<u>1,003,331</u>	<u>(976,956)</u>	<u>0</u>	<u>(976,956)</u>
Total governmental activities	<u>23,015,315</u>	<u>747,752</u>	<u>5,233,293</u>	<u>(17,034,270)</u>	<u>0</u>	<u>(17,034,270)</u>
Business Type activities:						
Non-instructional programs:						
Food service operations	992,151	313,941	654,204	0	(24,006)	(24,006)
Total business type activities	<u>992,151</u>	<u>313,941</u>	<u>654,204</u>	<u>0</u>	<u>(24,006)</u>	<u>(24,006)</u>
Total	<u>\$ 24,007,466</u>	<u>1,061,693</u>	<u>5,887,497</u>	<u>(17,034,270)</u>	<u>(24,006)</u>	<u>(17,058,276)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 7,020,596	0	7,020,596
Statewide sales and services and use tax				1,879,433	0	1,879,433
Unrestricted state grants				9,277,281	0	9,277,281
Unrestricted investment earnings				47,751	156	47,907
Other				64,949	13,909	78,858
Total general revenues				<u>18,290,010</u>	<u>14,065</u>	<u>18,304,075</u>
Change in net assets				1,255,740	(9,941)	1,245,799
Net assets beginning of year				<u>20,080,441</u>	<u>319,962</u>	<u>20,400,403</u>
Net assets end of year				<u>\$ 21,336,181</u>	<u>310,021</u>	<u>21,646,202</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
Assets				
Cash and pooled investments:	\$ 3,900,174	22,914,800	2,254,389	29,069,363
Receivables:				
Property tax:				
Delinquent	91,022	0	7,048	98,070
Succeeding year	7,104,826	0	620,906	7,725,732
Accounts	12,720	0	12,450	25,170
Due from other governments	697,073	309,385	0	1,006,458
Total Assets	\$ 11,805,815	23,224,185	2,894,793	37,924,793
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 510,830	7,888	26,415	545,133
Salaries and benefits payable	2,179,342	0	0	2,179,342
Deferred revenue:				
Succeeding year property tax	7,104,826	0	620,906	7,725,732
Other	353,483	0	0	353,483
Total liabilities	10,148,481	7,888	647,321	10,803,690
Fund balances:				
Reserved for:				
Categorical funding	217,256	0	0	217,256
Construction	0	14,090,807	0	14,090,807
Debt service	0	1,310,169	1,310,169	2,620,338
Unreserved	1,440,078	7,815,321	937,303	10,192,702
Total fund balances	1,657,334	23,216,297	2,247,472	27,121,103
Total Liabilities and Fund Balances	\$ 11,805,815	23,224,185	2,894,793	37,924,793

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 20)		\$ 27,121,103
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		11,251,477
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.		(395,169)
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.		50,168
Long-term liabilities, including revenue bonds payable and compensated absences payable are not due and payable in the current period and, therefore, are not reported in the governmental funds.		(16,691,398)
Net assets of governmental activities (page 18)		<u>\$ 21,336,181</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Nonmajor Special Revenue Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 6,512,245	1,879,433	508,351	8,900,029
Tuition	258,118	0	0	258,118
Other	203,048	17,722	472,200	692,970
State sources	11,870,855	0	525	11,871,380
Federal sources	2,548,558	0	0	2,548,558
Total revenues	<u>21,392,824</u>	<u>1,897,155</u>	<u>981,076</u>	<u>24,271,055</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	8,584,094	0	266,079	8,850,173
Special	3,956,482	0	0	3,956,482
Other	2,406,651	0	384,302	2,790,953
	<u>14,947,227</u>	<u>0</u>	<u>650,381</u>	<u>15,597,608</u>
Support services:				
Student	391,154	0	0	391,154
Instructional staff	485,356	0	9,395	494,751
Administration	1,891,884	0	19,443	1,911,327
Operation and maintenance of plant	1,562,039	0	91,528	1,653,567
Transportation	719,118	0	74,285	793,403
	<u>5,049,551</u>	<u>0</u>	<u>194,651</u>	<u>5,244,202</u>
Other expenditures:				
Facilities acquisitions	0	1,519,285	0	1,519,285
Long-term debt:				
Interest and fiscal charges	0	0	500	500
AEA flowthrough	1,003,331	0	0	1,003,331
	<u>1,003,331</u>	<u>1,519,285</u>	<u>500</u>	<u>2,523,116</u>
Total expenditures	<u>21,000,109</u>	<u>1,519,285</u>	<u>845,532</u>	<u>23,364,926</u>
Excess of revenues over expenditures	392,715	377,870	135,544	906,129
Other financing sources(uses):				
Transfers in	0	0	1,303,740	1,303,740
Transfers out	0	(1,302,779)	(961)	(1,303,740)
Issuance of revenue bonds	0	16,290,000	0	16,290,000
Discount on bond issuance	0	(195,480)	0	(195,480)
Issuance costs	0	0	(31,627)	(31,627)
Accrued interest on bonds	0	0	39,517	39,517
Premium on bonds	0	35,150	0	35,150
Sale of real property	0	0	4,194	4,194
Total other financing sources(uses)	<u>0</u>	<u>14,826,891</u>	<u>1,314,863</u>	<u>16,141,754</u>
Net change in fund balances	392,715	15,204,761	1,450,407	17,047,883
Fund balance beginning of year	<u>1,264,619</u>	<u>8,011,536</u>	<u>797,065</u>	<u>10,073,220</u>
Fund balance end of year	<u>\$ 1,657,334</u>	<u>23,216,297</u>	<u>2,247,472</u>	<u>27,121,103</u>

