

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

JUNE 30, 2010

Contents

| | | <u>Page</u> |
|--|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor's Report | | 5-6 |
| Management's Discussion and Analysis (MD&A) | | 7-16 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-Wide Financial Statements: | | |
| Statement of Net Assets | A | 18 |
| Statement of Activities | B | 19 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 20 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D | 21 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E | 22 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F | 23 |
| Proprietary Fund Financial Statements: | | |
| Statement of Net Assets | G | 24 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | H | 25 |
| Statement of Cash Flows | I | 26 |
| Notes to Financial Statements | | 27-39 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund | | 42 |
| Notes to Required Supplementary Information - Budgetary Reporting | | 43 |
| Schedule of Funding Progress for the Retiree Health Plan | | 44 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Nonmajor Governmental Funds: | | |
| Combining Balance Sheet | 1 | 46 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 | 47 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 | 48 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types | 4 | 49 |
| Schedule of Expenditures of Federal Awards | 5 | 50 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u> | | 51-52 |
| 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 | | 53-54 |
| Schedule of Findings and Questioned Costs | | 55-59 |

Newton Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|---|---------------------|
| Board of Education (Before September 2009 election) | | |
| Dennis Combs | President | 2009 |
| Donna Cook | Vice President | 2011 |
| Darrin Hamilton | Board Member | 2011 |
| Joe Klingensmith | Board Member | 2011 |
| Sheri Benson | Board Member | 2009 |
| Don Poynter | Board Member | 2009 |
| Greg Davis | Board Member | 2009 |
| Board of Education (After September 2009 election) | | |
| Dennis Combs | President | 2013 |
| Donna Cook | Vice President | 2011 |
| Darrin Hamilton | Board Member | 2011 |
| Joe Klingensmith | Board Member | 2011 |
| Melissa Hintz | Board Member | 2011 |
| Don Poynter | Board Member | 2013 |
| Andrew Elbert | Board Member | 2013 |
| School Officials | | |
| Steve McDermott | Superintendent | 2010 |
| Gayle Isaac | Director of Business Services District Secretary/Treasurer | 2010 |
| Terry Rickers | Attorney | Indefinite |
| Ahlers and Cooney P.C. | Attorney | Indefinite |

Newton Community School District

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Certified Public Accountants
(a professional corporation)
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District, Newton, Iowa as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

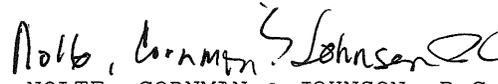
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Newton Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2011 on our consideration of Newton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 42 through 44 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

January 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Newton 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 \$28,177,710 in fiscal year 2009 to \$27,315,385 in fiscal year 2010, while General Fund expenditures increased from \$27,827,649 in fiscal 2009 to \$28,163,112 in fiscal 2010.
- The District's General Fund undesignated, unreserved fund balance decreased from \$2,730,131 in fiscal 2009 to \$1,658,466 in fiscal 2010.
- The District financial management goals include maintaining a solvency ratio between 5% and 10%. As of the year ended June 30, 2010, the District has a 6.07% solvency ratio.
- Interest earnings in the General Fund alone decreased for a third consecutive year. In 2008 interest garnered \$109,695, in 2009 interest earnings were \$28,169, and in 2010 they were \$4,042.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting a schedule of funding progress for the retiree health plan.

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

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

Figure A-1
Newton Community School District Annual Financial Report

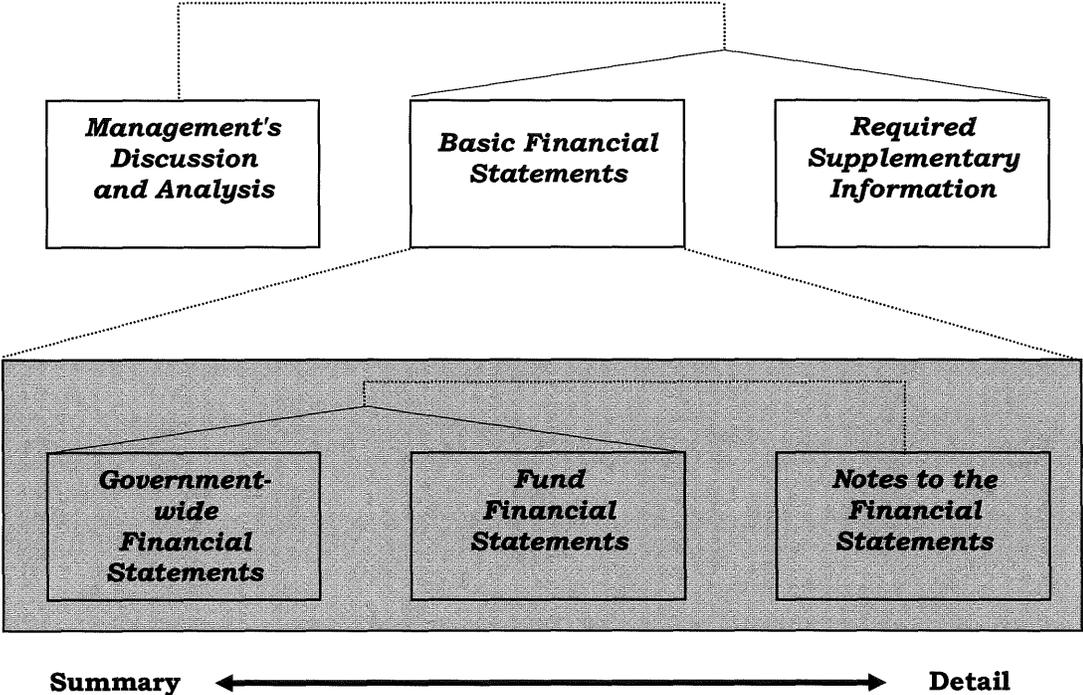


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

| | Governmental | | Business-type | | Total | | Total |
|--|---------------|------------|---------------|---------|------------|------------|----------|
| | Activities | | Activities | | District | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Current and other assets | \$ 18,738,396 | 18,229,936 | 328,686 | 117,929 | 19,067,082 | 18,347,865 | 3.92% |
| Capital assets | 30,845,793 | 31,723,907 | 104,752 | 109,384 | 30,950,545 | 31,833,291 | -2.77% |
| Total assets | 49,584,189 | 49,953,843 | 433,438 | 227,313 | 50,017,627 | 50,181,156 | -0.33% |
| Long-term liabilities | 14,082,779 | 15,459,274 | 3,819 | 2,326 | 14,086,598 | 15,461,600 | -8.89% |
| Other liabilities | 11,533,568 | 10,617,006 | - | 125 | 11,533,568 | 10,617,131 | 8.63% |
| Total liabilities | 25,616,347 | 26,076,280 | 3,819 | 2,451 | 25,620,166 | 26,078,731 | -1.76% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 17,460,793 | 16,468,907 | 104,752 | 109,384 | 17,565,545 | 16,578,291 | 5.96% |
| Restricted | 4,743,170 | 4,492,655 | - | - | 4,743,170 | 4,492,655 | 5.58% |
| Unrestricted | 1,763,879 | 2,916,001 | 324,867 | 115,478 | 2,088,746 | 3,031,479 | -31.10% |
| Total net assets | \$ 23,967,842 | 23,877,563 | 429,619 | 224,862 | 24,397,461 | 24,102,425 | 1.22% |

The District's combined net assets increased by 1.22%, or \$295,036 from the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings, and equipment), net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$250,515, or 5.58% from the prior year. The increase was primarily a result of the District's increase in the Special Revenue, Physical Plant and Equipment Levy fund balance.

