

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2010

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------|--------------------|---------------------|
| Board of Education | | |
| (Before September 2009 Election) | | |
| Tim Drewelow | Board President | 2010 |
| Brent Montz | Board Member | 2009 |
| Peggy Kedley | Board Member | 2009 |
| Duane Stonerook | Board Member | 2011 |
| Jane Malaby | Board Member | 2011 |
| (After September 2009 Election) | | |
| Tim Drewelow | Board President | 2013 |
| Duane Stonerook | Board Member | 2012 |
| Jane Malaby | Board Member | 2012 |
| Brent Montz | Board Member | 2013 |
| Tessa Holst | Board Member | 2013 |
| School Officials | | |
| John Dayton | Superintendent | 2010 |
| Jean Esbaum | District Secretary | Indefinite |
| Brian Gruhn | Attorney | Indefinite |

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Independent Auditor's Report

To the Board of Education
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of North Cedar Community School District, Clarence, 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. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

The financial statements of the North Cedar Community School District Foundation have not been audited, and I was not engaged to audit the Foundation financial statements as part of my audit of the North Cedar Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

Because the Foundation's financial statements have not been audited, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit of the North Cedar Community School District, as of and for the year ended June 30, 2010.

In my 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 North Cedar Community School District as of 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, I have also issued my report dated March 2, 2011 on my consideration of North Cedar Community School District's internal control over financial reporting and my 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 my 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 my audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 14 and 47 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Cedar Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 3 and Schedule 5 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the seven years in the period ended June 30, 2010, appearing in Schedule 4, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$8,427,756 in fiscal 2009 to \$8,389,128 in fiscal 2010, and General Fund expenditures increased from \$8,423,273, in fiscal 2009 to \$8,717,419 in fiscal 2010. The District's General Fund balance decreased from \$1,742,227 in fiscal 2009 to \$1,413,936 in fiscal 2010, a 19% decrease.
- The decrease in General Fund revenues was attributable to a decrease in and state federal grant revenue in fiscal 2010. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, building repair, utilities, vehicle fuel, and substitute teacher expense.
- A decrease in General Fund interest earnings resulted from a market-wide drop in available rates. Comparison information from the last four years is shown below.

| | | | |
|---------------|---------------|---------------|--------------|
| 2007 \$75,681 | 2008 \$62,784 | 2009 \$25,836 | 2010 \$8,286 |
|---------------|---------------|---------------|--------------|

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

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

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

year, 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 details of various federal programs benefiting the District.

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

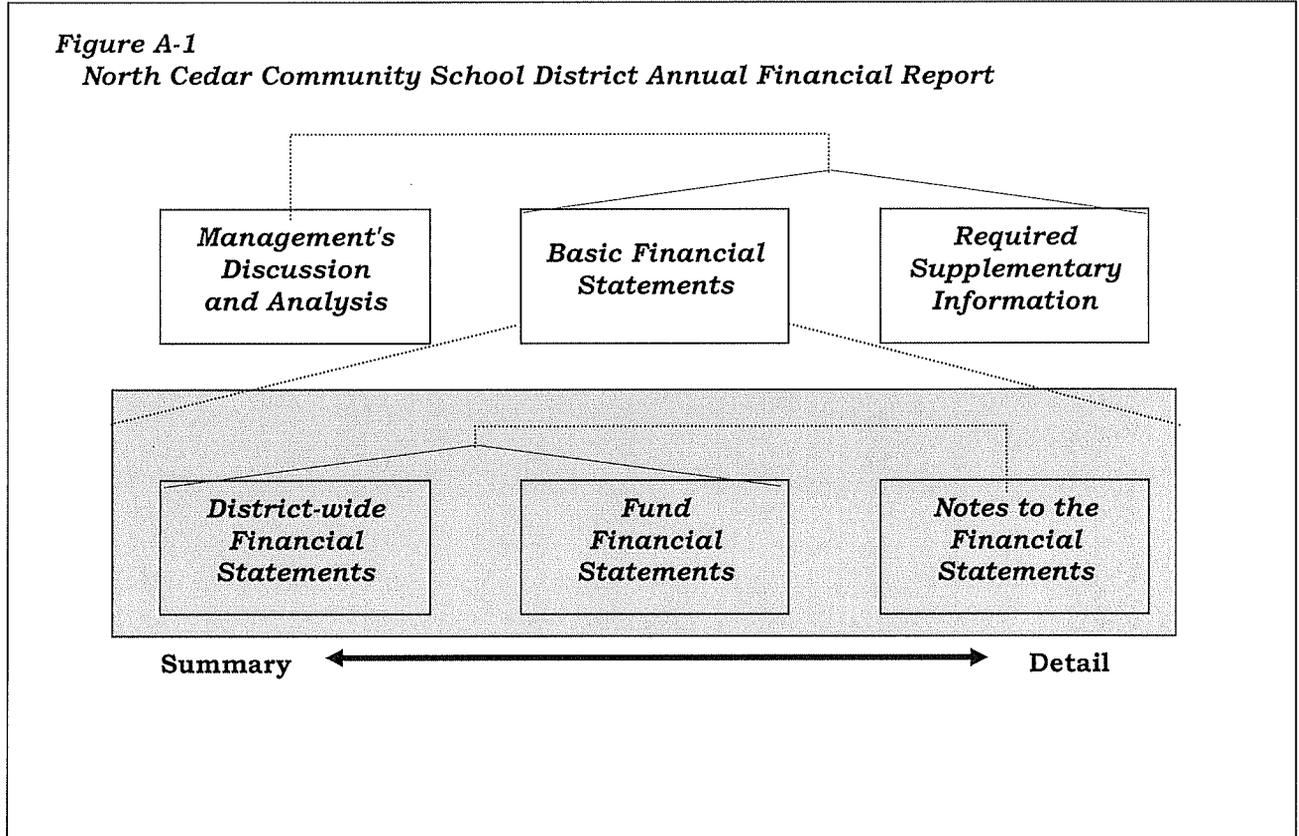


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

In the government-wide financial statements, the District's activities are divided into three 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.
- *Component Unit:* This includes the activities of the North Cedar Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 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. Internal service funds, the other type of

proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund, the employee benefit fund.

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

- 3) *Fiduciary fund*: The District is the trustee, or fiduciary, for assets that belong to others. This fund consists of the private-purpose trust fund.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

| | Governmental | | Business Type | | Total | | Total Change <u>2009-</u> <u>2010</u> |
|--|---------------------|---------------------|------------------|------------------|---------------------|---------------------|--|
| | Activities | | Activities | | District | | |
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | |
| Current and other assets | \$ 8,364,035 | \$ 7,992,115 | \$ 7,188 | \$ 11,071 | \$ 8,371,223 | \$ 8,003,186 | 4.60% |
| Capital assets | <u>11,812,195</u> | <u>12,117,162</u> | <u>56,454</u> | <u>64,282</u> | <u>11,868,649</u> | <u>12,181,444</u> | -2.57% |
| Total assets | <u>20,176,230</u> | <u>20,109,277</u> | <u>63,642</u> | <u>75,353</u> | <u>20,239,872</u> | <u>20,184,630</u> | 0.27% |
| Long-term liabilities | 8,957,498 | 9,411,700 | - | - | 8,957,498 | 9,411,700 | -4.83% |
| Other liabilities | <u>4,455,861</u> | <u>4,204,700</u> | <u>6,810</u> | <u>8,132</u> | <u>4,462,671</u> | <u>4,212,832</u> | 5.93% |
| Total liabilities | <u>13,413,359</u> | <u>13,616,400</u> | <u>6,810</u> | <u>8,132</u> | <u>13,420,169</u> | <u>13,624,532</u> | -1.50% |
| Net assets | | | | | | | |
| Invested in capital assets, net of related debt | 3,132,195 | 2,867,162 | 56,454 | 64,282 | 3,188,649 | 2,931,444 | 8.77% |
| Restricted | 1,573,330 | 1,235,719 | - | - | 1,573,330 | 1,235,719 | 27.32% |
| Unrestricted | <u>2,057,346</u> | <u>2,389,996</u> | <u>378</u> | <u>2,939</u> | <u>2,057,724</u> | <u>2,392,935</u> | -14.01% |
| Total net assets | <u>\$ 6,762,871</u> | <u>\$ 6,492,877</u> | <u>\$ 56,832</u> | <u>\$ 67,221</u> | <u>\$ 6,819,703</u> | <u>\$ 6,560,098</u> | 3.96% |

The District's combined net assets increased by approximately 4%, or \$259,605, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$337,611, or approximately 27% from the prior year. The District's restricted net assets increased due to changes outside the control of the district in program revenues, expense, and related debt.

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 \$335,211, or approximately 14%. This decrease in unrestricted net assets was a result of a decrease in property tax and other revenues including grant revenue and also unanticipated expenditures.