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds(page 22) \$ 17,047,883

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

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

Capital outlays	\$ 1,523,122	
Depreciation expense	(699,769)	
Loss on disposal of assets	<u>(5,029)</u>	818,324

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. (16,290,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (395,169)

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

Early retirement	48,047	
Compensated absences	(1,466)	
Other postemployment benefits	<u>28,121</u>	<u>74,702</u>

Changes in net assets of governmental activities(page 19) \$ 1,255,740

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	School Nutrition
Assets	
Current assets:	
Cash and cash equivalents	\$ 274,335
Accounts receivable	37,718
Due from other governments	2,708
Inventories	23,651
Total current assets	338,412
Non-current assets:	
Capital assets, net of accumulated depreciation	94,704
Net OPEB asset	447
Total non-current assets	95,151
Total Assets	433,563
Liabilities	
Accounts payable	66,969
Salaries and benefits payable	44,848
Unearned revenue	11,725
Total Liabilities	123,542
Net Assets	
Invested in capital assets	94,704
Unrestricted	215,317
Total Net Assets	\$ 310,021

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 313,941
Donations	170
Miscellaneous	13,909
TOTAL OPERATING REVENUES	328,020
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	334,945
Benefits	44,417
Services	16,548
Supplies	579,712
Depreciation	13,943
Other	468
TOTAL OPERATING EXPENSES	990,033
OPERATING LOSS	(662,013)
NON-OPERATING REVENUES (EXPENSES):	
State sources	10,199
Federal sources	643,835
Interest income	156
Loss on disposal of assets	(2,118)
TOTAL NON-OPERATING REVENUES (EXPENSES)	652,072
Change in net assets	(9,941)
Net assets beginning of year	319,962
Net assets end of year	\$ 310,021

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 336,804
Cash received from miscellaneous operating activities	14,079
Cash payments to employees for services	(376,323)
Cash payments to suppliers for goods or services	(459,970)
Net cash used in operating activities	(485,410)
Cash flows from non-capital financing activities:	
State grants received	10,199
Federal grants received	559,260
Net cash provided by non-capital financing activities	569,459
Cash flows from capital and related financing activities:	
Purchase of capital assets	(8,416)
Cash flows from investing activities:	
Interest income	156
Net decrease in cash and cash equivalents	75,789
Cash and cash equivalents at beginning of year	198,546
Cash and cash equivalents at end of year	\$ 274,335
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (662,013)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	86,246
Depreciation	13,943
Increase in inventories	(9,195)
Decrease in accounts receivable	11,138
Increase in accounts payable	59,707
Increase in salaries and benefits payable	3,268
Increase in unearned revenue	11,725
Decrease in other postemployment benefits	(229)
Net cash used in operating activities	\$ (485,410)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$86,246.

SEE NOTES TO FINANCIAL STATEMENTS.