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 \$942,733 or 31.10%. This decrease in unrestricted net assets was primarily a result of the District's General Fund balance decreasing during the year.

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

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business-type Activities | | Total District | | Total Change |
|---|-------------------------|------------|--------------------------|-----------|----------------|------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 997,751 | 1,036,673 | 687,351 | 749,790 | 1,685,102 | 1,786,463 | -5.67% |
| Operating grants, contributions and restricted interest | 6,019,049 | 4,251,524 | 777,710 | 714,534 | 6,796,759 | 4,966,058 | 36.86% |
| General revenues: | | | | | | | |
| Property tax | 9,823,495 | 9,442,334 | - | - | 9,823,495 | 9,442,334 | 4.04% |
| Income surtax | 500,611 | 523,371 | - | - | 500,611 | 523,371 | -4.35% |
| Statewide sales and services tax | 1,972,733 | 1,899,682 | - | - | 1,972,733 | 1,899,682 | 3.85% |
| Unrestricted state grants | 12,363,450 | 15,008,438 | - | - | 12,363,450 | 15,008,438 | -17.62% |
| Unrestricted investment earnings | 30,357 | 107,579 | 161 | 445 | 30,518 | 108,024 | -71.75% |
| Other | 163,371 | 212,498 | 12,409 | - | 175,780 | 212,498 | -17.28% |
| Total revenues | 31,870,817 | 32,482,099 | 1,477,631 | 1,464,769 | 33,348,448 | 33,946,868 | -1.76% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | 20,500,920 | 19,839,111 | - | - | 20,500,920 | 19,839,111 | 3.34% |
| Support services | 8,493,213 | 8,437,319 | 13,774 | 14,473 | 8,506,987 | 8,451,792 | 0.65% |
| Non-instructional programs | 6,279 | 5,739 | 1,259,100 | 1,359,892 | 1,265,379 | 1,365,631 | -7.34% |
| Other expenses | 2,780,126 | 3,503,928 | - | - | 2,780,126 | 3,503,928 | -20.66% |
| Total expenses | 31,780,538 | 31,786,097 | 1,272,874 | 1,374,365 | 33,053,412 | 33,160,462 | -0.32% |
| Changes in net assets | 90,279 | 696,002 | 204,757 | 90,404 | 295,036 | 786,406 | -62.48% |
| Beginning Net Assets | 23,877,563 | 23,181,561 | 224,862 | 134,458 | 24,102,425 | 23,316,019 | 3.37% |
| Ending Net Assets | \$ 23,967,842 | 23,877,563 | 429,619 | 224,862 | 24,397,461 | 24,102,425 | 1.22% |

In fiscal 2010, local tax and unrestricted state grants account for 69.62% of the revenue from governmental activities while charges for service and operating grants and contributions account for 99.15% of the revenue from business type activities.

The District's total revenues were approximately \$33.35 million of which approximately \$31.87 million was for governmental activities and approximately \$1.48 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.76% decrease in revenues and a .32% decrease in expenses. Unrestricted state grants decreased approximately \$2,644,985. The expenses increased in the negotiated salary and benefits but other expenses decreased for a net decrease in the District's total expenses.

Governmental Activities

Revenues for governmental activities were \$31,870,817 and expenses were \$31,780,538. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

| | Total Cost of Services | | | Net Cost of Services | | |
|-------------------|------------------------|-------------------|-------------------|----------------------|-------------------|-------------------|
| | 2010 | 2009 | Change 2009-10 | 2010 | 2009 | Change 2009-10 |
| Instruction | \$ 20,500,920 | 19,839,111 | 3.34% | 14,743,698 | 15,729,159 | -6.27% |
| Support services | 8,493,213 | 8,437,319 | 0.66% | 8,468,915 | 8,408,233 | 0.72% |
| Non-instructional | 6,279 | 5,739 | 9.41% | 6,279 | 5,739 | 9.41% |
| Other expenses | 2,780,126 | 3,503,928 | -20.66% | 1,544,846 | 2,354,769 | -34.40% |
| Totals | <u>\$ 31,780,538</u> | <u>31,786,097</u> | <u>-0.02%</u> | <u>24,763,738</u> | <u>26,497,900</u> | <u>-6.54%</u> |

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$997,751.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$6,019,049.
- The net cost of governmental activities was financed with \$9,823,495 in local property tax, \$500,611 in income surtax, \$1,972,733 in statewide sales and services tax, \$12,363,450 in unrestricted state grants, \$30,357 in interest income, and \$163,371 in other revenues.

Business-Type Activities

Revenues for business type activities during the year ended June 30, 2010 were \$1,477,631 representing a .88% increase over the prior year, while expenses totaled \$1,272,874, a 7.38% decrease from 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.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,789,971, below last year's ending fund balances of \$7,257,320.

Governmental Fund Highlights

- The District's decrease in its General Fund financial position from \$2,829,457 in fiscal 2009 to \$1,981,730 in fiscal 2010 is the product of many factors. Revenues decreased primarily due to decreased state funding, a result of the Governor's 10% across the board budget cut in October. This cut occurred well after salaries and benefit's had been negotiated. With more than 75% of the District's General Fund expenditures being salaries and benefits the District had no viable means to make meaningful cuts during the fiscal year. The District spent down its cash reserves to deal with the funding cut. In addition the District received \$1,943,200 in American Recovery and Reinvestment Act (ARRA) funds; a large portion of these ARRA funds were used by the State to cover reductions in State Aid funding. Expenditures exceeded revenues resulting in a decrease in the District's financial position.
- The Physical Plant and Equipment Levy Fund balance decreased from \$153,028 in fiscal 2009 to \$317,664 in fiscal 2010. The District follows a five-year capital improvement plan that is reviewed annually.

- The Capital Projects Fund balance increased from \$1,550,793 to \$2,515,320 primarily due to lack of any major construction projects in the District.
- The Debt Service Fund balance decreased from \$1,826,828 to \$1,103,713. Included in the fund balance at year end is a required reserve of \$865,000 as part of the issuance of the sales tax revenue bonds.
- The Management Fund balance decreased from \$682,304 to \$633,444. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits.
- The Student Activity Fund balance increased from \$214,910 to \$238,100 due to the variance of student activities from year to year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$224,862 at June 30, 2009 to \$429,619 at June 30, 2010, representing an increase of 91.06%. This increase was due primarily to decreases in expenditures from the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Newton Community School District amended its annual budget one time to reflect additional expenditures associated with the completion of the driveway project.

The District's revenues were \$3,335,090 less than budgeted revenues, a variance of 9.10%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated. State aid was reduced by 10.00% in fiscal year 2010.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$30.95 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.77% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,429,438.

The original cost of the District's capital assets was \$59,322,592. Governmental funds account for \$58,748,863 with the remainder of \$573,729 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$2,485,148 at June 30, 2009, compared to \$2,320,346 reported at June 30, 2010. This decrease resulted from depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental | | Business-type | | Total | | Total |
|-------------------------|---------------|------------|---------------|---------|------------|------------|---------|
| | Activities | | Activities | | District | | |
| | June 30, | | June 30, | | June 30, | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| Land | \$ 1,161,495 | 1,161,495 | - | - | 1,161,495 | 1,161,495 | 0.00% |
| Buildings | 26,247,295 | 26,953,856 | - | - | 26,247,295 | 26,953,856 | -2.62% |
| Land improvements | 2,320,346 | 2,485,148 | - | - | 2,320,346 | 2,485,148 | -6.63% |
| Machinery and equipment | 1,116,657 | 1,123,408 | 104,752 | 109,834 | 1,221,409 | 1,233,242 | -0.96% |
| Total | \$ 30,845,793 | 31,723,907 | 104,752 | 109,834 | 30,950,545 | 31,833,741 | -2.77% |

Long-Term Debt

At June 30, 2010, the District had \$14,086,598 in general obligation and other long-term debt outstanding. This represents a decrease of 8.89% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$9,550,000 at June 30, 2010.