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

Figure A-4

| | Change in Net Assets | | | | | | |
|---------------------------------------|----------------------|-------------------|----------------|----------------|-------------------|-------------------|------------------|
| | Governmental | | Business Type | | Total | | Total |
| | Activities | | Activities | | District | | Change |
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2009-2010</u> |
| Revenues | | | | | | | |
| Program revenues | | | | | | | |
| Charges for service | \$ 427,625 | \$ 521,489 | \$ 247,579 | \$ 259,560 | \$ 675,204 | \$ 781,049 | -13.55% |
| Operating grants | 1,752,266 | 1,278,843 | 186,366 | 171,243 | 1,938,632 | 1,450,086 | 33.69% |
| General revenues | | | | | | | |
| Property tax | 4,255,719 | 4,097,081 | - | - | 4,255,719 | 4,097,081 | 3.87% |
| Statewide sales, services and use tax | 576,640 | 544,488 | - | - | 576,640 | 544,488 | 5.90% |
| Unrestricted state grants | 3,187,398 | 3,928,885 | - | - | 3,187,398 | 3,928,885 | -18.87% |
| Unrestricted investment earnings | 10,022 | 8,968 | 43 | 72 | 10,065 | 9,040 | 11.34% |
| Contributions and donations | 2,327 | 34,775 | - | - | 2,327 | 34,775 | -93.31% |
| Other | 41,882 | 1 | - | - | 41,882 | 1 | 4188100.00% |
| Total revenues | <u>10,253,879</u> | <u>10,414,530</u> | <u>433,988</u> | <u>430,875</u> | <u>10,687,867</u> | <u>10,845,405</u> | -1.45% |
| Program expenses | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | 6,131,424 | 6,149,753 | - | - | 6,131,424 | 6,149,753 | -0.30% |
| Support services | 2,633,669 | 2,501,742 | - | - | 2,633,669 | 2,501,742 | 5.27% |
| Non-instructional programs | 347 | 877 | 444,997 | 439,092 | 445,344 | 439,969 | 1.22% |
| Other expenses | <u>1,218,445</u> | <u>1,194,136</u> | <u>-</u> | <u>-</u> | <u>1,218,445</u> | <u>1,194,136</u> | 2.04% |
| Total expenses | <u>9,983,885</u> | <u>9,846,508</u> | <u>444,997</u> | <u>439,092</u> | <u>10,428,882</u> | <u>10,285,600</u> | 1.39% |

Change in net assets before transfers and

| | | | | | | | |
|-------------------------------|---------------------|---------------------|------------------|------------------|---------------------|---------------------|---------|
| capital contribution | 269,994 | 568,022 | (11,009) | (8,217) | 258,985 | 559,805 | -53.74% |
| Capital contribution | - | - | 620 | - | 620 | - | 100.00% |
| Transfers | - | (30,000) | - | 30,000 | - | - | 0.00% |
| Change in net assets | 269,994 | 538,022 | (10,389) | 21,783 | 259,605 | 559,805 | -53.63% |
| Net assets, beginning of year | <u>6,492,877</u> | <u>5,954,855</u> | <u>67,221</u> | <u>45,438</u> | <u>6,560,098</u> | <u>6,000,293</u> | 9.33% |
| Net assets, end of year | <u>\$ 6,762,871</u> | <u>\$ 6,492,877</u> | <u>\$ 56,832</u> | <u>\$ 67,221</u> | <u>\$ 6,819,703</u> | <u>\$ 6,560,098</u> | 3.96% |

In fiscal 2010, property tax and unrestricted state grants account for approximately 73% of the revenue from governmental activities while charges for service and sales and operating grants account for 99% of the revenue from business type activities.

The District's total revenues were approximately \$10.7 million of which \$10.3 million was for governmental activities and approximately \$400,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2% decrease in revenues and a 1% increase in expenses. Operating grants increased \$488,546 to fund increases in expenditures. There were increases in expenses related to negotiated salary and benefits as well as increases in expenses funded by grants received by the District. However, additional increases in expenses relating to upkeep of facilities, resulted in the overall increase in expenses.

Governmental Activities

Revenues for governmental activities were \$10,253,879 and expenses were \$9,983,885 for the year ended June 30, 2010. The District was able to remain within its budget due to planning and reviewing expenditures on a daily basis.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses, 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 2009-2010 | 2010 | 2009 | Change 2009-2010 |
| Instruction | \$ 6,131,424 | \$ 6,149,753 | -0.3% | \$ 4,370,659 | \$ 4,706,610 | -7.1% |
| Support services | 2,633,669 | 2,501,742 | 5.3% | 2,591,774 | 2,483,658 | 4.4% |
| Non-instructional programs | 347 | 877 | -60.4% | 347 | 877 | -60.4% |
| Other expenses | <u>1,218,445</u> | <u>1,194,136</u> | 2.0% | <u>841,214</u> | <u>855,031</u> | -1.6% |
| Total expenses | <u>\$ 9,983,885</u> | <u>\$ 9,846,508</u> | 1.4% | <u>\$ 7,803,994</u> | <u>\$ 8,046,176</u> | -3.0% |

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$427,625.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,752,266.
- The net cost of governmental activities was financed with \$4,832,359 in property and other taxes and \$3,187,398 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$433,988 representing increase of approximately .7% over the year while expenses totaled \$444,997, an increase of approximately 1% over the prior year. 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.

During the year ended June 30, 2010, the District did increase meal prices to cover additional costs related to the program. The District considers meal price increases only when deemed necessary to meet the obligations of the School Nutrition Fund. However, food and salary/benefit costs continue to increase. The District will review and determine if an increase in meal prices is necessary for the next year.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,035,683, slightly above last year's ending fund balances of \$3,026,184. The primary reason for the increase in combined fund balances in fiscal 2010 is due to the building project being completed and the administration keeping a daily watch on the financial health of the district.

Governmental Fund Highlights

- The District's declining General Fund financial position is the result of many factors. The teacher negotiated salary/benefit settlement along with declining enrollment and increased expenditures have contributed to the decline.
- The General Fund balance decreased from \$1,742,227 to \$1,413,936, due in part to declining revenues, open enrollment out increasing, open enrollment in decreasing, and other unanticipated expenses.
- The Capital Project Fund balance increased from \$649,197 at June 30, 2009 to \$947,182 at June 30, 2010 due to the completion of the building project.
- The Debt Service Fund balance decreased slightly from \$9,851 at June 30, 2009 to \$2,803 at June 30, 2010.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$67,221 at June 30, 2009 to \$56,832 at June 30, 2010, representing a decrease of approximately 15%. This is due primarily to increased costs in operating expenditures for food and related costs.

BUDGETARY HIGHLIGHTS

North Cedar Community School District did not amend its annual budget during the year ended June 30, 2010.

The District's revenues were \$889,528 less than budgeted revenues, a variance of approximately 8%. The most significant variance resulted from the District receiving less in state aid and grants than originally anticipated.

Total expenditures were \$2,513,697 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. District management is able to track spending by checking on a daily basis to keep expenditures under control.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$11,868,649 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 represents a net decrease of approximately 3% from the prior year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$436,382.

The original cost of the District's capital assets was \$17,183,720. Governmental funds account for \$17,009,567, with the remainder of \$174,153 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category, which increased by \$6,972. This increase resulted from several major projects such as paving the Mechanicsville Elementary playground, the purchase of a large capacity school bus and substantial entry-way remodeling project at the High School.

Figure A-6

Capital Assets, Net of Depreciation

| | Governmental | | Business Type | | Total | | Total |
|------------------------------------|---------------------|---------------------|-----------------|-----------------|---------------------|---------------------|------------------|
| | Activities | | Activities | | District | | Change |
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2009-2010</u> |
| Land | \$ 146,834 | \$ 148,084 | \$ - | \$ - | \$ 146,834 | \$ 148,084 | -0.84% |
| Buildings and improvements | 10,781,530 | 11,044,624 | - | - | 10,781,530 | 11,044,624 | -2.38% |
| Improvements, other than buildings | 52,447 | 45,475 | - | - | 52,447 | 45,475 | 15.33% |
| Furniture and equipment | <u>831,384</u> | <u>878,979</u> | <u>56,454</u> | <u>64,282</u> | <u>887,838</u> | <u>943,261</u> | -5.88% |
| Totals | <u>\$11,812,195</u> | <u>\$12,117,162</u> | <u>\$56,454</u> | <u>\$64,282</u> | <u>\$11,868,649</u> | <u>\$12,181,444</u> | -2.57% |

Long-Term Debt

At June 30, 2010, the District had \$8,957,498 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 5% from last year (see Figure A-7). Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$12 million.

Figure A-7

Outstanding Long-term Obligations

| | Total | | Total |
|--------------------------|---------------------|---------------------|-----------------------------|
| | District | | Change |
| | <u>2010</u> | <u>2009</u> | <u>2009-</u> <u>2010</u> |
| General obligation bonds | \$ 7,410,000 | \$ 7,755,000 | -4.45% |
| Revenue bonds | 1,270,000 | 1,495,000 | -15.05% |
| Termination benefits | 252,300 | 161,700 | 56.03% |
| Net OPEB liability | <u>25,198</u> | <u>-</u> | 100.00% |
| Total | <u>\$ 8,957,498</u> | <u>\$ 9,411,700</u> | -4.83% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Enrollment must remain stable or increase. District funding is driven by enrollment; therefore future enrollment stability is a critical element in maintaining a sound financial foundation. The District anticipates a decline in

K-12 enrollment and a greater number of open-enrolled out students than open-enrolled in students.

- The District negotiated a new agreement with the North Cedar Education Association (NCEA) for fiscal 2010. Settlements in excess of “new money” or allowable growth in state funding for Certified as well as Classified staff will have an adverse effect on the District’s General budget and related fund balance.
- The District has just completed construction projects at three sites. Due to increased construction costs, the District will need to allocate additional funds to complete the projects over several fiscal years.

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 Jean Esbaum, District Secretary/Treasurer and Business Manager, North Cedar Community School District, 400 Ball Street, Clarence, Iowa, 52216.