FORT MADISON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

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

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

A. Reporting Entity

For financial reporting purposes, Fort Madison Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Fort Madison 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 do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee, Des Moines and Henry Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for 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 attributed to the acquisition, construction, or improvement of those assets. Any unused revenue bond proceeds are added into invested in capital assets, net of related debt.

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through Enterprise Funds.

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to customers for sales and services. Operating expenses for

Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	2 or more years
Machinery and equipment	5-20 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 receivable and other receivables not collected within sixty days after year end.

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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 \$25,095,393 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide, Sales and Service Tax	\$ 1,302,779
Special Revenue, Physical Plant and Equipment Levy	Special Revenue, Management Levy	961
		<u>\$ 1,303,740</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the series 2009-10A warrants was 2.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/2009	6/23/2010	\$ 0	700,000	700,000	0

During the year ended June 30, 2010, the district paid \$75,934 of interest on ISCAP warrants.

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 919,088	0	0	919,088
Construction in progress	194,970	1,283,079	573,771	904,278
Total capital assets not being depreciated	<u>1,114,058</u>	<u>1,283,079</u>	<u>573,771</u>	<u>1,823,366</u>
Capital assets being depreciated:				
Buildings	14,284,140	269,415	0	14,553,555
Improvements other than buildings	736,828	482,458	0	1,219,286
Machinery and equipment	2,804,757	61,941	178,299	2,688,399
Total capital assets being depreciated	<u>17,825,725</u>	<u>813,814</u>	<u>178,299</u>	<u>18,461,240</u>
Less accumulated depreciation for:				
Buildings	6,119,232	459,745	0	6,578,977
Improvements other than buildings	266,445	63,438	0	329,883
Machinery and equipment	2,120,953	176,586	173,270	2,124,269
Total accumulated depreciation	<u>8,506,630</u>	<u>699,769</u>	<u>173,270</u>	<u>9,033,129</u>
Total capital assets being depreciated, net	<u>9,319,095</u>	<u>114,045</u>	<u>5,029</u>	<u>9,428,111</u>
Governmental activities capital assets, net	<u>\$ 10,433,153</u>	<u>1,397,124</u>	<u>578,800</u>	<u>11,251,477</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 221,817	8,416	6,023	224,210
Less accumulated depreciation	119,468	13,943	3,905	129,506
Business type activities capital assets, net	<u>\$ 102,349</u>	<u>(5,527)</u>	<u>2,118</u>	<u>94,704</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 11,450
Special		1,089
Other		1,975
Support services:		
Instructional staff		28,481
Operation and maintenance of plant		13,087
Transportation		120,504
		<u>176,586</u>
Unallocated depreciation		<u>523,183</u>
Total governmental activities depreciation expense		<u>\$ 699,769</u>
Business type activities:		
Food service operations		<u>\$ 13,943</u>

(6) Long-Term Liabilities

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

	Balance			Balance	Due
	Beginning	Additions	Deletions	End of	Within
	of Year			Year	One Year
Revenue Bonds	\$ 0	16,290,000	0	16,290,000	915,000
Early Retirement	338,047	90,000	138,047	290,000	140,000
Compensated Absences	109,932	111,398	109,932	111,398	111,398
Total	\$ 447,979	16,491,398	247,979	16,691,398	1,166,398

Revenue Bonds

Details of the District's June 30, 2010 revenue bonded indebtedness is as follows:

Year	Bond Issue of December 1, 2009			
Ending	Interest			
June 30,	Rate	Principal	Interest	Total
2011	3.00	% \$ 915,000	720,160	1,635,160
2012	3.00	590,000	641,133	1,231,133
2013	3.00	595,000	623,357	1,218,357
2014	3.00	600,000	605,432	1,205,432
2015	3.00	710,000	585,783	1,295,783
2016-2020	3.50-4.00	3,650,000	2,530,925	6,180,925
2021-2025	4.20-4.60	4,025,000	1,734,827	5,759,827
2026-2030	4.63-5.00	5,205,000	732,022	5,937,022
Total		\$ 16,290,000	8,173,639	24,463,639

The District has pledged future statewide sales, services and use tax revenues to repay the \$16,290,000 of bonds issued on December 1, 2009. The bonds were issued for the purpose of building and furnishing a new middle school, and refunding outstanding project notes issued for said purpose. The bonds are payable solely from the proceeds of statewide sales, services and use tax revenues received by 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 87 percent of statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$24,463,639. For the current year no principal or interest was paid on the bonds, and total statewide sales, services and use tax revenues were \$1,879,433.

