

NORTHEAST COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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Northeast Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 Election)		
Charles Corr	President	2011
Mark Neblung	Vice-President	2009
Mary Smith	Board Member	2009
Richard Krogmann	Board Member	2011
William Costello	Board Member	2011

**Board of Education
(After September 2009 Election)**

Charles Corr	President	2011
Mark Neblung	Vice-President	2013
Andy Fredrichsen	Board Member	2013
Richard Krogmann	Board Member	2011
William Costello	Board Member	2011

School Officials

Jim Cox	Superintendent	2010
Cindy McAleer	District Secretary/ Treasurer/Business Manager (Resigned February 2010)	2010
Tina Bartels	District Secretary/ Treasurer/Business Manager (Appointed February 2010)	2010
Brian Gruhn	Attorney	2010

NORTHEAST COMMUNITY SCHOOL DISTRICT

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Northeast 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 March 22, 2011 on our consideration of the Northeast Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 and Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 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 Northeast 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 an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,133,119 in fiscal 2009 to \$6,321,494 in fiscal 2010, while General Fund expenditures increased from \$6,446,201 in fiscal 2009 to \$6,462,438 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$1,015,356 in fiscal 2009 to a balance of \$874,412 in fiscal 2010, a 13.88% decrease from the prior year.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased from 16.23% for fiscal year 2009 to 12.60% for fiscal year 2010. The School Budget Review Committee recommends of a solvency ratio between 5% and 10%.

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 Northeast 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 Northeast 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 Northeast 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 presenting the Schedule of Funding Progress for the Retiree Health Plan.