Basic Financial Statements

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

Exhibit A

| | <u>Governmental</u> | <u>Business Type</u> | <u>Total</u> | <u>Component</u> |
|---|---------------------|----------------------|---------------------|-------------------|
| Assets | <u>Activities</u> | <u>Activities</u> | | <u>Unit</u> |
| | | | | <u>Foundation</u> |
| Cash and cash equivalents | \$ 3,013,482 | \$ 1,885 | \$ 3,015,367 | \$ - |
| Investments with fiscal agent | 432,657 | - | 432,657 | - |
| Investments | - | - | - | 197,614 |
| Receivables | | | | |
| Property tax | | | | |
| Delinquent | 52,481 | - | 52,481 | - |
| Succeeding year | 4,016,840 | - | 4,016,840 | - |
| Accounts receivable | 34,033 | - | 34,033 | - |
| Income surtaxes | 390,444 | - | 390,444 | - |
| Due from other governments | 424,098 | - | 424,098 | - |
| Inventories | - | 5,303 | 5,303 | - |
| Non-depreciable capital assets | 146,834 | - | 146,834 | - |
| Capital assets, net of accumulated depreciation | <u>11,665,361</u> | <u>56,454</u> | <u>11,721,815</u> | <u>-</u> |
| Total assets | <u>20,176,230</u> | <u>63,642</u> | <u>20,239,872</u> | <u>197,614</u> |
| Liabilities | | | | |
| Accounts payable | 329,621 | - | 329,621 | - |
| Salaries and benefits payable | 57,505 | - | 57,505 | - |
| Accrued interest payable | 51,895 | - | 51,895 | - |
| Deferred revenue | - | | | |
| Succeeding year property tax | 4,016,840 | - | 4,016,840 | - |
| Other | - | 6,810 | 6,810 | - |
| Long-term liabilities | | | | |
| Portion due within one year | | | | |
| General obligation bonds payable | 360,000 | - | 360,000 | - |
| Revenue bonds payable | 230,000 | - | 230,000 | - |
| Termination benefits payable | 53,400 | - | 53,400 | - |
| Portion due after one year | | | | |
| General obligation bonds payable | 7,050,000 | - | 7,050,000 | - |
| Revenue bonds payable | 1,040,000 | - | 1,040,000 | - |
| Termination benefits payable | 198,900 | - | 198,900 | - |
| Net OPEB liability | 25,198 | - | 25,198 | - |
| Total liabilities | <u>13,413,359</u> | <u>6,810</u> | <u>13,420,169</u> | <u>-</u> |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 3,132,195 | 56,454 | 3,188,649 | - |
| Restricted for | | | | |
| Categorical funding | 169,821 | - | 169,821 | - |
| Physical plant and equipment levy | 323,581 | - | 323,581 | - |
| Other special revenue purposes | 132,746 | - | 132,746 | - |
| Capital projects | 947,182 | - | 947,182 | - |
| Scholarships | - | - | - | 197,614 |
| Unrestricted | <u>2,057,346</u> | <u>378</u> | <u>2,057,724</u> | <u>-</u> |
| Total net assets | <u>\$ 6,762,871</u> | <u>\$ 56,832</u> | <u>\$ 6,819,703</u> | <u>\$ 197,614</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Exhibit B

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Component Unit | | |
|------------------------------------|------------------|-------------------------|--|--|--------------------|----------------|-----------------------------|-------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government | | Business Type Activities | Total |
| Functions/Programs | | | | | | | | |
| Primary Government | | | | | | | | |
| Governmental activities | | | | | | | | |
| Instruction | | | | | | | | |
| Regular instruction | \$ 3,578,460 | \$ 103,109 | \$ 1,147,132 | \$ - | \$ (2,328,219) | \$ - | \$ (2,328,219) | |
| Special instruction | 1,481,066 | 135,126 | 220,921 | - | (1,125,019) | - | (1,125,019) | |
| Other instruction | 1,071,898 | 147,495 | 6,982 | - | (917,421) | - | (917,421) | |
| | 6,131,424 | 385,730 | 1,375,035 | - | (4,370,659) | - | (4,370,659) | |
| Support services | | | | | | | | |
| Student | 154,339 | 39,635 | - | - | (114,704) | - | (114,704) | |
| Instructional staff | 62,297 | - | - | - | (62,297) | - | (62,297) | |
| Administration | 974,337 | - | - | - | (974,337) | - | (974,337) | |
| Operation and maintenance of plant | 988,066 | 2,260 | - | - | (985,806) | - | (985,806) | |
| Transportation | 454,630 | - | - | - | (454,630) | - | (454,630) | |
| | 2,633,669 | 41,895 | - | - | (2,591,774) | - | (2,591,774) | |
| Non-instructional programs | 347 | - | - | - | (347) | - | (347) | |
| Other expenses | | | | | | | | |
| Facilities acquisition | 176,179 | - | - | - | (176,179) | - | (176,179) | |
| Long-term debt interest | 369,927 | - | - | - | (369,927) | - | (369,927) | |
| AEA flowthrough | 377,231 | - | 377,231 | - | - | - | - | |
| Loss on disposal of capital assets | 1,250 | - | - | - | (1,250) | - | (1,250) | |
| Depreciation (unallocated) * | 293,858 | - | - | - | (293,858) | - | (293,858) | |
| | 1,218,445 | - | 377,231 | - | (841,214) | - | (841,214) | |
| Total governmental activities | 9,983,885 | 427,625 | 1,752,266 | - | (7,803,994) | - | (7,803,994) | |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2010

Exhibit B

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | Component Unit | |
|--|------------------|-------------------------|--|--|----------------------------|-----------------------------|----------------|------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Primary Government | | | Foundation |
| | | | | | Governmental Activities | Business Type Activities | | |
| Functions/Programs (continued) | | | | | | | | |
| Primary Government (continued) | | | | | | | | |
| Business type activities | | | | | | | | |
| Non-instructional programs | | | | | | | | |
| Food service operations | \$ 444,997 | \$ 247,579 | \$ 186,366 | \$ - | \$ (11,052) | \$ (11,052) | - | |
| Total primary government | \$ 10,428,882 | \$ 675,204 | \$ 1,938,632 | \$ - | (11,052) | (7,815,046) | - | |
| Component Unit | | | | | | | | |
| Foundation | \$ 50,763 | - | \$ - | \$ - | | \$ (50,763) | | |
| General Revenues | | | | | | | | |
| Property tax levied for | | | | | | | | |
| General purposes | | | | | | | | |
| Debt service | | | | | | | | |
| Capital outlay | | | | | | | | |
| Statewide sales, services and use tax | | | | | | | | |
| Unrestricted state grants | | | | | | | | |
| Contributions and donations | | | | | | | | |
| Unrestricted investment earnings (loss) | | | | | | | | |
| Miscellaneous | | | | | | | | |
| Capital contributions | | | | | | | | |
| Total general revenues and capital contributions | | | | | | | | |
| Change in net assets | | | | | | | | |
| Net assets, beginning of year | | | | | | | 39,823 | |
| Net assets, end of year | | | | | | | 157,791 | |
| | | | | | | | \$ 197,614 | |
| | | | | | | | \$ 82,348 | |
| | | | | | | | 3,337,472 | |
| | | | | | | | 654,495 | |
| | | | | | | | 263,752 | |
| | | | | | | | 576,640 | |
| | | | | | | | 3,187,398 | |
| | | | | | | | 2,327 | |
| | | | | | | | 10,022 | |
| | | | | | | | 41,882 | |
| | | | | | | | - | |
| | | | | | | | 8,073,988 | |
| | | | | | | | 269,994 | |
| | | | | | | | 6,492,877 | |
| | | | | | | | \$ 6,762,871 | |
| | | | | | | | 663 | |
| | | | | | | | (10,389) | |
| | | | | | | | 67,221 | |
| | | | | | | | \$ 56,832 | |
| | | | | | | | 620 | |
| | | | | | | | 8,074,651 | |
| | | | | | | | 259,605 | |
| | | | | | | | 6,560,098 | |
| | | | | | | | \$ 6,819,703 | |

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

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2010

| | <u>General</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Nonmajor Special Revenue Funds</u> | <u>Total</u> |
|--------------------------------------|--------------------|-----------------------------|-------------------------|---|--------------------|
| Assets | | | | | |
| Cash and pooled investments | \$1,655,334 | \$222,899 | \$ - | \$ 660,229 | \$2,538,462 |
| Investments with fiscal agent | - | 432,657 | - | - | 432,657 |
| Receivables | | | | | |
| Property tax | | | | | |
| Delinquent | 39,026 | - | 8,926 | 4,529 | 52,481 |
| Succeeding year | 3,098,165 | - | 667,126 | 251,549 | 4,016,840 |
| Accounts receivable | 33,990 | 43 | - | - | 34,033 |
| Income surtax | 273,311 | - | - | 117,133 | 390,444 |
| Due from other governments | 132,484 | 291,583 | 21 | 10 | 424,098 |
| Due from other funds | 13,568 | - | - | 17,018 | 30,586 |
| Total assets | <u>\$5,245,878</u> | <u>\$947,182</u> | <u>\$676,073</u> | <u>\$1,050,468</u> | <u>\$7,919,601</u> |
| Liabilities and Fund Balances | | | | | |
| Liabilities | | | | | |
| Accounts payable | \$ 329,621 | \$ - | \$ - | \$ - | \$ 329,621 |
| Salaries and benefits payable | 57,505 | - | - | - | 57,505 |
| Due to other funds | 17,018 | - | 6,144 | 10,024 | 33,186 |
| Deferred revenue | | | | | |
| Succeeding year property tax | 3,098,165 | - | 667,126 | 251,549 | 4,016,840 |
| Income surtax | 273,311 | - | - | 117,133 | 390,444 |
| Federal grants | 22,461 | - | - | - | 22,461 |
| Other | 33,861 | - | - | - | 33,861 |
| Total liabilities | <u>3,831,942</u> | <u>-</u> | <u>673,270</u> | <u>378,706</u> | <u>4,883,918</u> |
| Fund balances | | | | | |
| Reserved for | | | | | |
| Debt service | - | - | 2,803 | - | 2,803 |
| Categorical funding | 169,821 | - | - | - | 169,821 |
| Unreserved | | | | | |
| Unreserved, governmental funds | 1,244,115 | 947,182 | - | - | 2,191,297 |
| Unreserved, special revenue funds | - | - | - | 671,762 | 671,762 |
| Total fund balances | <u>1,413,936</u> | <u>947,182</u> | <u>2,803</u> | <u>671,762</u> | <u>3,035,683</u> |
| Total liabilities and fund balances | <u>\$5,245,878</u> | <u>\$947,182</u> | <u>\$676,073</u> | <u>\$1,050,468</u> | <u>\$7,919,601</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2010