The District also had outstanding revenue bonds of \$3,835,000 at June 30, 2010.

The District had outstanding early retirement of \$353,801 at June 30, 2010.

The District had outstanding compensated absences of \$139,291 at June 30, 2010.

Figure A-7
Outstanding Long-Term Obligations

| | Governmental | | Business-type | | Total | | Total |
|--------------------------|---------------|------------|---------------|-------|------------|------------|---------|
| | Activities | | Activities | | District | | |
| | June 30, | | June 30, | | June 30, | | |
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2009-10 |
| General obligation bonds | \$ 9,550,000 | 10,555,000 | - | - | 9,550,000 | 10,555,000 | -9.52% |
| Revenue bonds | 3,835,000 | 4,700,000 | - | - | 3,835,000 | 4,700,000 | -18.40% |
| Early retirement | 353,801 | - | - | - | 353,801 | - | 100.00% |
| Compensated absences | 139,291 | 79,600 | - | - | 139,291 | 79,600 | 74.99% |
| Net OPEB liability | 204,687 | 124,674 | 3,819 | 2,326 | 208,506 | 127,000 | 100.00% |
| Total | \$ 14,082,779 | 15,459,274 | 3,819 | 2,326 | 14,086,598 | 15,461,600 | -8.89% |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's certified enrollment decreased by 65.0 students in the fall of 2009 to 3,202.2. Under Iowa's school funding formula, the district's funding is highly dependent upon the student enrollment and future enrollment stability is critical. Additionally, the October 1, 2010 certified enrollment decreased to 3,102.04.
- The 2009-10 regular program district cost (RPDC) was \$5,546, a 4% increase from 2008-2009 of \$5,333. The 2010-11 RPDC is \$5,768, a 2% increase.
- A Statewide Voluntary Preschool Grant was awarded to the District for 2010-2011 school year with the students being included for supplementary weighting and additional funding for the subsequent year.

- The District has been managing its cash reserves such that even during these trying times it has not had to avail itself of Iowa Schools Cash Anticipatory Program for short term borrowing.

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 Gayle Isaac, Director of Business Services, Newton Community School District, 807 S 6th Ave W, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

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

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 5,913,556 | 280,467 | 6,194,023 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 164,591 | - | 164,591 |
| Succeeding year | 10,457,850 | - | 10,457,850 |
| Income surtax | 497,691 | - | 497,691 |
| Accounts | - | 23,912 | 23,912 |
| Interfund | 589,412 | - | 589,412 |
| Due from other governments | 1,080,762 | - | 1,080,762 |
| Inventories | 34,534 | 24,307 | 58,841 |
| Capital assets, net of accumulated depreciation | 30,845,793 | 104,752 | 30,950,545 |
| TOTAL ASSETS | 49,584,189 | 433,438 | 50,017,627 |
| LIABILITIES | | | |
| Interfund payable | 589,412 | - | 589,412 |
| Accounts payable | 10,982 | - | 10,982 |
| Salaries and benefits payable | 392,490 | - | 392,490 |
| Accrued interest payable | 82,834 | - | 82,834 |
| Deferred revenue: | | | |
| Succeeding year property tax | 10,457,850 | - | 10,457,850 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| General obligation bonds | 1,040,000 | - | 1,040,000 |
| Revenue bonds | 900,000 | - | 900,000 |
| Early retirement payable | 353,801 | - | 353,801 |
| Compensated absences | 139,291 | - | 139,291 |
| Portion due after one year: | | | |
| General obligation bonds | 8,510,000 | - | 8,510,000 |
| Revenue bonds | 2,935,000 | - | 2,935,000 |
| Net OPEB liability | 204,687 | 3,819 | 208,506 |
| TOTAL LIABILITIES | 25,616,347 | 3,819 | 25,620,166 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 17,460,793 | 104,752 | 17,565,545 |
| Restricted for: | | | |
| Categorical funding | 288,730 | - | 288,730 |
| Management levy | 279,643 | - | 279,643 |
| Physical plant and equipment levy | 317,664 | - | 317,664 |
| Other special revenue purposes | 238,100 | - | 238,100 |
| Debt service | 1,103,713 | - | 1,103,713 |
| Capital projects | 2,515,320 | - | 2,515,320 |
| Unrestricted | 1,763,879 | 324,867 | 2,088,746 |
| TOTAL NET ASSETS | \$ 23,967,842 | 429,619 | 24,397,461 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|---------------------------------------|----------------------|----------------------------|--|--|---------------------------------|---------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted Interest | Govern- mental Activities | Business- Type Activities | |
| Functions/Programs: | | | | | | |
| Governmental activities: | | | | | | |
| Instruction: | | | | | | |
| Regular instruction | \$ 13,332,401 | 340,269 | 4,162,065 | (8,830,067) | - | (8,830,067) |
| Special instruction | 4,325,143 | 127,594 | 596,801 | (3,600,748) | - | (3,600,748) |
| Other instruction | 2,843,376 | 505,590 | 24,903 | (2,312,883) | - | (2,312,883) |
| | <u>20,500,920</u> | <u>973,453</u> | <u>4,783,769</u> | <u>(14,743,698)</u> | <u>-</u> | <u>(14,743,698)</u> |
| Support services: | | | | | | |
| Student | 1,003,153 | - | - | (1,003,153) | - | (1,003,153) |
| Instructional staff | 976,636 | - | - | (976,636) | - | (976,636) |
| Administration | 3,002,099 | - | - | (3,002,099) | - | (3,002,099) |
| Operation and maintenance of plant | 2,491,845 | - | - | (2,491,845) | - | (2,491,845) |
| Transportation | 1,019,480 | 24,298 | - | (995,182) | - | (995,182) |
| | <u>8,493,213</u> | <u>24,298</u> | <u>-</u> | <u>(8,468,915)</u> | <u>-</u> | <u>(8,468,915)</u> |
| Non-instructional programs: | | | | | | |
| Food service operations | 6,279 | - | - | (6,279) | - | (6,279) |
| Other expenditures: | | | | | | |
| Facilities acquisitions | 158,007 | - | - | (158,007) | - | (158,007) |
| Long-term debt interest | 471,238 | - | - | (471,238) | - | (471,238) |
| AEA flowthrough | 1,235,280 | - | 1,235,280 | - | - | - |
| Depreciation(unallocated)* | 915,601 | - | - | (915,601) | - | (915,601) |
| | <u>2,780,126</u> | <u>-</u> | <u>1,235,280</u> | <u>(1,544,846)</u> | <u>-</u> | <u>(1,544,846)</u> |
| Total governmental activities | <u>31,780,538</u> | <u>997,751</u> | <u>6,019,049</u> | <u>(24,763,738)</u> | <u>-</u> | <u>(24,763,738)</u> |
| Business type activities: | | | | | | |
| Support services: | | | | | | |
| Instructional staff | 1,900 | - | - | - | (1,900) | (1,900) |
| Administration | 11,874 | - | - | - | (11,874) | (11,874) |
| | <u>13,774</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(13,774)</u> | <u>(13,774)</u> |
| Non-instructional programs: | | | | | | |
| Food service operations | 1,259,100 | 687,351 | 777,710 | - | 205,961 | 205,961 |
| Total business-type activities | <u>1,272,874</u> | <u>687,351</u> | <u>777,710</u> | <u>-</u> | <u>192,187</u> | <u>192,187</u> |
| Total | \$ <u>33,053,412</u> | <u>1,685,102</u> | <u>6,796,759</u> | <u>(24,763,738)</u> | <u>192,187</u> | <u>(24,571,551)</u> |
| General Revenues: | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | \$ 8,582,353 | - | 8,582,353 |
| Capital outlay | | | | 640,762 | - | 640,762 |
| Debt service | | | | 600,380 | - | 600,380 |
| Income surtax | | | | 500,611 | - | 500,611 |
| Statewide sales and services tax | | | | 1,972,733 | - | 1,972,733 |
| Unrestricted state grants | | | | 12,363,450 | - | 12,363,450 |
| Unrestricted investment earnings | | | | 30,357 | 161 | 30,518 |
| Other | | | | 163,371 | 12,409 | 175,780 |
| Total general revenues | | | | <u>24,854,017</u> | <u>12,570</u> | <u>24,866,587</u> |
| Changes in net assets | | | | 90,279 | 204,757 | 295,036 |
| Net assets beginning of year | | | | <u>23,877,563</u> | <u>224,862</u> | <u>24,102,425</u> |
| Net assets end of year | | | | \$ <u>23,967,842</u> | <u>429,619</u> | <u>24,397,461</u> |