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

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

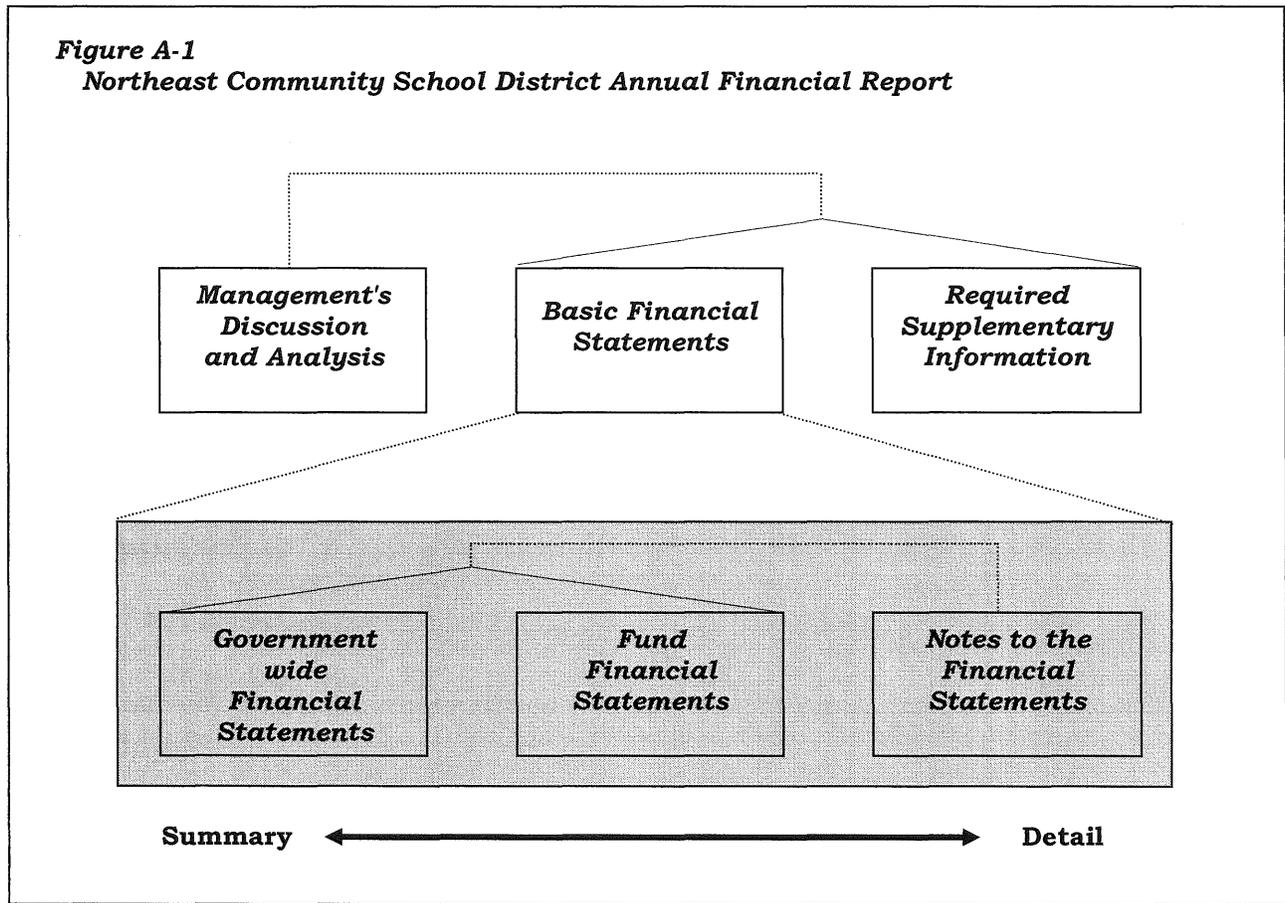


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 7,587,232	4,301,855	135,547	119,105	7,722,779	4,420,960	74.69%
Capital assets	5,566,486	5,604,850	71,595	76,462	5,638,081	5,681,312	-0.76%
Total assets	13,153,718	9,906,705	207,142	195,567	13,360,860	10,102,272	32.26%
Long-term liabilities	4,975,013	1,864,948	570	0	4,975,583	1,864,948	166.79%
Other liabilities	3,034,958	2,843,938	18,100	21,406	3,053,058	2,865,344	6.55%
Total liabilities	8,009,971	4,708,886	18,670	21,406	8,028,641	4,730,292	69.73%
Net assets:							
Invested in capital assets, net of related debt	3,764,335	3,739,902	71,595	76,462	3,835,930	3,816,364	0.51%
Restricted	394,103	264,008	0	0	394,103	264,008	49.28%
Unrestricted	985,309	1,193,909	116,877	97,699	1,102,186	1,291,608	-14.67%
Total net assets	\$ 5,143,747	5,197,819	188,472	174,161	5,332,219	5,371,980	-0.74%

The District's combined net assets decreased by 0.74%, or \$39,761, over the prior year. The largest portion of the District's net assets is the invested in capital assets, 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 by \$130,095, or 49.28% over the prior year. This was the result on an increase in the Capital Projects fund balance. This increase in Capital Projects fund balance resulted from statewide, sales, services and use tax revenue in excess of expenditures.

Unrestricted net assets are 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 by \$189,422, or 14.67%. This decrease in unrestricted net assets was the primarily result of the District's decrease in the General Fund balance.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 1,562,422	1,430,097	176,514	188,352	1,738,936	1,618,449	7.44%
Operating grants and contributions and restricted interest	1,147,995	911,330	147,265	126,978	1,295,260	1,038,308	24.75%
General revenues and transfers:							
Property tax	2,081,004	1,957,203	0	0	2,081,004	1,957,203	6.33%
Income surtax	266,689	249,692	0	0	266,689	249,692	6.81%
Statewide sales, services and use tax	416,489	459,007	0	0	416,489	459,007	-9.26%
Unrestricted state grants	1,797,539	2,159,040	0	0	1,797,539	2,159,040	-16.74%
Unrestricted investment earnings	47,237	25,994	1,463	1,981	48,700	27,975	74.08%
Other	71,784	66,049	349	843	72,133	66,892	7.84%
Transfers	0	(59,058)	0	59,058	0	0	0.00%
Total revenues and transfers	7,391,159	7,199,354	325,591	377,212	7,716,750	7,576,566	1.85%
Program expenses:							
Governmental activities:							
Instructional	4,651,626	4,389,510	0	0	4,651,626	4,389,510	5.97%
Support services	2,175,254	2,168,504	13,157	16,033	2,188,411	2,184,537	0.18%
Non-instructional programs	2,023	1,665	298,123	282,156	300,146	283,821	5.75%
Other expenses	616,328	562,188	0	0	616,328	562,188	9.63%
Total expenses	7,445,231	7,121,867	311,280	298,189	7,756,511	7,420,056	4.53%
Change in net assets	(54,072)	77,487	14,311	79,023	(39,761)	156,510	-125.40%
Beginning net assets	5,197,819	5,120,332	174,161	95,138	5,371,980	5,215,470	3.00%
Ending net assets	\$ 5,143,747	5,197,819	188,472	174,161	5,332,219	5,371,980	-0.74%

In fiscal 2010, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 61.72% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.44% of the revenue from business type activities.

The District's total revenues were approximately \$7.72 million of which approximately \$7.39 was for governmental activities and approximately \$0.33 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 1.85% in revenues and a 4.53% increase in expenses. The increase in expenses was primarily related to the increases in instructional expenses.

Governmental Activities

Revenues for governmental activities were \$7,391,159 and expenses were \$7,445,231.

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.

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	\$ 4,651,626	4,389,510	5.97%	2,160,063	2,249,990	-4.00%
Support services	2,175,254	2,168,504	0.31%	2,173,023	2,166,254	0.31%
Non-instructional programs	2,023	1,665	21.50%	(102)	1,665	-106.13%
Other expenses	616,328	562,188	9.63%	401,830	362,531	10.84%
Totals	\$ 7,445,231	7,121,867	4.54%	4,734,814	4,780,440	-0.95%

- The cost financed by users of the District's programs was \$1,562,422.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,147,995.
- The net cost of governmental activities was financed with \$2,764,182 in local taxes, \$1,797,539 in unrestricted state grants, \$47,237 in interest on investments, and \$71,784 in other general revenue.

Business type Activities

Revenues of the District's business type activities were \$325,591 and expenses were \$311,280. 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 Northeast Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$4,327,954, above last year's ending fund balances of \$1,259,377. This was the result of the District issuing Qualified School Construction Bonds during the year to finance construction of a fine arts building.