Exhibit D

| | |
|---|----------------------------------|
| Total fund balances of governmental funds | \$3,035,683 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 11,812,195 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 446,766 |
| 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. | (51,895) |
| The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. | 477,620 |
| Long-term liabilities, including bonds payable, early retirement payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(8,957,498)</u> |
| Net assets of governmental activities | <u><u>\$6,762,871</u></u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

| | <u>General</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Nonmajor Special Revenue Funds</u> | <u>Total</u> |
|---------------------------------------|------------------|-----------------------------|-------------------------|---|-------------------|
| Revenues | | | | | |
| Local sources | | | | | |
| Local tax | \$3,109,045 | \$576,641 | \$ 654,495 | \$451,453 | \$ 4,791,634 |
| Tuition | 230,221 | - | - | - | 230,221 |
| Other | 60,824 | 42,419 | 459 | 147,929 | 251,631 |
| State sources | 4,159,271 | - | - | - | 4,159,271 |
| Federal sources | 829,767 | - | - | - | 829,767 |
| Total revenues | <u>8,389,128</u> | <u>619,060</u> | <u>654,954</u> | <u>599,382</u> | <u>10,262,524</u> |
| Expenditures | | | | | |
| Current | | | | | |
| Instruction | | | | | |
| Regular | 3,557,611 | - | - | 32,424 | 3,590,035 |
| Special | 1,473,976 | - | - | - | 1,473,976 |
| Other | 934,298 | - | - | 133,356 | 1,067,654 |
| | <u>5,965,885</u> | <u>-</u> | <u>-</u> | <u>165,780</u> | <u>6,131,665</u> |
| Support services | | | | | |
| Student | 153,834 | - | - | - | 153,834 |
| Instructional staff | 45,514 | - | - | - | 45,514 |
| Administration | 958,656 | - | - | - | 958,656 |
| Operation and maintenance of plant | 841,488 | - | - | 123,283 | 964,771 |
| Transportation | 374,811 | - | - | 90,472 | 465,283 |
| | <u>2,374,303</u> | <u>-</u> | <u>-</u> | <u>213,755</u> | <u>2,588,058</u> |
| Other expenditures | | | | | |
| Facilities acquisition | - | 37,500 | - | 172,994 | 210,494 |
| Long-term debt | | | | | |
| Principal | - | - | 570,000 | - | 570,000 |
| Interest and fiscal charges | - | - | 375,577 | - | 375,577 |
| AEA flowthrough | 377,231 | - | - | - | 377,231 |
| | <u>377,231</u> | <u>37,500</u> | <u>945,577</u> | <u>172,994</u> | <u>1,533,302</u> |
| Total expenditures | <u>8,717,419</u> | <u>37,500</u> | <u>945,577</u> | <u>552,529</u> | <u>10,253,025</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2010

Exhibit E

| | <u>General</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Nonmajor Special Revenue Funds</u> | <u>Total</u> |
|--|--------------------|-----------------------------|-------------------------|---|---------------------|
| Excess (deficiency) of revenues over (under) expenditures | \$ (328,291) | \$ 581,560 | \$ (290,623) | \$ 46,853 | \$ 9,499 |
| Other financing sources (uses) | | | | | |
| Interfund operating transfers in | - | - | 283,575 | - | 283,575 |
| Interfund operating transfers (out) | - | (283,575) | - | - | (283,575) |
| Total other financing sources (uses) | - | (283,575) | 283,575 | - | - |
| Net change in fund balances | (328,291) | 297,985 | (7,048) | 46,853 | 9,499 |
| Fund balance, beginning of year | <u>1,742,227</u> | <u>649,197</u> | <u>9,851</u> | <u>624,909</u> | <u>3,026,184</u> |
| Fund balance, end of year | <u>\$1,413,936</u> | <u>\$947,182</u> | <u>\$ 2,803</u> | <u>\$671,762</u> | <u>\$ 3,035,683</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2010

Exhibit F

Net change in fund balances - total governmental funds \$ 9,499

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. Capital outlay expenditures and depreciation expense in the current year are as follows:

| | | |
|------------------------------------|------------------|-----------|
| Expenditures for capital assets | \$124,787 | |
| Loss on disposal of capital assets | (1,250) | |
| Depreciation expense | <u>(428,504)</u> | (304,967) |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (8,645)

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 114,255

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 570,000

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 governmental funds, as follows:

| | | |
|-------------------------------|-----------------|-----------|
| Early retirement | (90,600) | |
| Other postemployment benefits | <u>(25,198)</u> | (115,798) |

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 governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 5,650

Change in net assets of governmental activities \$269,994

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2010

Exhibit G

| | <u>Business Type</u> <u>Activity</u> | <u>Governmental</u> <u>Activity</u> |
|---|--|--|
| | <u>Enterprise</u> <u>Fund</u> | <u>Internal</u> <u>Service</u> <u>Fund</u> |
| | <u>Nonmajor</u> <u>School</u> <u>Nutrition</u> | <u>Fund</u> |
| Assets | | |
| Cash and cash equivalents | \$ 1,885 | \$475,020 |
| Due from other fund | - | 2,600 |
| Inventories | 5,303 | - |
| Capital assets, net of accumulated depreciation | <u>56,454</u> | <u>-</u> |
| Total assets | <u>63,642</u> | <u>477,620</u> |
| Liabilities | | |
| Deferred revenue | <u>6,810</u> | <u>-</u> |
| Net Assets | | |
| Invested in capital assets | 56,454 | - |
| Unrestricted | <u>378</u> | <u>477,620</u> |
| Total net assets | <u>\$ 56,832</u> | <u>\$477,620</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit H

| | Business Type Activity | Governmental Activity |
|------------------------------------|---------------------------------|-----------------------------|
| | Enterprise Fund | |
| | Nonmajor School Nutrition | Internal Service Fund |
| Operating revenue | | |
| Local sources | | |
| Charges for service | \$247,579 | \$ - |
| Employee contributions | - | 733,420 |
| Total operating revenue | 247,579 | 733,420 |
| Operating expenses | | |
| Support services | | |
| Business administration | | |
| Salaries | 7,265 | - |
| Benefits | 2,716 | - |
| Purchased services | 1,361 | - |
| Operation and maintenance of plant | | |
| Purchased services | 818 | - |
| Total support services | 12,160 | - |
| Non-instructional programs | | |
| Food service operations | | |
| Salaries and benefits | 157,180 | - |
| Benefits | 59,318 | - |
| Supplies | 207,890 | - |
| Depreciation | 7,878 | - |
| Miscellaneous | 571 | - |
| Other enterprise | | |
| Benefits | - | 608,330 |
| Miscellaneous | - | 11,420 |
| Total non-instructional programs | 432,837 | 619,750 |
| Total operating expenses | 444,997 | 619,750 |
| Operating income (loss) | (197,418) | 113,670 |
| Non-operating revenues | | |
| Interest income | 43 | 585 |
| State sources | 4,466 | - |
| Federal sources | 181,900 | - |
| Total non-operating revenues | 186,409 | 585 |
| Net income (loss) before transfers | (11,009) | 114,255 |
| Capital contributions | 620 | - |
| Net income (loss) | (10,389) | 114,255 |
| Net assets, beginning of year | 67,221 | 363,365 |
| Net assets, end of year | \$ 56,832 | \$ 477,620 |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2010

Exhibit I

| | Business Type Activity | Governmental Activity |
|---|---------------------------------|-----------------------------|
| | Enterprise Fund | |
| | Nonmajor School Nutrition | Internal Service Fund |
| Cash flows from operating activities | | |
| Cash received from sale of services | \$ 248,819 | \$ - |
| Cash received from other operations | - | 730,820 |
| Cash payments to employees for services | (229,041) | (608,330) |
| Cash payments to suppliers for goods and services | (182,151) | (11,420) |
| Net cash provided by (used in) operating activities | (162,373) | 111,070 |
| Cash flows from non-capital financing activities | | |
| State grants received | 4,466 | - |
| Federal grants received | 153,004 | - |
| Net cash provided by non-capital financing activities | 157,470 | - |
| Cash flows from capital and related financing activities | | |
| Capital contributions | 620 | - |
| Acquisition of capital assets | (620) | - |
| Net cash used in capital and related financing activities | - | - |
| Cash flows from investing activities | | |
| Interest on investments | 43 | 585 |
| Net increase (decrease) in cash and cash equivalents | (4,860) | 111,655 |
| Cash and cash equivalents, beginning of year | 6,745 | 363,365 |
| Cash and cash equivalents, end of year | \$ 1,885 | \$475,020 |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities | | |
| Operating income (loss) | \$(197,418) | \$113,670 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities | | |
| Depreciation | 7,878 | - |
| Commodities used | 28,896 | - |
| (Increase) in inventory | (977) | - |
| (Increase) in due from other funds | - | (2,600) |
| Increase in due to other funds | 570 | - |
| Increase in deferred revenue | 1,240 | - |
| (Decrease) in accrued salaries and benefits | (2,562) | - |
| Net cash provided by (used in) operating activities | \$(162,373) | \$111,070 |
| Non-cash investing, capital and financing activities | | |

During the year ended June 30, 2010, the District received \$28,896 of federal commodities.