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

- a) \$1,310,169 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.

Early Retirement

The District offered a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed ten years of continuous service to the District in order to qualify for supplemental benefits. Employees who desired to elect early retirement under this program must have completed an application which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was based on their current employment classification. The supplemental benefit for administrators was \$25,000 and licensed employees was \$20,000. The supplemental benefit for classified employees was 50% of the current contract at the time of retirement. Early retirement benefits paid during the year ended June 30, 2010, totaled \$138,047. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% 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 \$883,916, \$859,160, and \$771,558, respectively, equal to the required contributions for each year.

(8) 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 163 active and 22 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Southeast Iowa Health Care (SEIHC). Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 205,375
Interest on net OPEB obligation	(668)
Adjustment to annual required contribution	1,119
Annual OPEB cost	<u>205,826</u>
Contributions made	<u>(234,176)</u>
Decrease in net OPEB obligation	(28,350)
Net OPEB obligation beginning of year	<u>(22,265)</u>
Net OPEB obligation end of year	<u>\$ (50,615)</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$227,640 to the medical plan. Plan members eligible for benefits contributed \$272,484, or 54.55% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 205,826	113.77%	\$ (50,615)

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 \$2,341,703, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,341,703. The covered payroll (annual payroll of active employees covered by the plan) was \$13,798,426, and the ratio of the UAAL to covered payroll was 16.97%. 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 assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 3% discount rate based on the District's funding policy. The projected annual medical trend rate is 9%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 1% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed based upon recent Ft. Madison Community School District experience. Termination probabilities were based upon national termination studies performed by the Society of Actuaries and were adjusted to reflect the recent lower termination rates experienced by Fort Madison Community School District.

Projected claim costs of the medical plan are \$935 per month for retirees at the weighted average age 62. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical, dental, vision, basic life and disability.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2010 were \$1,702,487.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,003,331 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitment

The District has entered into various contracts for construction projects. These contracts total \$16,291,656. As of June 30, 2010, costs of \$836,175 have been incurred against these contracts. The balance remaining at June 30, 2010 will be paid as work on the projects progresses.

(12) **Categorical Funding**

The District's categorical funding balances for the year ended June 30, 2010 are as follows:

<u>Project</u>	<u>Amount</u>
Salary improvement program	\$ 100,284
Talented and gifted	53,068
Market factor incentives	3,129
Professional development	51,463
Beginning teacher mentoring	5,694
Nonpublic transportation	833
Model core curriculum	<u>2,785</u>
Total	<u>\$ 217,256</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 9,851,117	328,176	10,179,293	10,083,803	10,083,803	95,490
State sources	11,871,380	10,199	11,881,579	14,465,632	14,465,632	(2,584,053)
Federal sources	2,548,558	643,835	3,192,393	1,395,000	1,395,000	1,797,393
Total revenues	24,271,055	982,210	25,253,265	25,944,435	25,944,435	(691,170)
Expenditures/expenses:						
Instruction	15,597,608	0	15,597,608	16,297,533	16,297,533	699,925
Support services	5,244,202	0	5,244,202	6,214,316	6,214,316	970,114
Non-instructional programs	0	990,033	990,033	975,000	1,003,675	13,642
Other expenditures	2,523,116	0	2,523,116	2,524,198	3,939,028	1,415,912
Total expenditures/expenses	23,364,926	990,033	24,354,959	26,011,047	27,454,552	3,099,593
Excess(deficiency)of revenues over(under)expenditures/expenses	906,129	(7,823)	898,306	(66,612)	(1,510,117)	2,408,423
Other financing sources, net	16,141,754	(2,118)	16,139,636	0	0	16,139,636
Excess(deficiency)of revenues and other financing sources over(under) expenditures/expenses	17,047,883	(9,941)	17,037,942	(66,612)	(1,510,117)	18,548,059
Balance beginning of year	10,073,220	319,962	10,393,182	10,090,366	10,090,366	302,816
Balance end of year	\$ 27,121,103	310,021	27,431,124	10,023,754	8,580,249	18,850,875