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | General | Capital Projects | Debt Service | Other Nonmajor Governmental Funds | Total |
|--|----------------------|---------------------|------------------|--|-------------------|
| ASSETS | | | | | |
| Cash and pooled investments | \$ 1,466,050 | 1,207,718 | 1,680,688 | 1,559,100 | 5,913,556 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 131,998 | - | 10,198 | 22,395 | 164,591 |
| Succeeding year | 8,701,568 | - | 598,875 | 1,157,407 | 10,457,850 |
| Income surtax | 497,691 | - | - | - | 497,691 |
| Due from other governments | 360,333 | 720,429 | - | - | 1,080,762 |
| Interfund | - | 587,173 | - | 2,239 | 589,412 |
| Inventories | 34,534 | - | - | - | 34,534 |
| TOTAL ASSETS | \$ 11,192,174 | 2,515,320 | 2,289,761 | 2,741,141 | 18,738,396 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 6,710 | - | - | 4,272 | 10,982 |
| Salaries and benefits payable | 2,236 | - | - | 390,254 | 392,490 |
| Interfund | 2,239 | - | 587,173 | - | 589,412 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 8,701,568 | - | 598,875 | 1,157,407 | 10,457,850 |
| Income surtax | 497,691 | - | - | - | 497,691 |
| Total liabilities | 9,210,444 | - | 1,186,048 | 1,551,933 | 11,948,425 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Categorical funding | 288,730 | - | - | - | 288,730 |
| Debt service | - | 2,515,320 | 1,103,713 | - | 3,619,033 |
| Inventories | 34,534 | - | - | - | 34,534 |
| Unreserved | 1,658,466 | - | - | 1,189,208 | 2,847,674 |
| Total fund balances | 1,981,730 | 2,515,320 | 1,103,713 | 1,189,208 | 6,789,971 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 11,192,174 | 2,515,320 | 2,289,761 | 2,741,141 | 18,738,396 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | | |
|--|-----------|---------------------------------|
| Total fund balances of governmental funds (page 20) | \$ | 6,789,971 |
| 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 in the governmental funds. | | 30,845,793 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | | 497,691 |
| 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. | | (82,834) |
| Long-term liabilities, including general obligation bonds payable, revenue bonds payable, compensated absences, and other postemployment benefits payable, are not due and payable in the current period, and therefore, are not reported in the governmental funds. | | <u>(14,082,779)</u> |
| Net assets of governmental activities (page 18) | \$ | <u><u>23,967,842</u></u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | General | Capital Projects | Debt Service | Other Nonmajor Governmental Funds | Total |
|--|---------------------|---------------------|------------------|--|-------------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 8,340,665 | 1,972,733 | 600,380 | 1,339,144 | 12,252,922 |
| Tuition | 328,426 | - | - | - | 328,426 |
| Other | 264,085 | 1,708 | 22,817 | 574,443 | 863,053 |
| Intermediate sources | 24,903 | - | - | - | 24,903 |
| State sources | 15,615,359 | - | 412 | 940 | 15,616,711 |
| Federal sources | 2,740,885 | - | - | - | 2,740,885 |
| Total revenues | <u>27,314,323</u> | <u>1,974,441</u> | <u>623,609</u> | <u>1,914,527</u> | <u>31,826,900</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular | 12,447,458 | - | - | 445,287 | 12,892,745 |
| Special | 4,330,367 | - | - | - | 4,330,367 |
| Other | 2,366,061 | - | - | 475,271 | 2,841,332 |
| | <u>19,143,886</u> | <u>-</u> | <u>-</u> | <u>920,558</u> | <u>20,064,444</u> |
| Support services: | | | | | |
| Student | 935,840 | - | - | 65,821 | 1,001,661 |
| Instructional staff | 832,741 | - | - | 150,902 | 983,643 |
| Administration | 2,855,386 | 70 | - | 77,402 | 2,932,858 |
| Operation and maintenance of plant | 2,300,268 | - | - | 185,426 | 2,485,694 |
| Transportation | 859,711 | - | - | 211,166 | 1,070,877 |
| | <u>7,783,946</u> | <u>70</u> | <u>-</u> | <u>690,717</u> | <u>8,474,733</u> |
| Non-instructional programs: | | | | | |
| Food service operations | - | - | - | 6,279 | 6,279 |
| Other expenditures: | | | | | |
| Facilities acquisitions | - | - | - | 158,007 | 158,007 |
| Long-term debt: | | | | | |
| Principal | - | - | 1,870,000 | - | 1,870,000 |
| Interest and fiscal charges | - | - | 486,568 | - | 486,568 |
| AEA flowthrough | 1,235,280 | - | - | - | 1,235,280 |
| | <u>1,235,280</u> | <u>-</u> | <u>2,356,568</u> | <u>158,007</u> | <u>3,749,855</u> |
| Total expenditures | <u>28,163,112</u> | <u>70</u> | <u>2,356,568</u> | <u>1,775,561</u> | <u>32,295,311</u> |
| Excess (deficiency) of revenues over (under) expenditures | (848,789) | 1,974,371 | (1,732,959) | 138,966 | (468,411) |
| Other financing sources (uses): | | | | | |
| Proceeds from disposal of equipment | 1,062 | - | - | - | 1,062 |
| Transfer in | - | - | 1,009,844 | - | 1,009,844 |
| Transfer out | - | (1,009,844) | - | - | (1,009,844) |
| Total other financing sources (uses) | <u>1,062</u> | <u>(1,009,844)</u> | <u>1,009,844</u> | <u>-</u> | <u>1,062</u> |
| Net change in fund balances | (847,727) | 964,527 | (723,115) | 138,966 | (467,349) |
| Fund balance beginning of year | <u>2,829,457</u> | <u>1,550,793</u> | <u>1,826,828</u> | <u>1,050,242</u> | <u>7,257,320</u> |
| Fund balance end of year | <u>\$ 1,981,730</u> | <u>2,515,320</u> | <u>1,103,713</u> | <u>1,189,208</u> | <u>6,789,971</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 22) \$ (467,349)

**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. Depreciation expense, capital outlay expenditures and loss on disposal of capital assets in the current year are as follows:

| | | |
|------------------------------------|----------------|-----------|
| Expenditures for capital assets | \$ 537,859 | |
| Depreciation expense | (1,413,250) | |
| Loss on disposal of capital assets | <u>(2,723)</u> | (878,114) |

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 43,917

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. 1,870,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 15,330