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2010

Exhibit J

| | <u>Private Purpose Trust Scholarships</u> |
|-----------------------------|---|
| Assets | |
| Cash and pooled investments | \$128,058 |
| Liabilities | <u>-</u> |
| Net assets | |
| Reserved for scholarships | <u>\$128,058</u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2010

Exhibit K

| | <u>Private Purpose Trust</u> <u>Scholarships</u> |
|-------------------------------|---|
| Additions | |
| Local sources | |
| Gifts and contributions | \$ 10,707 |
| Deductions | |
| Non-instructional programs | |
| Scholarships | <u>2,250</u> |
| Change in net assets | 8,457 |
| Net assets, beginning of year | <u>119,601</u> |
| Net assets, end of year | <u><u>\$128,058</u></u> |

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The North Cedar Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Mechanicsville, Stanwood, Clarence and Lowden, Iowa, and the agricultural territory in Cedar and Jones 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, North Cedar 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. North Cedar Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

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

Discretely Presented Component Unit

The North Cedar Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's opinion, the Foundation financial statements have not been audited.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as 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 that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

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

The District reports no major proprietary funds; however, it reports the following nonmajor proprietary funds.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District. Additionally, the District reports an Internal Service Fund which is used to account for the flex-benefit plan for District employees.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 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, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| Land | \$ 2,500 |
| Buildings | \$ 2,500 |
| Improvements other than buildings | \$ 2,500 |
| Intangibles | \$25,000 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | \$ 500 |
| Other furniture and equipment | \$ 2,500 |

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

| <u>Asset Class</u> | <u>Useful Life</u> |
|---------------------------|--------------------|
| Buildings | 50 years |
| Improvements to buildings | 20-50 years |
| Intangibles | 5-10 years |
| Furniture and equipment | 4-12 years |

Salaries and Benefits Payable - Payroll and related expenditures for hours worked by non-certified employees in June 2010, but not paid until July, have been accrued as liabilities.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2010. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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 federal grant proceeds, as well as property tax receivables and income surtaxes not collected within sixty days after year end. Deferred revenue in the enterprise funds consists of monies collected for lunches that have not yet been served as of June 30, 2010.

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 and the unearned revenue for monies collected for lunches that have not yet been served.

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 Balance - 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.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other

governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$323,581 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

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

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

At June 30, 2010, the District had \$432,657 invested with Bankers Trust Company, which was invested in the Goldman Sachs Financial Square Treasury Obligations Fund. These investments are valued at fair market value. The District also had investments at June 30, 2010 in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,950,939 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk. This is the risk that a security's credit rating will be downgraded or that the issuer of a security or a guarantor will default (fail to make scheduled interest and principal payments or fail to fulfill its promise to repurchase securities). The investments in the Goldman Sachs Financial Square Treasury Obligations Fund were rated Aaa by Moody's Investor Service. The District places no limit on the amount that may be invested in any one issuer. The investments in the Goldman Sachs Financial Square Treasury Obligations Fund accounted for 100% of the District's total investments.

Component Unit Investments - The Foundation had investments in mutual funds as follows:

Mutual funds \$197,614

Note 3. Due From and Due To Other Funds

Details of interfund receivables and payables at June 30, 2010 are as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|-----------------------------------|---------------------------|------------------|
| General | Non-major special revenue | |
| Non-major special revenue | Management levy | \$ 7,424 |
| Physical Plant and Equipment Levy | General | 17,018 |
| Internal Service Fund | Non-major special revenue | |
| General | Management levy | 2,600 |
| Totals | Debt Service | <u>6,144</u> |
| | | <u>\$ 33,186</u> |

The Debt Service Fund had a negative cash balance at June 30, 2010. Since Debt Service Fund monies are pooled with the General Fund, this negative cash balance is reported as interfund receivable/payable at June 30, 2010. The amounts due from the General Fund to the Physical Plant and Equipment Levy Fund is to correct a miscoding of income surtax revenue. The amounts due from the Management Levy Fund to the General Fund and Internal Service Fund are to reimburse for early retirement payments made during the year ended June 30, 2010.

Note 4. Interfund Transfers

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

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|---------------|
| Debt Service | Capital Projects | \$ 283,575 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from the Capital Projects Fund to the Debt Service Fund was for principal and interest payments on debt.

Note 5. Capital Assets

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

| <u>Governmental activities</u> | Balance, Beginning of Year | <u>Additions</u> | <u>Deletions</u> | Balance, End of Year |
|--|----------------------------------|---------------------|-------------------|----------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 148,084 | \$ - | \$ (1,250) | \$ 146,834 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 14,333,343 | - | (275,742) | 14,057,601 |
| Improvements other than buildings | 391,424 | 11,700 | - | 403,124 |
| Furniture and equipment | <u>2,288,921</u> | <u>113,087</u> | <u>-</u> | <u>2,402,008</u> |
| Total capital assets being depreciated | <u>17,013,688</u> | <u>124,787</u> | <u>(275,742)</u> | <u>16,862,733</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 3,288,719 | 263,094 | (275,742) | 3,276,071 |
| Improvements other than buildings | 345,949 | 4,728 | - | 350,677 |
| Furniture and equipment | <u>1,409,942</u> | <u>160,682</u> | <u>-</u> | <u>1,570,624</u> |
| Total accumulated depreciation | <u>5,044,610</u> | <u>428,504</u> | <u>(275,742)</u> | <u>5,197,372</u> |
| Total capital assets being depreciated, net | <u>11,969,078</u> | <u>(303,717)</u> | <u>-</u> | <u>11,665,361</u> |
| Governmental activities capital assets, net | <u>\$ 12,117,162</u> | <u>\$ (303,717)</u> | <u>\$ (1,250)</u> | <u>\$ 11,812,195</u> |
| <u>Business type activities</u> | | | | |
| Furniture and equipment | \$ 186,513 | \$ 620 | \$ (12,980) | \$ 174,153 |
| Less accumulated depreciation | <u>122,231</u> | <u>7,878</u> | <u>(12,410)</u> | <u>117,699</u> |
| Business type activities capital assets, net | <u>\$ 64,282</u> | <u>\$ (7,258)</u> | <u>\$ (570)</u> | <u>\$ 56,454</u> |

Depreciation expense was charged to the following functions:

Governmental activities

| | |
|--|-------------------|
| Instruction | |
| Regular | \$ 759 |
| Special | 2,442 |
| Other | 877 |
| Support services | |
| Instruction staff | 16,654 |
| Administration | 12,805 |
| Operation and maintenance of plant | 21,927 |
| Transportation | 78,835 |
| Non-instructional programs | <u>347</u> |
| | 134,646 |
| Unallocated | <u>293,858</u> |
| Total governmental activities depreciation expense | <u>\$ 428,504</u> |

Business-type activities

| | |
|---------------|-----------------|
| Food services | <u>\$ 7,878</u> |
|---------------|-----------------|

Note 6. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Due Within One Year |
|--------------------------------|----------------------------------|-------------------|-------------------|----------------------------|---------------------------|
| <u>Governmental Activities</u> | | | | | |
| General obligation bonds | \$ 7,755,000 | \$ - | \$ 345,000 | \$ 7,410,000 | \$ 360,000 |
| Revenue bonds | 1,495,000 | - | 225,000 | 1,270,000 | 230,000 |
| Termination benefits | 161,700 | 120,000 | 29,400 | 252,300 | 53,400 |
| Net OPEB liability | <u>-</u> | <u>25,198</u> | <u>-</u> | <u>25,198</u> | <u>-</u> |
| Totals | <u>\$ 9,411,700</u> | <u>\$ 145,198</u> | <u>\$ 599,400</u> | <u>\$ 8,957,498</u> | <u>\$ 643,400</u> |

Interest costs incurred and charged to expense on all long-term debt was \$369,927 for the year ended June 30, 2010. During the year ended June 30, 2010, the District made principal payments on total long-term debt of \$570,000.

Termination Benefits

The District offers a voluntary early retirement plan to its certified employees. An employee is deemed to be eligible for this program when they have completed at least fifteen years of contract service as a full-time certificated employee with the North Cedar Community School District and will have attained at least fifty-six years of age on or before June 30 of the current fiscal year. An employee will be deemed to be in their first year of eligibility during the fiscal year in which they meet both longevity and age criteria for the first time.

The early retirement pay for each eligible full-time certified staff member, as defined by the Master Contract or individual contract, shall be calculated based on the current salary schedule, excluding any extra-curricular, Phase II and Phase III monies. An eligible employee, upon early retirement, shall receive an early retirement benefit representing eighty-one days' pay subject to a pro-ration formula.

Additionally, an eligible employee may receive additional per diem pay for unused/accumulated sick leave based on a pro-ration formula. This separation pay shall be made in three equal payments on July 15th of the three years following early retirement; one third in July of the retirement year, one third in July of the second year and one third in July of the third year.

At June 30, 2010 the District had obligations to nine former employees for a total of \$252,300.