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

FORT MADISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2008	-	\$ 2,341,703	\$ 2,341,703	0.00%	\$ 14,051,407	16.67%
2010	July 1, 2008	-	2,341,703	2,341,703	0.00%	13,798,426	16.97%

See Note 8 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

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

	Special Revenue Funds					Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 752,569	178,392	13,259	944,220	1,310,169	2,254,389
Receivables:						
Property tax:						
Delinquent	7,048	0	0	7,048	0	7,048
Succeeding year	457,500	0	163,406	620,906	0	620,906
Accounts	0	12,450	0	12,450	0	12,450
Total Assets	\$ 1,217,117	190,842	176,665	1,584,624	1,310,169	2,894,793
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 5,455	20,960	0	26,415	0	26,415
Deferred revenue:						
Succeeding year property tax	457,500	0	163,406	620,906	0	620,906
Total liabilities	462,955	20,960	163,406	647,321	0	647,321
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	1,310,169	1,310,169
Unreserved	754,162	169,882	13,259	937,303	0	937,303
Total fund balances	754,162	169,882	13,259	937,303	1,310,169	2,247,472
Total Liabilities and Fund Balances	\$ 1,217,117	190,842	176,665	1,584,624	1,310,169	2,894,793

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 508,351	0	0	508,351	0	508,351
Other	23,610	448,525	65	472,200	0	472,200
State sources	525	0	0	525	0	525
TOTAL REVENUES	532,486	448,525	65	981,076	0	981,076
EXPENDITURES:						
Current:						
Instruction:						
Regular	266,079	0	0	266,079	0	266,079
Other	0	384,302	0	384,302	0	384,302
Support services:						
Instructional staff	0	0	9,395	9,395	0	9,395
Administration	19,443	0		19,443	0	19,443
Operation and maintenance of plant	84,028	0	7,500	91,528	0	91,528
Student transportation	26,825	0	47,460	74,285	0	74,285
Other expenditures:						
Long-term debt:						
Interest and fiscal charges	0	0	0	0	500	500
TOTAL EXPENDITURES	396,375	384,302	64,355	845,032	500	845,532
Excess(deficiency) of revenues over(under) expenditures	136,111	64,223	(64,290)	136,044	(500)	135,544
Other financing sources(uses):						
Transfers in	0	0	961	961	1,302,779	1,303,740
Transfers out	(961)	0	0	(961)	0	(961)
Issuance costs	0	0	0	0	(31,627)	(31,627)
Accrued interest on bonds	0	0	0	0	39,517	39,517
Sale of real property	0	0	4,194	4,194	0	4,194
Total other financing sources(uses):	(961)	0	5,155	4,194	1,310,669	1,314,863
Net change in fund balances	135,150	64,223	(59,135)	140,238	1,310,169	1,450,407
Fund balance beginning of year	619,012	105,659	72,394	797,065	0	797,065
Fund balance end of year	\$ 754,162	169,882	13,259	937,303	1,310,169	2,247,472