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

| | | |
|-------------------------------|-----------------|------------------|
| Early retirement | \$ (353,801) | |
| Compensated absences | (59,691) | |
| Other postemployment benefits | <u>(80,013)</u> | <u>(493,505)</u> |

Changes in net assets of governmental activities (page 19) \$ 90,279

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | <u>School</u> <u>Nutrition</u> |
|--|-----------------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 280,467 |
| Accounts receivable | 23,912 |
| Inventories | 24,307 |
| Capital assets, net of accumulated depreciation | 104,752 |
| TOTAL ASSETS | <u>433,438</u> |
| LIABILITIES | |
| Net OPEB liability | 3,819 |
| TOTAL LIABILITIES | <u>3,819</u> |
| NET ASSETS | |
| Invested in capital assets | 104,752 |
| Unrestricted | 324,867 |
| TOTAL NET ASSETS | <u>\$ 429,619</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | School Nutrition |
|------------------------------|---------------------|
| OPERATING REVENUE: | |
| Local sources: | |
| Charges for services | \$ 687,351 |
| Miscellaneous | 12,409 |
| | 699,760 |
| OPERATING EXPENSES: | |
| Support services: | |
| Instructional staff: | |
| Services | 190 |
| Supplies | 1,710 |
| Administration: | |
| Services | 11,874 |
| | 13,774 |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 491,100 |
| Benefits | 118,715 |
| Services | 1,977 |
| Supplies | 631,120 |
| Depreciation | 16,188 |
| | 1,259,100 |
| TOTAL OPERATING EXPENSES | 1,272,874 |
| OPERATING LOSS | (573,114) |
| NON-OPERATING REVENUES: | |
| State sources | 13,025 |
| Federal sources | 764,685 |
| Interest income | 161 |
| TOTAL NON-OPERATING REVENUES | 777,871 |
| Change in net assets | 204,757 |
| Net assets beginning of year | 224,862 |
| Net assets end of year | \$ 429,619 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

| | School Nutrition |
|---|---------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 684,621 |
| Cash received from miscellaneous operating activities | 12,409 |
| Cash payments to employees for services | (608,322) |
| Cash payments to suppliers for goods or services | (538,047) |
| Net cash used in operating activities | (449,339) |
| Cash flows from non-capital financing activities: | |
| State grants received | 13,025 |
| Federal grants received | 668,114 |
| Net cash provided by non-capital financing activities | 681,139 |
| Cash flows from capital financing activities: | |
| Acquisition of capital assets | (11,556) |
| Cash flows from investing activities: | |
| Interest on investments | 161 |
| Net increase in cash and cash equivalents | 220,405 |
| Cash and cash equivalents at beginning of year | 60,062 |
| Cash and cash equivalents at end of year | \$ 280,467 |
| Reconciliation of operating loss to net cash used in operating activities: | |
| Operating loss | \$ (573,114) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | |
| Commodities consumed | 96,571 |
| Depreciation | 16,188 |
| Decrease in inventories | 12,378 |
| Increase in accounts receivable | (2,730) |
| Decrease in accounts payable | (125) |
| Increase in other postemployment benefits | 1,493 |
| Net cash used in operating activities | \$ (449,339) |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$96,571.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

NEWTON COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

(1) Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Newton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Newton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

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

The 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 the following nonmajor proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

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

| Asset Class | Amount |
|---------------------------------|---------|
| Land | \$ 500 |
| Buildings | 500 |
| Land improvements | 500 |
| Intangible assets | 100,000 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 500 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|--------------------------|-----------------------------------|
| Buildings | 50 years |
| Land improvements | 20 years |
| Intangible assets | 2-10 years |
| Machinery and equipment: | 5-12 years |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

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

(2) Cash and Pooled Investments

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

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

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$5,481,178 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Transfers

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

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|---------------------|
| Debt Service | Capital Projects | <u>\$ 1,009,844</u> |

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

(4) Capital Assets

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

| | <u>Balance</u> | | <u>Balance</u> | |
|--|----------------------|------------------|------------------|-------------------|
| | <u>Beginning of</u> | | <u>End</u> | |
| | <u>Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>of Year</u> |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 1,161,495 | - | - | 1,161,495 |
| Total capital assets not being depreciated | <u>1,161,495</u> | <u>-</u> | <u>-</u> | <u>1,161,495</u> |
| Capital assets being depreciated: | | | | |
| Buildings | 39,858,707 | 44,238 | - | 39,902,945 |
| Land improvements | 4,635,791 | - | - | 4,635,791 |
| Machinery and equipment | 12,823,413 | 493,621 | 268,402 | 13,048,632 |
| Total capital assets being depreciated | <u>57,317,911</u> | <u>537,859</u> | <u>268,402</u> | <u>57,587,368</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 12,904,851 | 750,799 | - | 13,655,650 |
| Land improvements | 2,150,643 | 164,802 | - | 2,315,445 |
| Machinery and equipment | 11,700,005 | 497,649 | 265,679 | 11,931,975 |
| Total accumulated depreciation | <u>26,755,499</u> | <u>1,413,250</u> | <u>265,679</u> | <u>27,903,070</u> |
| Total capital assets being depreciated, net | <u>30,562,412</u> | <u>(875,391)</u> | <u>2,723</u> | <u>29,684,298</u> |
| Governmental activities capital assets, net | <u>\$ 31,723,907</u> | <u>(875,391)</u> | <u>2,723</u> | <u>30,845,793</u> |
| | | | | |
| | <u>Balance</u> | | <u>Balance</u> | |
| | <u>Beginning</u> | | <u>End</u> | |
| | <u>of Year</u> | <u>Increases</u> | <u>Decreases</u> | <u>of Year</u> |
| Business-type activities: | | | | |
| Machinery and equipment | \$ 562,173 | 11,556 | - | 573,729 |
| Less accumulated depreciation | 452,789 | 16,188 | - | 468,977 |
| Business-type activities capital assets, net | <u>\$ 109,384</u> | <u>(4,632)</u> | <u>-</u> | <u>104,752</u> |

Depreciation expense was charged by the District as follows:

| | | |
|--|--|---------------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | | \$ 319,032 |
| Special | | 1,371 |
| Other | | 33,822 |
| Support services: | | |
| Instructional staff | | 788 |
| Operation and maintenance of plant | | 1,216 |
| Transportation | | 141,420 |
| | | <u>497,649</u> |
| Unallocated depreciation | | <u>915,601</u> |
| Total governmental activities depreciation expense | | <u>\$ 1,413,250</u> |
| Business-type activities: | | |
| Food services | | <u>\$ 16,188</u> |

(5) Long-Term Liabilities

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

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|---------------------------|---------------------------------|----------------|------------------|---------------------------|---------------------------|
| Governmental activities: | | | | | |
| General obligation bonds | \$ 10,555,000 | - | 1,005,000 | 9,550,000 | 1,040,000 |
| Revenue bonds | 4,700,000 | - | 865,000 | 3,835,000 | 900,000 |
| Early retirement | - | 353,801 | - | 353,801 | 353,801 |
| Compensated absences | 79,600 | 139,291 | 79,600 | 139,291 | 139,291 |
| Net OPEB liability | 124,674 | 80,013 | - | 204,687 | - |
| Total | <u>\$ 15,459,274</u> | <u>573,105</u> | <u>1,949,600</u> | <u>14,082,779</u> | <u>2,433,092</u> |
| | | | | | |
| | | | | | |
| Business type activities: | | | | | |
| Net OPEB liability | \$ 2,326 | 1,493 | - | 3,819 | - |