General Obligation Bonds

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

| Year Ending June 30, | <u>Bond Issue of June 1, 2005</u> | | | |
|----------------------------|-----------------------------------|---------------------|---------------------|----------------------|
| | Interest Rates | Principal | Interest | Total |
| 2011 | 4.00% | \$ 360,000 | \$ 302,802 | \$ 662,802 |
| 2012 | 4.00% | 380,000 | 288,402 | 668,402 |
| 2013 | 4.00% | 395,000 | 273,202 | 668,202 |
| 2014 | 4.00% | 410,000 | 257,402 | 667,402 |
| 2015 | 4.00% | 430,000 | 241,002 | 671,002 |
| 2016-2020 | 4.0-4.05% | 2,430,000 | 932,210 | 3,362,210 |
| 2021-2025 | 4.1-4.3% | <u>3,005,000</u> | <u>392,952</u> | <u>3,397,952</u> |
| Totals | | <u>\$ 7,410,000</u> | <u>\$ 2,687,972</u> | <u>\$ 10,097,972</u> |

Revenue Bonds

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

| Year Ending June 30, | <u>Bond issue of July 1, 2007</u> | | | |
|----------------------------|-----------------------------------|---------------------|-------------------|---------------------|
| | Interest Rates | Principal | Interest | Total |
| 2011 | 4.00% | \$ 230,000 | \$ 48,725 | \$ 278,725 |
| 2012 | 4.10% | 240,000 | 39,205 | 279,205 |
| 2013 | 4.20% | 255,000 | 28,930 | 283,930 |
| 2014 | 4.30% | 265,000 | 17,877 | 282,877 |
| 2015 | 4.35% | <u>280,000</u> | <u>6,090</u> | <u>286,090</u> |
| Totals | | <u>\$ 1,270,000</u> | <u>\$ 140,827</u> | <u>\$ 1,410,827</u> |

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,710,000 bonds issued July 1, 2007. The bonds were issued for the purpose of financing a portion of a school remodeling and construction project. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 49% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,410,827 at June 30, 2010. For the current year, \$282,825 of principal and interest was paid on the bonds. Total statewide sales, services and use tax revenues were \$576,641 for the year ended June 30, 2010.

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

- a) \$171,000 of the proceeds from the issuance of the revenue bonds shall be deposited into 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 the 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.

Note 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, IA, 50306-9117.

Plan members were required to contribute 4.30%, 4.10 % and 3.90% of their annual covered salary and the District was required to contribute 6.65%, 6.35% and 6.05% of annual covered payroll for the years ended June 30, 2010, 2009 and 2008 respectively. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$336,707, \$315,231 and \$283,987, respectively, equal to the required contributions for each year.

Note 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 128 active, of which 43 were excluded from the valuation, and 10 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy – The contribution requirements of the 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 which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

| | |
|--|-------------------------|
| Annual required contribution | \$ 38,804 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | <u>-</u> |
| Annual OPEB cost | 38,804 |
| Contributions made | <u>(13,606)</u> |
| Increase in net OPEB obligation | 25,198 |
| Net OPEB obligation beginning of year | <u>-</u> |
| Net OPEB obligation end of year | <u><u>\$ 25,198</u></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 \$13,606 to the medical plan. Plan members eligible for benefits contributed nothing to the medical plan.

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:

| <u>Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|-------------------|-------------------------|---|----------------------------|
| 06/30/10 | \$ 38,804 | 35.1% | \$ 25,198 |

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 \$282,796, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$282,796. The covered payroll (annual payroll of active employees covered

by the plan) was approximately \$5.1 million and the ratio of UAAL to covered payroll was 5.5%. As of June 30, 2010, there were no trust fund assets.

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

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

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

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

Note 9. Risk Management

The District has a self-funded health insurance plan for its employees. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$15,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three calendar years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$49,304 at October 31, 2008, the last date for which information is available. There was no liability for incurred and unrecorded claims reported in the plan at June 30, 2010.

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

Note 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 \$377,231 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.

Note 11. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2010, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 12. New Governmental Accounting Standards Board (GASB) Statements

The District implemented the following statements during the year ended June 30, 2010:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The effect of the adoption of this Statement to the District was to record a liability of \$25,198 for the net other postemployment benefit obligation. The actuarial accrued liability is estimated by an actuary to be \$282,796.
- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset an asset that lacks

physical substance, is nonfinancial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets. This Statement had no effect to the District since the District had no intangible assets to be reported as of June 30, 2010.

- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in the Statement also addresses hedge accounting requirements. This Statement had no effect to the District. Furthermore, Iowa Code Chapter 128.10 does not authorize districts to invest in derivative instruments.
- GASB Statement No. 58 *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It establishes requirements for recognizing and measuring the effects of the bankruptcy process on assets and liabilities, and for classifying changes in those items and related costs. The adoption of this statement had no effect to the District.

As of June 30, 2010, the GASB had issued several Statements not yet implemented by the District. The Statements which might impact the District are as follows:

- GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Issued March 2009, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to improve the usefulness of information provided to financial report users about fund balances by providing clearer, more structured fund balance clarifications, and by clarifying the definitions of existing governmental fund types. Fund balance information is among the most widely and frequently used information in state and local government financial reports. The GASB developed this standard to address the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. To reduce confusion, the new standard establishes a hierarchy of fund balance classification based primarily on the extent to which government is bound to observe spending constraints.
- GASB Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, an amendment of GASB Statement No. 43 and No. 45, issued

January 2010, will be effective for the District beginning with its year ending June 30, 2012. This Statement addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans.

- GASB Statement No. 59, Financial Instruments Omnibus, issued June 2010, will be effective for the District beginning with its year ending June 30, 2011. This Statement is intended to update and improve existing standards regarding financial reporting of certain financial instruments and external investments pools. Specifically, this Statement provides financial reporting guidance by emphasizing the applicability of SEC requirements to certain external investments pool, addressing the applicability of GASB 53, Accounting and Financial Reporting for Derivative Instruments, and applying the reporting provisions for interest-earning investment contracts of GASB 31, Accounting and Financial Reporting for Certain Investments and for External Investments Pools.

The District’s management has not yet determined the effect these Statements will have on the District’s financial statements.

Note 13. Categorical Funding

The District’s reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

| <u>Program</u> | |
|--|-------------------|
| Gifted and Talented | \$ 71,262 |
| Returning dropout and dropout prevention program | 8,995 |
| Teacher salary supplement | 47,792 |
| Iowa early intervention program | 4,773 |
| Empowerment | 197 |
| Educator quality, professional development for model core curriculum | 28,935 |
| Educator quality, professional development | <u>7,867</u> |
| | <u>\$ 169,821</u> |

Required Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
 All Governmental Funds and Enterprise Funds
 Required Supplementary Information
 For the Year Ended June 30, 2010

| | Governmental Funds | | Enterprise Fund | | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|--|---------------------|--|------------------|--|---------------------|-------------------|-------------------|--------------------------|
| | Actual | | Actual | | | Original | Final | |
| Revenues | | | | | | | | |
| Local sources | \$ 5,273,486 | | \$ 247,622 | | \$ 5,521,108 | \$ 5,882,421 | \$ 5,882,421 | \$ (361,313) |
| Intermediate sources | - | | - | | - | 4,500 | 4,500 | (4,500) |
| State sources | 4,159,271 | | 4,466 | | 4,163,737 | 5,199,119 | 5,199,119 | (1,035,382) |
| Federal sources | 829,767 | | 181,900 | | 1,011,667 | 500,000 | 500,000 | 511,667 |
| Total revenues | <u>10,262,524</u> | | <u>433,988</u> | | <u>10,696,512</u> | <u>11,586,040</u> | <u>11,586,040</u> | <u>(889,528)</u> |
| Expenditures/Expenses | | | | | | | | |
| Instruction | 6,131,665 | | - | | 6,131,665 | 7,149,803 | 7,149,803 | 1,018,138 |
| Support services | 2,588,058 | | 12,160 | | 2,600,218 | 3,795,000 | 3,795,000 | 1,194,782 |
| Non-instructional programs | - | | 432,837 | | 432,837 | 561,439 | 561,439 | 128,602 |
| Other expenditures | 1,533,302 | | - | | 1,533,302 | 1,705,477 | 1,705,477 | 172,175 |
| Total expenditures/expenses | <u>10,253,025</u> | | <u>444,997</u> | | <u>10,698,022</u> | <u>13,211,719</u> | <u>13,211,719</u> | <u>2,513,697</u> |
| Excess (deficiency) of revenues over (under) expenditures/expenses | 9,499 | | (11,009) | | (1,510) | (1,625,679) | (1,625,679) | 1,624,169 |
| Net other financing sources | - | | 620 | | 620 | - | - | 620 |
| Excess (deficiency) in revenues and other financing sources over (under) expenditures/expenses | 9,499 | | (10,389) | | (890) | (1,625,679) | (1,625,679) | 1,624,789 |
| and other financing (uses) | 3,026,184 | | 67,221 | | 3,093,405 | 2,253,497 | 2,253,497 | 839,908 |
| Balance, beginning of year | <u>\$ 3,035,683</u> | | <u>\$ 56,832</u> | | <u>\$ 3,092,515</u> | <u>\$ 627,818</u> | <u>\$ 627,818</u> | <u>\$ 2,464,697</u> |
| Balance, end of year | | | | | | | | |
| See accompanying Independent Auditor's Report. | | | | | | | | |

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2010

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend its certified budget.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

| Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---------------------------|--------------------------------|--|---|------------------------------------|--------------------------|---------------------------|---|
| 2010 | July 1, 2009 | - | \$ 282,796 | \$282,796 | 0.0% | \$ 5,111,059 | 5.5% |

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Other Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2010