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Special Education Club	\$ 111	0	0	111
Child Health Fund	6,628	1,029	1,745	5,912
Activity Account	1,512	324	170	1,666
Undistributed Funds	970	337	140	1,167
Vocal Music	1,542	2,616	1,627	2,531
Instrumental Music	1,178	31,108	29,641	2,645
History Day Fund	32	0	32	0
6th Grade Team	38	0	38	0
Industrial Tech	3,262	285	2,906	641
Environmental Club	2,700	0	470	2,230
Family and Consumer	1,330	535	575	1,290
Socccer Coed	0	0	324	(324)
Student Activity	11,521	12,540	13,659	10,402
Employee Activity Account	878	803	576	1,105
Student Council	1,636	28	1,022	642
Library Club	1,100	635	10	1,725
Prairie fire	869	2,284	579	2,574
Science Activity - M.S.	376	404	0	780
Vocal Music	183	315	0	498
Instrumental Music	1,795	4,776	0	6,571
Color Guard	0	850	846	4
Co-Curricular Act - H.S.	(19,324)	35,959	9,092	7,543
Gate Receipts	5,836	77,971	64,063	19,744
Soccer Coed	0	2,669	2,669	0
Soccer - Fund Raiser	2,569	16,698	516	18,751
Cross Country	0	942	942	0
Boys Basketball - Fund Raiser	904	2,790	2,745	949
Football	0	14,170	13,821	349
Football - Fund Raiser	4,188	5,135	6,253	3,070
Baseball	0	4,287	4,287	0
Baseball - Fund Raiser	(284)	9,522	7,588	1,650
Boys Track	0	410	410	0
Boys Tennis	0	74	74	0
Boys Golf	0	489	227	262
Wrestling	0	1,405	1,405	0
Wrestling - Fund Raiser	7,187	11,770	14,831	4,126
Girls Basketball	0	2,400	2,400	0
Girls Basketball-Fund Raiser	1,730	2,516	2,202	2,044
Volleyball - Fund Raiser	5,605	3,801	5,652	3,754
Softball - Fund Raiser	678	16,126	20,016	(3,212)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Girls Track	0	1,080	1,080	0
GTR/BTR/CC Fund Raiser	507	5,932	5,518	921
Girls Tennis	142	100	242	0
Girls Tennis Fundraiser	0	2,177	868	1,309
Bloodhound Productions	197	1,841	1,646	392
Art Club	1,291	190	381	1,100
Foreign Language Club	410	0	79	331
FFA	0	578	453	125
Employee Activity Account	999	0	257	742
FCCLA	2,616	411	586	2,441
HS Student Government	30	1,536	1,248	318
Key Club	4,103	3,085	3,526	3,662
Madisonian	13,285	9,620	10,725	12,180
Dist. Educ. Club	697	1,133	1,581	249
Building Trades Vica	1,162	3,301	3,566	897
Auto Shop Vica	456	3,500	1,215	2,741
National Honor Society	1,391	855	754	1,492
Science Club	688	500	626	562
Student Concessions	200	74,248	73,947	501
Dance & Drill Team	847	8,202	7,376	1,673
Library Club	1,166	153	106	1,213
Class of 2010	4,888	288	5,176	0
Class of 2011	2,102	6,618	5,445	3,275
Class of 2012	817	2,590	0	3,407
Class of 2013	0	609	0	609
Cheerleaders - Varsity	289	9,531	8,646	1,174
Cheerleaders - Fundraiser	0	842	0	842
MDT Fundraising	84	0	0	84
Just Eliminate Lies (JEL)	997	0	0	997
CLC	0	31	0	31
Student Activity Account	6,379	5,487	4,071	7,795
Student Council Account	120	0	0	120
Special Education Club	2,959	11,177	9,316	4,820
Student Activity Account	4,270	3,084	4,873	2,481
Employee Activity Account	0	84	0	84
Richardson PTO	(149)	3,603	3,454	0
Student Activity Account	5,966	18,136	13,988	10,114
Total	\$ 105,659	448,525	384,302	169,882

FORT MADISON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 8,900,029	8,400,107	8,280,598	8,211,007	7,281,321	7,190,181	7,232,611
Tuition	258,118	341,210	234,422	202,458	161,163	174,045	105,802
Other	692,970	810,139	987,790	1,028,627	923,719	791,009	714,690
State sources	11,871,380	13,241,057	12,541,859	12,102,102	11,358,669	10,962,706	10,699,317
Federal sources	2,548,558	1,275,077	1,081,517	1,190,701	1,088,627	2,689,181	991,438
Total	\$ 24,271,055	24,067,590	23,126,186	22,734,895	20,813,499	21,807,122	19,743,858
Expenditures:							
Current:							
Instruction:							
Regular	\$ 8,850,173	9,514,098	9,111,831	11,523,634	8,364,811	8,448,219	7,486,971
Special	3,956,482	3,736,493	3,449,199	2,259,659	3,161,927	3,278,363	4,088,149
Other	2,790,953	2,558,234	2,486,387	686,155	2,311,775	2,557,970	1,358,302
Support services:							
Student	391,154	386,911	384,748	417,238	429,221	305,392	756,033
Instructional staff	494,751	546,549	577,171	652,694	925,657	627,902	256,149
Administration	1,911,327	2,070,548	2,077,442	1,776,244	1,548,184	1,322,744	1,196,868
Operation and maintenance of plant	1,653,567	1,661,348	1,626,188	1,716,868	1,666,626	1,460,757	1,577,535
Transportation	793,403	1,014,609	860,144	829,556	725,492	919,733	627,260
Non-instructional programs		0	0	0	0	0	5,578
Other expenditures:							
Facilities acquisitions	1,519,285	1,033,217	1,330,881	486,018	372,502	1,502,725	2,847,114
Long-term debt:							
Principal	0	0	0	0	0	0	20,000
Interest	500	0	0	0	0	0	5,205
AEA flow-through	1,003,331	887,992	830,020	809,284	755,127	744,835	757,872
Total	\$ 23,364,926	23,409,999	22,734,011	21,157,350	20,261,322	21,168,640	20,983,036