General Obligation Bonds

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

| Year Ending June 30, | Bond Issue of March 5, 2007 | | | Bond Issue of March 4, 2008 | | | Total | |
|----------------------------|-----------------------------|--------------|----------|-----------------------------|--------------|----------|--------------|-----------|
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest | Principal | Interest |
| 2011 | 3.80 % \$ | 455,000 | 160,493 | 2.50 % \$ | 585,000 | 154,730 | 1,040,000 | 315,223 |
| 2012 | 3.80 | 475,000 | 143,203 | 2.75 | 605,000 | 140,105 | 1,080,000 | 283,308 |
| 2013 | 3.80 | 495,000 | 125,153 | 2.75 | 625,000 | 123,468 | 1,120,000 | 248,621 |
| 2014 | 3.80 | 515,000 | 106,343 | 2.80 | 660,000 | 106,280 | 1,175,000 | 212,623 |
| 2015 | 3.80 | 530,000 | 86,773 | 2.90 | 685,000 | 87,800 | 1,215,000 | 174,573 |
| 2016 | 3.80 | 550,000 | 66,633 | 3.00 | 710,000 | 67,935 | 1,260,000 | 134,568 |
| 2017 | 3.85 | 575,000 | 45,733 | 3.10 | 725,000 | 46,635 | 1,300,000 | 92,368 |
| 2018 | 3.90 | 605,000 | 23,595 | 3.20 | 755,000 | 24,160 | 1,360,000 | 47,755 |
| Total | | \$ 4,200,000 | 757,926 | | \$ 5,350,000 | 751,113 | \$ 9,550,000 | 1,509,039 |

Revenue Bonds

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

| Year Ending June 30, | Bond Issue of August 1, 1998 | | | |
|----------------------------|------------------------------|--------------|----------|-----------|
| | Interest Rates | Principal | Interest | Total |
| 2011 | 2.95 % \$ | 900,000 | 113,133 | 1,013,133 |
| 2012 | 2.95 | 935,000 | 86,583 | 1,021,583 |
| 2013 | 2.95 | 980,000 | 59,000 | 1,039,000 |
| 2014 | 2.95 | 1,020,000 | 30,090 | 1,050,090 |
| Total | | \$ 3,835,000 | 288,806 | 4,123,806 |

The District has pledged future local option (statewide) sales and services tax revenues to repay the \$8,650,000 bonds issued in February 2004. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option (statewide) sales and services tax revenues received by the District and are payable through 2014. 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 required 50.88% of the local option (statewide) sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$4,123,806. For the current year, principal and interest paid on the bonds was \$1,003,650 and local option sales and services tax revenues were \$1,972,733.

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

- a) \$865,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the

bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.

- b) All proceeds from the local option sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees and administration. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each employee's base salary, depending on the individual's classification, calculated by using the current year salary schedule, less any other additional pay. In addition, a portion of unused sick leave is included in the early retirement stipend. Early retirement benefits expensed during the year ended June 30, 2010 totaled \$353,801.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary for the years ended June 30, 2010, 2009 and 2008. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$1,238,554, \$1,180,121 and \$1,075,240 respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical, prescription drug and dental benefits for retirees and their spouses. There are 318 active and 32 retired members in the plan. Participants must be age 55 or older at retirement.

The medical, prescription drug, and dental coverage is provided through a fully insured plan with ISEBA. Retirees under age 65 pay the same premium for the medical, prescription drug, and dental benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

| | |
|--|--------------------------|
| Annual required contribution | \$ 266,000 |
| Interest on net OPEB obligation | 6,350 |
| Adjustment to annual required contribution | (4,844) |
| Annual OPEB cost | <u>267,506</u> |
| Contributions made | (186,000) |
| Increase in net OPEB obligation | <u>81,506</u> |
| Net OPEB obligation beginning of year | <u>127,000</u> |
| Net OPEB obligation end of year | <u><u>\$ 208,506</u></u> |

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2009.

For the year ended June 30, 2010, the District contributed \$186,000 to the medical and dental plan. Plan members eligible for benefits contributed \$254,000, or 57.7% of the premium costs.

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

| Year Ended | Annual OPEB Cost | Percentage of Annual OPEB Cost Contributed | Net OPEB Obligation |
|---------------|------------------|--|---------------------|
| June 30, 2010 | \$ 267,506 | 69.53% | \$ 208,506 |

Funded Status and Funding Progress - As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$2.124 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.124 million.

The covered payroll (annual payroll of active employees covered by the plan) was approximately \$18,971,192 and the ratio of the UAAL to covered payroll was 11.20%. 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 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 the 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 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, 2008 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions includes a 5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate.

Mortality rates are from the RP2000 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 termination factors used in the IPERS Actuarial Report as of June 30, 2007.

Projected claim costs of the medical plan are \$669 per month for retirees less than age 65. The salary increase rate was assumed to be 4% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The

Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, disability and life insurance. District contributions to ISEBA for the year ended June 30, 2010 were \$2,146,426.

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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,235,280 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.

(10) Categorical Funding

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

| Program | Amount |
|--|------------|
| Home school assistance program | \$ 58,834 |
| Gifted and talented | 8,571 |
| Dropout and dropout prevention | 19,265 |
| Iowa early intervention | 25,779 |
| Educator quality, basic salary | 115,436 |
| Educator quality, professional development | 19,476 |
| Professional development for model core curriculum | 19,664 |
| Market factor incentives | 21,705 |
| Total | \$ 288,730 |

Newton Community School District

REQUIRED SUPPLEMENTARY INFORMATION

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

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------|------------------|-------------------|-------------------|-------------------|--------------------------------|
| | Funds | Fund | | Original | Final | |
| | Actual | Actual | | | | |
| Revenues: | | | | | | |
| Local sources | \$ 13,444,401 | 706,735 | 14,151,136 | 14,297,104 | 14,297,104 | (145,968) |
| Intermediate sources | 24,903 | - | 24,903 | 50,000 | 50,000 | (25,097) |
| State sources | 15,616,711 | 13,025 | 15,629,736 | 20,912,517 | 20,912,517 | (5,282,781) |
| Federal sources | 2,740,885 | 757,871 | 3,498,756 | 1,380,000 | 1,380,000 | 2,118,756 |
| Total revenues | <u>31,826,900</u> | <u>1,477,631</u> | <u>33,304,531</u> | <u>36,639,621</u> | <u>36,639,621</u> | <u>(3,335,090)</u> |
| Expenditures/Expenses: | | | | | | |
| Instruction | 20,064,444 | - | 20,064,444 | 20,410,000 | 20,410,000 | 345,556 |
| Support services | 8,474,733 | 13,774 | 8,488,507 | 9,193,500 | 9,193,500 | 704,993 |
| Non-instructional programs | 6,279 | 1,259,100 | 1,265,379 | 1,635,000 | 1,635,000 | 369,621 |
| Other expenditures | 3,749,855 | - | 3,749,855 | 3,947,450 | 3,947,450 | 197,595 |
| Total expenditures/expenses | <u>32,295,311</u> | <u>1,272,874</u> | <u>33,568,185</u> | <u>35,185,950</u> | <u>35,185,950</u> | <u>1,617,765</u> |
| Excess(deficiency)of revenues over(under)expenditures/expenses | (468,411) | 204,757 | (263,654) | 1,453,671 | 1,453,671 | (1,717,325) |
| Other financing sources, net | 1,062 | - | 1,062 | 5,000 | 5,000 | (3,938) |
| Excess(deficiency)of revenues and other financing sources over(under) expenditures/expenses | (467,349) | 204,757 | (262,592) | 1,458,671 | 1,458,671 | (1,721,263) |
| Balance beginning of year | <u>7,257,320</u> | <u>224,862</u> | <u>7,482,182</u> | <u>7,026,386</u> | <u>7,026,386</u> | <u>455,796</u> |
| Balance end of year | <u>\$ 6,789,971</u> | <u>429,619</u> | <u>7,219,590</u> | <u>8,485,057</u> | <u>8,485,057</u> | <u>(1,265,467)</u> |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

NEWTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN

REQUIRED SUPPLEMENTARY INFORMATION

| For Year Ended June 30, | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|-------------------------|--------------------------|-------------------------------|---------------------------------------|---------------------------|--------------------|-----------------------|---|
| 2009 | July 1, 2008 | \$ - | \$ 2,124,000 | \$ 2,124,000 | 0.00% | \$ 18,965,687 | 11.20% |
| 2010 | July 1, 2008 | - | 2,124,000 | 2,124,000 | 0.00% | 18,971,192 | 11.20% |

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

OTHER SUPPLEMENTARY INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

| | Special Revenue Funds | | | Total |
|--|-----------------------|---------------------|--|--|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Other Nonmajor Governmental Funds |
| ASSETS | | | | |
| Cash and pooled investments | \$ 1,012,179 | 240,064 | 306,857 | 1,559,100 |
| Receivables: | | | | |
| Property tax | | | | |
| Delinquent | 11,519 | - | 10,876 | 22,395 |
| Succeeding year | 484,989 | - | 672,418 | 1,157,407 |
| Due from other funds | - | - | 2,239 | 2,239 |
| TOTAL ASSETS | \$ 1,508,687 | 240,064 | 992,390 | 2,741,141 |
| LIABILITIES AND FUND EQUITY | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | 1,964 | 2,308 | 4,272 |
| Salaries and benefits payable | 390,254 | - | - | 390,254 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 484,989 | - | 672,418 | 1,157,407 |
| Total liabilities | 875,243 | 1,964 | 674,726 | 1,551,933 |
| Unreserved fund balances | 633,444 | 238,100 | 317,664 | 1,189,208 |
| TOTAL LIABILITIES AND FUND EQUITY | \$ 1,508,687 | 240,064 | 992,390 | 2,741,141 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| | Special Revenue Funds | | | Total |
|--|-----------------------|---------------------|--|--|
| | Mangement Levy | Student Activity | Physical Plant and Equipment Levy | Other Nonmajor Governmental Funds |
| REVENUES: | | | | |
| Local sources: | | | | |
| Local tax | \$ 698,382 | - | 640,762 | 1,339,144 |
| Other | 48,288 | 502,688 | 23,467 | 574,443 |
| State sources | 500 | - | 440 | 940 |
| TOTAL REVENUES | 747,170 | 502,688 | 664,669 | 1,914,527 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular | 445,287 | - | - | 445,287 |
| Other | - | 475,271 | - | 475,271 |
| Support services: | | | | |
| Student | 65,821 | - | - | 65,821 |
| Instructional staff | 5,417 | 2,471 | 143,014 | 150,902 |
| Administration | 71,122 | 1,756 | 4,524 | 77,402 |
| Operation and maintenance of plant | 161,086 | - | 24,340 | 185,426 |
| Transportation | 41,018 | - | 170,148 | 211,166 |
| Non-instructional programs: | | | | |
| Food service operations | 6,279 | - | - | 6,279 |
| Other expenditures: | | | | |
| Facilities acquisition | - | - | 158,007 | 158,007 |
| TOTAL EXPENDITURES | 796,030 | 479,498 | 500,033 | 1,775,561 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (48,860) | 23,190 | 164,636 | 138,966 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES | (48,860) | 23,190 | 164,636 | 138,966 |
| FUND BALANCE BEGINNING OF YEAR | 682,304 | 214,910 | 153,028 | 1,050,242 |
| FUND BALANCE END OF YEAR | \$ 633,444 | 238,100 | 317,664 | 1,189,208 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-----------------------------|---------------------------------|----------|-------------------|---------------------------|
| Aurora Heights Elementary | \$ 5,999 | 4,622 | 3,946 | 6,675 |
| Berg Elementary | 3,314 | 1,744 | 2,374 | 2,684 |
| Emerson Hough Elementary | 2,272 | 1,551 | 2,432 | 1,391 |
| Woodrow Wilson Elementary | 8,561 | 13,982 | 19,072 | 3,471 |
| Thomas Jefferson Elementary | 16 | - | - | 16 |
| Berg Middle School: | | | | |
| Band | 2,490 | 1,957 | 2,351 | 2,096 |
| Orchestra | 498 | 1,287 | 782 | 1,003 |
| Athletics | 5,294 | - | 188 | 5,106 |
| Yearbook | 1,383 | 6,367 | 7,550 | 200 |
| Other Clubs | 29,455 | 5,107 | 7,014 | 27,548 |
| Basic and Beyond | 328 | - | - | 328 |
| Newton High School: | | | | |
| Band | 12,304 | 17,834 | 23,895 | 6,243 |
| Orchestra | 2,424 | 622 | 1,023 | 2,023 |
| Athletics | 70,179 | 312,242 | 276,407 | 106,014 |
| FFA | 35,567 | 30,797 | 29,386 | 36,978 |
| Newtonia Yearbook | - | 32,612 | 32,612 | - |
| Other Clubs | 34,826 | 71,964 | 70,466 | 36,324 |
| | | | | |
| Total | \$ 214,910 | 502,688 | 479,498 | 238,100 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NEWTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 FOR THE LAST SEVEN YEARS