Schedule 1

| | <u>Student Activity</u> | <u>Management Levy</u> | <u>Physical Plant and Equipment Levy</u> | <u>Total</u> |
|--------------------------------------|-----------------------------|----------------------------|--|--------------------|
| Assets | | | | |
| Cash and pooled investments | \$132,746 | \$222,691 | \$ 304,792 | \$ 660,229 |
| Receivables | | | | |
| Property tax | | | | |
| Delinquent | - | 2,762 | 1,767 | 4,529 |
| Succeeding year | - | 120,000 | 131,549 | 251,549 |
| Income surtaxes | - | - | 117,133 | 117,133 |
| Due from other governments | - | 6 | 4 | 10 |
| Due from other fund | - | - | 17,018 | 17,018 |
| Total assets | <u>\$132,746</u> | <u>\$345,459</u> | <u>\$ 572,263</u> | <u>\$1,050,468</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities | | | | |
| Due to other funds | \$ - | \$ 10,024 | \$ - | \$ 10,024 |
| Deferred revenue | | | | |
| Succeeding year property tax | - | 120,000 | 131,549 | 251,549 |
| Income surtaxes | - | - | 117,133 | 117,133 |
| Total liabilities | - | 130,024 | 248,682 | 378,706 |
| Fund balances | | | | |
| Unreserved fund balances | | | | |
| Undesignated | <u>132,746</u> | <u>215,435</u> | <u>323,581</u> | <u>671,762</u> |
| Total liabilities and fund balances | <u>\$132,746</u> | <u>\$345,459</u> | <u>\$ 572,263</u> | <u>\$1,050,468</u> |

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2010

Schedule 2

| | <u>Student Activity</u> | <u>Management Levy</u> | <u>Physical Plant and Equipment Levy</u> | <u>Total</u> |
|------------------------------------|-----------------------------|----------------------------|--|------------------|
| Revenues | | | | |
| Local sources | | | | |
| Local taxes | \$ - | \$199,917 | \$251,536 | \$451,453 |
| Other | <u>147,670</u> | <u>33</u> | <u>226</u> | <u>147,929</u> |
| Total revenues | <u>147,670</u> | <u>199,950</u> | <u>251,762</u> | <u>599,382</u> |
| Expenditures | | | | |
| Current | | | | |
| Instruction | | | | |
| Regular | - | 32,424 | - | 32,424 |
| Other | <u>133,356</u> | <u>-</u> | <u>-</u> | <u>133,356</u> |
| Total instruction | <u>133,356</u> | <u>32,424</u> | <u>-</u> | <u>165,780</u> |
| Support services | | | | |
| Operation and maintenance of plant | - | 121,676 | 1,607 | 123,283 |
| Transportation | <u>-</u> | <u>-</u> | <u>90,472</u> | <u>90,472</u> |
| Total support services | <u>-</u> | <u>121,676</u> | <u>92,079</u> | <u>213,755</u> |
| Other expenditures | | | | |
| Facilities acquisition | <u>-</u> | <u>-</u> | <u>172,994</u> | <u>172,994</u> |
| Total expenditures | <u>133,356</u> | <u>154,100</u> | <u>265,073</u> | <u>552,529</u> |
| Net change in fund balances | 14,314 | 45,850 | (13,311) | 46,853 |
| Fund balances, beginning of year | <u>118,432</u> | <u>169,585</u> | <u>336,892</u> | <u>624,909</u> |
| Fund balances, end of year | <u>\$132,746</u> | <u>\$215,435</u> | <u>\$323,581</u> | <u>\$671,762</u> |

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2010

Schedule 3

| Account | Balance, Beginning of Year | <u>Revenues</u> | <u>Expenditures</u> | Balance, End of Year |
|------------------------|----------------------------------|-----------------|---------------------|----------------------------|
| District-wide | | | | |
| Interest | \$ 4,158 | \$ 175 | \$ 3,267 | \$ 1,066 |
| Elementary | | | | |
| Student productions | 15,757 | 2,646 | 4,318 | 14,085 |
| Pop sales | 4,671 | 2,958 | 3,287 | 4,342 |
| Art club | 600 | - | - | 600 |
| Middle school | | | | |
| Publications | 8,595 | 9,974 | 10,485 | 8,084 |
| Pop sales | 2,415 | 3,327 | 3,500 | 2,242 |
| Student clubs | 5,401 | 6,099 | 4,817 | 6,683 |
| Cheerleading | 308 | 952 | 620 | 640 |
| Student council | 1,333 | - | - | 1,333 |
| Health education | 150 | - | 150 | - |
| Trail blazers | 7,696 | 400 | 4,440 | 3,656 |
| EPA grant | 1,311 | - | - | 1,311 |
| Drama Speech | - | 455 | - | 455 |
| High school | | | | |
| Student clubs | 83 | 173 | 96 | 160 |
| Drama/speech | 1,939 | 2,555 | 3,155 | 1,339 |
| Vocal | 5,483 | 4,440 | 1,766 | 8,157 |
| Instrumental | 847 | 5,226 | 6,050 | 23 |
| Cross country | 946 | 699 | 991 | 654 |
| Basketball | 4,842 | 9,918 | 7,654 | 7,106 |
| Rigby athletic fund | 1,861 | 14,670 | 10,204 | 6,327 |
| Volleyball | 72 | 5,460 | 4,897 | 635 |
| Football | 4,922 | 15,139 | 10,897 | 9,164 |
| Baseball/softball | 5,434 | 5,821 | 9,290 | 1,965 |
| Track | 927 | - | 753 | 174 |
| Golf | 173 | - | - | 173 |
| Wrestling | 1,429 | 4,616 | 3,193 | 2,852 |
| Cheerleading | 1,645 | 4,102 | 4,818 | 929 |
| FFA | 1,202 | - | - | 1,202 |
| National Honor Society | 474 | 4,424 | 4,657 | 241 |
| Peer counselors | 88 | - | - | 88 |

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2010

Schedule 3

| Account | Balance, End of <u>Year</u> | <u>Revenues</u> | <u>Expenditures</u> | Balance, End of <u>Year</u> |
|-------------------------|-----------------------------------|-------------------|---------------------|-----------------------------------|
| High school (continued) | | | | |
| Publications | \$ 2,715 | \$ 8,720 | \$ 1,778 | \$ 9,657 |
| Student council | 781 | 6,653 | 6,809 | 625 |
| Alumni | 3,698 | 200 | - | 3,898 |
| Music Trip | - | 2,453 | 2,449 | 4 |
| Canteen | 1,887 | - | - | 1,887 |
| Pop sales | 5,050 | 3,234 | 3,073 | 5,211 |
| Athletic pop | 937 | 2,380 | 1,584 | 1,733 |
| Math club | 515 | 165 | 160 | 520 |
| Class of | | | | |
| 2010 | 1,972 | 3,352 | 4,397 | 927 |
| 2011 | 2,165 | 6,692 | 5,663 | 3,194 |
| 2012 | 1,802 | 1,951 | - | 3,753 |
| 2013 | 1,971 | 420 | - | 2,391 |
| 2014 | 2,580 | 556 | - | 3,136 |
| 2015 | 1,160 | 128 | - | 1,288 |
| 2016 | 972 | 577 | - | 1,549 |
| 2017 | - | 856 | - | 856 |
| Business club | 4,244 | 4,335 | 3,397 | 5,182 |
| Spanish club | 1,221 | 769 | 741 | 1,249 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Totals | <u>\$ 118,432</u> | <u>\$ 147,670</u> | <u>\$ 133,356</u> | <u>\$ 132,746</u> |

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Seven Years

Schedule 4

| | Modified Accrual Basis | | | | | | |
|------------------------------------|------------------------|---------------------|---------------------|---------------------|--------------------|--------------------|--------------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> | <u>2004</u> |
| Revenues | | | | | | | |
| Local sources | | | | | | | |
| Local tax | \$ 4,791,634 | \$ 4,603,433 | \$ 4,658,388 | \$ 4,143,199 | \$3,401,906 | \$3,106,785 | \$2,730,841 |
| Tuition | 230,221 | 265,431 | 387,240 | 316,302 | 244,152 | 194,874 | 175,749 |
| Other | 251,631 | 299,801 | 402,379 | 622,830 | 567,369 | 184,044 | 193,447 |
| Intermediate sources | - | 5,000 | 3,600 | - | - | - | - |
| State sources | 4,159,271 | 4,921,920 | 4,608,140 | 4,470,751 | 4,325,048 | 3,946,757 | 3,673,241 |
| Federal sources | 829,767 | 175,112 | 177,087 | 202,397 | 203,813 | 187,672 | 301,235 |
| Total revenues | <u>\$10,262,524</u> | <u>\$10,270,697</u> | <u>\$10,236,834</u> | <u>\$ 9,755,479</u> | <u>\$8,742,288</u> | <u>\$7,620,132</u> | <u>\$7,074,513</u> |
| Expenditures | | | | | | | |
| Current | | | | | | | |
| Instruction | | | | | | | |
| Regular | \$ 3,590,035 | \$ 3,812,771 | \$ 3,744,165 | \$ 3,429,668 | \$3,173,137 | \$3,184,214 | \$3,062,973 |
| Special | 1,473,976 | 1,120,654 | 1,259,738 | 1,181,217 | 1,089,512 | 962,134 | 1,238,792 |
| Other | 1,067,654 | 1,123,930 | 771,955 | 839,603 | 799,141 | 885,192 | 544,278 |
| Support services | | | | | | | |
| Student | 153,834 | 156,380 | 158,852 | 141,787 | 138,542 | 132,330 | 131,344 |
| Instructional staff | 45,514 | 51,143 | 70,706 | 84,487 | 94,777 | 58,408 | 48,312 |
| Administration | 958,656 | 933,945 | 852,488 | 814,706 | 804,765 | 734,989 | 607,643 |
| Operation and maintenance of plant | 964,771 | 935,197 | 835,103 | 722,218 | 657,080 | 601,210 | 717,959 |
| Transportation | 465,283 | 423,014 | 392,216 | 376,169 | 345,569 | 301,780 | 250,476 |
| Central support | - | - | - | - | - | - | 96,916 |
| Non-instructional programs | - | 530 | - | - | - | 5,471 | - |
| Other expenditures | | | | | | | |
| Facilities acquisition | 210,494 | 331,730 | 3,428,718 | 8,058,800 | 1,145,123 | 131,472 | 766 |
| Long-term debt | | | | | | | |
| Principal | 570,000 | 545,000 | 315,000 | 305,000 | 285,000 | - | - |
| Interest and other charges | 375,577 | 398,327 | 413,259 | 355,003 | 365,940 | - | - |
| AEA flowthrough | 377,231 | 339,105 | 316,671 | 310,823 | 294,949 | 279,970 | 276,820 |
| Total expenditures | <u>\$10,253,025</u> | <u>\$10,171,726</u> | <u>\$12,558,871</u> | <u>\$16,619,481</u> | <u>\$9,193,535</u> | <u>\$7,277,170</u> | <u>\$6,976,279</u> |