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	\$ 110,025
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	528,164 *
SUMMER FOOD SERVICE PROGRAM	10.559	FY 10	5,646
			<u>643,835</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	453,943
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	75,061
			<u>529,004</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>11,614</u>
IOWA DEPARTMENT OF EDUCATION (CONTINUED):			
PARENTAL INFORMATION AND RESOURCE CENTERS			
	84.310	FY 10	<u>5,000</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>180,085</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 10	<u>4,135</u>
STATE FISCAL STABILIZATION FUND (SFSF) - EDUCATION			
STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>1,054,288</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES	84.027	FY 10	146,456
SPECIAL EDUCATION - GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	272,449
			<u>418,905</u>
CAREER AND TECHNICAL EDUCATION BASIC GRANTS TO STATES	84.048	FY 10	<u>28,718</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:			
LEARN AND SERVE AMERICA - SCHOOL AND COMMUNITY BASED PROGRAMS	94.004	FY 09	<u>4,592</u>
TOTAL			<u>\$ 2,880,176</u>

* - Includes \$86,246 in non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3060
Telephone (641) 792-1910

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

To the Board of Education of the
Fort Madison 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 Fort Madison 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 24, 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 Fort Madison 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 an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fort Madison Community School District's internal control over financial reporting.

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 on a timely basis.

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. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fort Madison 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.

Fort Madison 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 Fort Madison 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 Fort Madison Community School District and other parties to whom Fort Madison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2011

NOLTE, CORNMAN & JOHNSON P.C.
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(a professional corporation)
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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Fort Madison 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 Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison 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 Fort Madison 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 Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison 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 Fort Madison 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 Fort Madison 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 Fort Madison Community School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the 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. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Fort Madison Community School District and other parties to whom Fort Madison 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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2011

FORT MADISON 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) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were 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 - Education State Grants, Recovery Act.
 - Clustered Programs:
 - CFDA Number 84.010 - Title I Grant to Local Educational Agencies
 - CFDA Number 84.389 - ARRA - Title I Grant to Local Educational Agencies, Recovery Act
 - CFDA Number 84.027 - Special Education - Grants to States
 - CFDA Number 84.391 - ARRA - Special Education - Grants to States, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fort Madison Community School District qualified as a low-risk auditee.

FORT MADISON 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 Purchase Orders - We noted during our audit that the District currently uses purchase orders in the purchasing process, however the Student Activity Fund had instances of purchase orders that were completed after the product had been ordered.

Recommendation - The advantage of using a purchase order system is that approvals of the items being purchased are noted prior to ordering of the items. In addition, when the items are approved and the purchase order is properly generated, it also reflects on the financial records as an outstanding order, which represents the amount as an obligation against the budget. When monitoring actual expenses, it can be helpful to know the outstanding orders which will be subsequently paid, therefore allowing the person who approves purchase orders the insight to know if there is still available funding to make the purchase.

Although districts are not required to use a purchase order system, the benefits to financial management make the system desirable. The District's current purchase order system should be reviewed and necessary changes made so that all disbursements are approved by the appropriate administrator before ordering of supplies takes place.

Response - The District will review the purchase order system and make adjustments as deemed necessary.

Conclusion - Response accepted.

II-B-10 Commodity Pricing - We noted during our audit of the Enterprise, School Nutrition Fund that the District did not price the commodity inventory according to Department of Education guidelines.

Recommendation - The District should review procedures in place for calculation of commodity inventory prices. The State of Iowa provides a price guide listing of values to be used in the calculation. The District needs to use the correct price values in calculating the inventory value at year end.

Response - The District will seek assistance to ensure the accurate reporting of commodity inventory.

Conclusion - Response accepted.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over major programs were noted.