| | Modified Accrual Basis | | | | | | |
|------------------------------------|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Years Ended June 30, | | | | | | |
| | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | | | | |
| Local sources: | | | | | | | |
| Local tax | \$ 12,252,922 | 11,719,479 | 11,851,436 | 12,410,072 | 11,752,090 | 11,721,050 | 11,362,868 |
| Tuition | 328,426 | 308,713 | 358,973 | 407,365 | 389,737 | 453,358 | 412,233 |
| Other | 863,053 | 1,033,755 | 1,385,806 | 1,446,704 | 1,215,597 | 1,083,872 | 1,117,614 |
| Intermediate sources | 24,903 | 2,780 | 3,026 | 37,042 | - | - | - |
| State sources | 15,616,711 | 18,319,956 | 17,244,967 | 16,453,692 | 15,439,232 | 14,795,545 | 14,091,309 |
| Federal sources | 2,740,885 | 1,058,659 | 645,206 | 687,711 | 607,179 | 640,338 | 638,873 |
| Total | \$ 31,826,900 | 32,443,342 | 31,489,414 | 31,442,586 | 29,403,835 | 28,694,163 | 27,622,897 |
| Expenditures: | | | | | | | |
| Instruction: | | | | | | | |
| Regular | \$ 12,892,745 | 13,642,927 | 12,346,172 | 11,900,595 | 11,302,885 | 11,020,249 | 10,613,601 |
| Special | 4,330,367 | 4,159,947 | 4,156,274 | 4,180,153 | 4,018,027 | 3,758,206 | 3,992,418 |
| Other | 2,841,332 | 1,820,753 | 2,518,259 | 2,423,583 | 2,301,863 | 2,279,455 | 1,957,337 |
| Support services: | | | | | | | |
| Student | 1,001,661 | 958,135 | 873,075 | 1,054,028 | 1,158,342 | 1,324,277 | 1,539,283 |
| Instructional staff | 983,643 | 1,004,424 | 1,030,576 | 1,021,096 | 824,532 | 537,635 | 397,022 |
| Administration | 2,932,858 | 2,844,321 | 2,791,821 | 2,803,015 | 2,492,461 | 2,094,346 | 2,217,113 |
| Operation and maintenance of plant | 2,485,694 | 2,737,257 | 2,491,188 | 2,441,837 | 2,660,013 | 2,311,969 | 2,228,373 |
| Transportation | 1,070,877 | 923,833 | 1,084,928 | 1,008,545 | 1,027,112 | 955,630 | 903,706 |
| Non-instructional programs | 6,279 | 5,739 | 6,294 | 8,912 | 7,357 | 18,262 | 19,239 |
| Other expenditures: | | | | | | | |
| Facilities acquisitions | 158,007 | 1,914,869 | 1,542,778 | 1,052,457 | 2,535,681 | 3,777,744 | 967,623 |
| Long-term debt: | | | | | | | |
| Principal | 1,870,000 | 1,745,000 | 1,655,000 | 1,620,000 | 1,565,000 | 1,540,000 | 740,150 |
| Interest and other charges | 486,568 | 582,902 | 742,917 | 790,155 | 847,201 | 881,928 | 679,812 |
| AEA flow-through | 1,235,280 | 1,149,159 | 1,087,516 | 1,044,205 | 973,735 | 938,061 | 946,198 |
| Total | \$ 32,295,311 | 33,489,266 | 32,326,798 | 31,348,581 | 31,714,209 | 31,437,762 | 27,201,875 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|---|----------------|-----------------|-------------------------|
| INDIRECT: | | | |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 10 | \$ 103,469 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 10 | 654,228 * |
| | | | <u>757,697</u> |
| TEAM NUTRITION GRANT | 10.574 | FY 10 | <u>174</u> |
| ARRA - SCHOOL LUNCH EQUIPMENT GRANTS STABILIAZATION | 10.579 | FY 10 | <u>6,814</u> |
| DEPARTMENT OF EDUCATION: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES | 84.010 | FY 10 | 284,271 |
| TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES, RECOVERY ACT | 84.389 | FY 10 | 91,080 |
| | | | <u>375,351</u> |
| SPECIAL EDUCATION - HIGH COSTS (PART B) | 84.027 | FY 09 | 23,248 ** |
| SPECIAL EDUCATION - FUSION READING | 84.027 | FY 10 | 11,194 ** |
| SPECIAL EDUCATION - TRANSITION PLANNING | 84.027 | FY 10 | 1,058 ** |
| | | | <u>35,500</u> |
| SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS | 84.186 | FY 10 | <u>8,269</u> |
| IMPROVING TEACHER QUALITY STATE GRANTS | 84.367 | FY 10 | <u>101,546</u> |
| ARRA - STATE FISCAL STABILIZATION FUNDS(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT | 84.394 | FY 10 | <u>1,460,100</u> |
| VOCATIONAL EDUCATION - BASIC GRANTS TO STATES | 84.048 | FY 10 | <u>21,042</u> |
| SPECIAL EDUCATION CLUSTER: | | | |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B) | 84.027 | FY 10 | 176,095 ** |
| SPECIAL EDUCATION - GRANTS TO STATES(PART B), RECOVERY ACT | 84.391 | FY 10 | 385,206 |
| | | | <u>561,301</u> |
| NATIONAL ENDOWMENT FOR THE ARTS: | | | |
| IOWA ARTS COUNCIL: | | | |
| PROMOTION OF THE ARTS - PARTNERSHIP AGREEMENTS (BIG YELLOW SCHOOL BUS) | 45.025 | FY 10 | <u>800</u> |
| TOTAL | | | <u>\$ 3,328,594</u> |

* Includes \$96,571 of non-cash awards.

** Total for CFDA Number 84.027 is \$211,595.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of the
Newton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Newton Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 26, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Newton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Newton Community School District's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on test 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.

Newton Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Newton Community School District's responses and, accordingly, we express no opinion on them.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

January 26, 2011

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of
Newton Community School District

Compliance

We have audited the compliance of Newton 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. Newton 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 Newton Community School District's management. Our responsibility is to express an opinion on Newton Community School District's compliance based on our audit.

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

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

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

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

A significant deficiency is deficiency, or combination of deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-10 to be significant deficiency.

Newton Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Newton Community School District's responses and, accordingly, we express no opinion on them.

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 26, 2011

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

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Individual Programs:
 - CFDA Number 84.367 - Improving Teacher Quality State Grants (Title IIA)
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act
 - Clustered Programs:
 - Title I Cluster
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies
 - Special Education Cluster
 - CFDA Number 84.027 - Special Education Grants to States (Part B)
 - CFDA Number 84.027 - Special Education - High Costs (Part B)
 - CFDA Number 84.027 - Special Education - Fusion Reading
 - CFDA Number 84.027 - Special Education - Transition Planning
 - CFDA Number 84.391 - ARRA - Special Education Grants to States (Part B), Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Newton Community School District qualified as a low-risk auditee.

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Grant Coding - We noted during our audit, that when expenditures for the special education - High Cost Part B, Fusion Reading, and Transitional Planning projects were posted, expenses were not always properly posted to these projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The Business Office will be more diligent to ensure correct coding is being done.

Conclusion - Response accepted.

II-B-10 Board Policies - We noted during our audit the District has not updated their board policies as required by Department of Education. The policies are to be reviewed and updated every 5 years.

Recommendation - The District should review their board policies in place and update or implement the necessary policies.

Response - This has been accomplished for the January 2011 Department of Education site visit.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.027 - Special Education - High Costs (Part B)
CFDA Number 84.027 - Special Education - Fusion Reading
CFDA Number 84.027 - Special Education - Transition Planning
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Grant Coding - We noted during our audit, that when expenditures for the special education - high cost part b, fusion reading, and transitional planning projects were posted, expenses were not always properly posted to these projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper

coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - The Business Office will endeavor to ensure that buildings and departments are correctly coding expenses.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

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

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

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

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

| Name, Title and Business Connection | Transaction Description | Amount |
|---|-------------------------|--------|
| Arthur Ergenbright, Paraprofessional Owner of Ergenbright Sports Apparel | Sports apparel | 7,243 |

The above transactions between the District and the paraprofessional appear to create a conflict of interest. Chapter 301.28 of the Code of Iowa states in part, "A school director, officer or teacher shall not act as agent for the purchase of school textbooks or school supplies, including sports apparel or equipment, in any transaction..." The purchase of sports apparel from the paraprofessional's business appears to be in violation of this code section.

Recommendation - The District should contact its attorney regarding this matter to determine the legality of these transactions and if any corrective action is required.

Response - The District will have a conversation with the individual. The result will be the individual will no longer work for the District or the District will no longer do business with the individual's company.

Conclusion - Response accepted.

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

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

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

- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales and Services Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

| | | | |
|--|------------------|----|------------------|
| Beginning Balance | | \$ | - |
| Statewide sales and services tax revenue | | | 1,972,733 |
| Expenditures/transfers out: | | | |
| Debt service for school infrastructure: | | | |
| Revenue debt | <u>1,009,914</u> | | <u>1,009,914</u> |
| Ending balance | | \$ | <u>962,819</u> |

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

| | <u>Per \$1000 of Taxable Valuation</u> | <u>Property Tax Dollars</u> |
|-----------------------------------|--|---------------------------------|
| Physical plant and equipment levy | \$ 0.67000 | \$ 430,037 |

- IV-M-10 Student Activity Fund - During our audit issues arose about the properness of certain receipts/expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or

organization. More specific examples of these instances of questioned items and recommendations are as follows:

We noted that there were instructional supplies and books purchased in the Student Activity Fund. These expenses do not appear to be extracurricular or co-curricular in nature and should be expenses from the General Fund. The revenues which are received related to these expenses should be accounted for in the general fund.

Response - The Business Office will communicate with the schools that the aforementioned items shall not be purchased from the Student Activity Fund. Also the Business Office will monitor more closely the accounts to ensure compliance.

Conclusion - Response accepted.