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2010

Schedule 5

| Grantor/Program | <u>CFDA</u> | <u>Grant</u> | <u>Expenditures</u> | |
|---|---------------|---------------|---------------------|----|
| Indirect | <u>Number</u> | <u>Number</u> | | |
| U.S. Department of Agriculture | | | | |
| Iowa Department of Education | | | | |
| School Nutrition Cluster Programs | | | | |
| School Breakfast Program | 10.553 | FY10 | \$ 28,027 | |
| National School Lunch Program | 10.555 | FY10 | 153,873 | * |
| Total Department of Agriculture | | | 181,900 | |
| U.S. Department of Education | | | | |
| Iowa Department of Education | | | | |
| Title I, Part A Cluster | | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY10 | 67,552 | |
| ARRA - Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | FY10 | 14,934 | |
| | | | 82,486 | |
| Safe and Drug-free Schools and Communities-State Grants | 84.186 | FY10 | 6,104 | |
| Improving Teacher Quality State Grants | 84.367 | FY10 | 35,621 | |
| Title VI - Assessment | 84.369 | FY10 | 5,779 | |
| ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act | 84.394 | FY10 | 518,630 | |
| Total Iowa Department of Education | | | 648,620 | |
| Grant Wood Area Education Agency | | | | |
| Special Education-Grants to States | 84.027 | FY10 | 46,638 | ** |
| Career and Technical Education - Basic Grants To States | 84.048 | FY10 | 6,982 | |
| ARRA - Special Education Grants to States, Recovery Act | 84.391 | FY10 | 127,527 | ** |
| Total Area Education Agency | | | 181,147 | |
| Total Department of Education | | | 829,767 | |
| Total federal awards | | | \$1,011,667 | |

* Include \$28,896 of non-cash awards

** Total for Special Education Cluster (IDEA) is \$174,165

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the North Cedar School District and is presented on 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.

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3
Muscatine, Iowa 52761
563-264-1385

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
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Cedar 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 my report thereon dated March 2, 2011. I did not issue an opinion on the North Cedar Community School District Foundation, which is included in the District's financial statements as a discretely presented component unit, because I was not engaged to and did not audit the Foundation. Except as discussed in the preceding sentence, I conducted my 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 my audit, I considered North Cedar Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of North Cedar Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of North Cedar Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Cedar Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

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 my audit of the financial statements of the District. Since my 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.

North Cedar Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit North Cedar Community School District's responses and, accordingly, I 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 North Cedar Community School District and other parties to whom North Cedar 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.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the North Cedar Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

KAY L. CHAPMAN, CPA PC

119 West Mississippi Drive, Suite 3

Muscatine, Iowa 52761

563-264-1385

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

To the Board of Education
North Cedar Community School District

Compliance

I have audited the compliance of North Cedar 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. North Cedar 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 North Cedar Community School District's management. My responsibility is to express an opinion on North Cedar Community School District's compliance based on my audit.

I conducted my 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 I 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 North Cedar Community School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on North Cedar Community School District's compliance with those requirements.

In my opinion, North Cedar 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 North Cedar 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 my audit, I considered North Cedar 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 my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of North Cedar Community School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, I identified deficiencies in internal control over compliance I consider to be material weaknesses.

A deficiency in the District's internal control over compliance exists when the design or operation of the 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 a 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. I consider the deficiency in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs as items III-A-10, III-B-10 and III-C-10 to be material weaknesses.

North Cedar Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. While I have expressed my conclusions on the District's responses, I did not audit North Cedar Community School District's responses and, accordingly, I 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 North Cedar Community School District and other parties to whom North Cedar 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.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
March 2, 2011

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part I. Summary of the Independent Auditor's Results

1. Unqualified opinions were issued on the financial statements.
2. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
3. The audit did not disclose any non-compliance which is material to the financial statements.
4. Material weaknesses in internal control over the major programs was disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
 - CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Clustered programs:
 - CFDA Number 10.553 School Breakfast Program
 - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. North Cedar Community School District did not qualify as a low-risk auditee.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-10 Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performed the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

II-B-10 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

II-C-10 Signature Pre-printed on Checks - I noted that the District began printing checks bearing pre-printed signatures of the Board President and Board Secretary. Since the Board Secretary enters the check information into the computer system and is authorized to print the checks, this procedure negates the internal control developed by the requirement for checks to bear dual signatures.

Recommendation - I recommend that the use of the pre-printed signatures be discontinued or that procedures be altered so that the involvement of two individuals is required to issue a check. For instance, one individual could be authorized to enter and prepare the check in the accounting system and another individual be authorized to print the check.

Response - We will investigate alternatives to current procedures to provide adequate controls over the issuance of checks.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

CFDA Number 10.553 School Breakfast Program
CFDA Number 10.555 National School Lunch Program
Federal Award Year: 2010
U.S. Department of Agriculture
Passed through the Iowa Department of Education

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

CFDA Number 84.394 ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performed the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

III-B-10 Financial Statement Preparation - Financial statement preparation is the responsibility of the District. At the present time, District personnel do not have the skills necessary to prepare the District's financial statements and related note disclosures in compliance with generally accepted accounting principles (GAAP). This is not an unusual situation for small governmental entities.

Recommendation - The business manager should consider obtaining additional GAAP training through reading relevant accounting literature and/or attending professional education courses. Since GAAP reporting and disclosures change constantly, the business manager should consider taking training annually to stay up-to-date on GAAP reporting and disclosure requirements. The District should also obtain current governmental accounting, reporting and disclosure reference materials and update them as new pronouncements become effective.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We certainly understand the need for continuing education classes for all of our staff, including the business manager. However, we have a limited budget and must continually prioritize needs. We will investigate alternatives, but believe that it would not be an efficient use of District funds to get and maintain the necessary training for the business manager to comply with this recommendation. Nor do we consider hiring additional staff possessing these skills to be a feasible option.

Conclusion - Response accepted.

III-C-10 Signature Pre-printed on Checks - I noted that the District began printing checks bearing pre-printed signatures of the Board President and Board Secretary. Since the Board Secretary enters the check information into the computer system and is authorized to print the checks, this procedure negates the internal control developed by the requirement for checks to bear dual signatures.

Recommendation - I recommend that the use of the pre-printed signatures be discontinued or that procedures be altered so that the involvement of two individuals is required to issue a check. For instance, one individual could be authorized to enter and prepare the check in the accounting system and another individual be authorized to print the check.

Response - We will investigate alternatives to current procedures to provide adequate controls over the issuance of checks.

Conclusion - Response accepted.

Part IV. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2010 did not exceed the amounts budgeted.
2. Questionable Expenditures - No expenditures I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. 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.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. 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.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance 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 revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2010

| | | |
|--|------------------|-------------------|
| Beginning balance | | \$ 649,197 |
| Revenues | | |
| Statewide sales services and use tax revenue | \$ 576,641 | |
| Interest earned | 537 | |
| Miscellaneous | <u>41,882</u> | 619,060 |
| Expenditures/transfers out | | |
| School infrastructure | | |
| Other improvements | (37,500) | |
| Debt service for school infrastructure | | |
| Revenue debt | <u>(283,575)</u> | <u>(321,075)</u> |
| Ending balance | | <u>\$ 947,182</u> |

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

| | Per \$1,000 of Taxable Valuation | Property Tax Dollars |
|-----------------------------------|--|----------------------------|
| Debt service levy | \$ 1.14194 | \$ 281,826 |
| Physical plant and equipment levy | \$ 0.00119 | <u>294,815</u> |
| | | <u>\$ 576,641</u> |

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2010

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Corrective Action Plan for Federal Audit Findings
 For the Year Ended June 30, 2010

| <u>Comment Number</u> | <u>Comment Title</u> | <u>Corrective Action Plan</u> | <u>Contact Person, Title, Phone Number</u> | <u>Anticipated Date of Completion</u> |
|-----------------------|----------------------------------|---|---|---------------------------------------|
| III-A-10 | Segregation of Duties | District will investigate and implement alternative procedures to increase segregation of duties. | Jean Esbaum Business Manager (563) 452-3511 | 6/30/2011 |
| III-B-10 | Fincancial Statement Preparation | District will investigate and implement alternative procedures to increase controls | | |
| III-C-10 | Signature Pre-printed on Checks | District will investigate and implement alternative procedures to increase controls | | |

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2010

The district was not required to have a Single Audit in compliance with OMB Circular A-133 for the prior year (year ended June 30, 2009) therefore, there were no prior audit findings to report.