FORT MADISON 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 - District expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.

IV-B-10 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the Student Activity Fund. Gift cards are considered cash and do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - The District accepts the auditor's recommendation.

Conclusion - Response accepted.

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

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

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-10 Supplementary Weighting - No variances in basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-10 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - We will file timely in the future.

Conclusion - Response accepted.

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

IV-L-10 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	763,189
Statewide sales, services and use tax revenue			1,879,433
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	630,260	
Debt Service for school infrastructure:			
Revenue Bonds		<u>1,302,779</u>	<u>1,933,039</u>
Ending balance		\$	<u><u>709,583</u></u>

There was no tax reduction as a result of the statewide sales, services and use tax received during the year ended June 30, 2010.

IV-M-10 Financial Condition - We noted during our audit that there were two negative individual account balances within the Student Activity Fund totaling \$3,536.

Recommendation - The District should monitor these deficit accounts and ensure that purchases are not made without the sufficient funds to pay for them.

Response - The District does monitor all Student Activity account balances to ensure that the balance fairly represent the results of activities that have taken place within the account. The District will track expenditures closer in these deficit accouts.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - During our audit concerns arose about the propriety of certain receipts, expenditures and accounts within the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity Fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8).

Employee Activity Account: We noted during our audit that the Employee Activity Account appears to be administratively maintained, rather than a student organization.

Recommendation - The Employee Activity Account is not a student run organization and therefore should not be accounted for in the Student Activity Fund. The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It was noted this account purchased Hotel gift certificates, flowers, and banners

during the year which do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979. The balance in the Employee Activity Account should be transferred to the General Fund.

Response - The Employee Activity Account will be transferred to the General Fund.

Conclusion - Response accepted.

Library Club Account - We noted during our audit that the District's Library Club account within the Student Activity Fund does not appear to be extracurricular in nature.

Recommendation - These receipts and expenditures appear to be more appropriate in the General Fund.

Response - The Library Club Account will be transferred to the General Fund.

Conclusion - Response accepted.

Just Eliminate Lies (JEL) account: JEL is a state agency that informs youth about the truths of tobacco use and attempts to change peoples' attitudes about tobacco use. As such, JEL is not appropriate to be accounted for as a student run organization within the Student Activity Fund.

Recommendation - According to the description of what JEL is trying to accomplish, it would appear that JEL objectives are instructional in nature. Instructional revenues and expenses are more appropriately handled in the General Fund. Remaining monies in the JEL account should be transferred to the General Fund and in the future any transactions associated with JEL should be handled through the General Fund.

Response - The JEL Account will be transferred to the General Fund.

Conclusion - Response accepted.

Donations and Commissions: We noted donations from Target, and Box Tops for Education recorded in the Student Activity Fund. We also noted commissions paid from Lifetouch receipted into the Student Activity Fund.

Recommendation - Target donations are donated to schools for instructional materials and supplies. The most logical place to record the revenue and subsequent purchase would be to the General Fund. The District should record future donations from Target in the General Fund.

Lifetouch picture commissions are receipted into the Student Activity Fund. According to Chapter 298A.2 of the Code of Iowa all money received by a District must be accounted for in the General Fund except for money required by law to be accounted for in another fund. Commissions are not specifically identified as an allowable revenue for the Student Activity Fund, therefore Lifetouch commissions should be receipted into the General Fund.

According to information contained on the website for Box Tops, the donation can be used for items such as books, computers or playground equipment. Currently, the District records Box Top donations in the Student Activity Fund. Since the items listed for purchase with Box Top donations appear more instructional in nature, the most logical place to record these donations would be the General Fund.

Response - Target donations, Lifetouch commissions and Box Top donations will be deposited in to the General Fund in the future.

Conclusion - Response accepted.

Approval of Fundraisers: The board is not currently approving all fundraisers the District performs.

Recommendation - We noted that the District holds several fundraisers within the Activity Fund, however we noted that the Board has not been approving those fundraisers.

Response - The District will obtain the required Board approval.

Conclusion - Response accepted.

IV-O-10 Officials Contracts - We noted during our audit that the Board President was not signing athletic officials contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into to comply with Chapter 291.1 of the Code of Iowa.

Response - The District will have the Board President sign the athletic officials contracts for the District.

Conclusion - Response accepted.