Governmental Fund Highlights

- The District's General Fund declining financial position is the product of many factors. While revenues did increase during the year, expenses increased as well, which caused the fund balance to decrease by \$140,944.
- The District's Capital Projects fund balance increased from \$29,268 in 2009 to \$3,218,099 in 2010. This was the result of the district issuing \$3,302,000 in Qualified School Construction Bonds during the year to help fund construction costs of the fine arts building.

Proprietary Fund Highlights

- School Nutrition Fund net assets increased from \$174,161 at June 30, 2009, to \$188,472 at June 30, 2010, representing an increase of 8.22%. The increase was due to increased operating grants and contributions from state and federal sources.

BUDGETARY HIGHLIGHTS

The District's revenues were \$157,051 more than budgeted revenues, a variance of 2.08%. The District received more in local and federal sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. During the year, the District adopted one budget amendment increasing other expenditures by \$3,464,755 for costs associated with construction of the fine arts building.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$5,638,081, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$335,749.

The original cost of the District's capital assets was \$11,315,440. Governmental funds account for \$11,112,788 with the remainder of \$202,652 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$193,072 at June 30, 2009 compared to \$292,151, reported at June 30, 2010. This increase resulted from architect fees paid on the fine arts building. Construction of the building will be beginning during the 2011 fiscal year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-010
Land	\$ 202,905	202,905	0	0	202,905	202,905	0.00%
Construction in progress	292,151	193,072	0	0	292,151	193,072	51.32%
Buildings	3,949,046	4,086,415	0	0	3,949,046	4,086,415	-3.36%
Land improvements	791,384	671,958	0	0	791,384	671,958	17.77%
Machinery and equipment	331,000	450,500	71,595	76,462	402,595	526,962	-23.60%
Total	\$ 5,566,486	5,604,850	71,595	76,462	5,638,081	5,681,312	-0.76%

Long-Term Debt

At June 30, 2010, the District had \$4,975,013 in general obligation and other long-term debt outstanding. This represents an increase of 166.79% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
General obligation bonds	\$ 1,510,000	1,785,000	0	0	1,510,000	1,785,000	-15.41%
Bus lease	0	79,948	0	0	0	79,948	-100.00%
Early retirement	127,673	0	0	0	127,673	0	100.00%
Qualified school construction bonds	3,302,000	0	0	0	3,302,000	0	100.00%
Net OPEB obligation	35,340	0	570	0	35,910	0	100.00%
Total	\$ 4,975,013	1,864,948	570	0	4,975,583	1,864,948	166.79%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The October 2009 enrollment showed a net decrease of 1.1 students for the District's total served enrollment. However, open enrollment still provides the District with a significant amount of its General Fund revenue.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Tina Bartels, Business Manager, Northeast Community School District, 3690 Highway 136, Goose Lake, Iowa, 52750.

NORTHEAST COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business type Activities	Total
ASSETS			
Cash and pooled investments	\$ 4,492,461	126,065	4,618,526
Receivables:			
Property tax:			
Delinquent	29,870	0	29,870
Succeeding year	2,406,713	0	2,406,713
Income surtax	232,418	0	232,418
Accounts	0	155	155
Due from other governments	425,770	0	425,770
Inventories	0	9,327	9,327
Capital assets, net of accumulated depreciation	5,566,486	71,595	5,638,081
TOTAL ASSETS	13,153,718	207,142	13,360,860
LIABILITIES			
Accounts payable	55,649	0	55,649
Salaries and benefits payable	548,409	14,450	562,859
Interest payable	8,098	0	8,098
Deferred revenue:			
Succeeding year property tax	2,406,713	0	2,406,713
Other	16,089	0	16,089
Unearned revenue	0	3,650	3,650
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	280,000	0	280,000
Early retirement	85,115	0	85,115
Portion due after one year:			
General obligation bonds	1,230,000	0	1,230,000
Early retirement	42,558	0	42,558
Qualified school construction bonds	3,302,000	0	3,302,000
Net OPEB liability	35,340	570	35,910
TOTAL LIABILITIES	8,009,971	18,670	8,028,641
NET ASSETS			
Invested in capital assets, net of related debt	3,764,335	71,595	3,835,930
Restricted for:			
Categorical funding	78,083	0	78,083
Management levy	50,657	0	50,657
Physical plant and equipment levy	1,649	0	1,649
Capital projects	208,250	0	208,250
Debt service	28,339	0	28,339
Other special revenue	27,125	0	27,125
Unrestricted	985,309	116,877	1,102,186
TOTAL NET ASSETS	\$ 5,143,747	188,472	5,332,219

SEE NOTES TO FINANCIAL STATEMENTS

NORTHEAST 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	\$ 3,047,621	1,024,076	762,056	(1,261,489)	0	(1,261,489)
Special	738,770	369,525	92,559	(276,686)	0	(276,686)
Other	865,235	166,696	76,651	(621,888)	0	(621,888)
	<u>4,651,626</u>	<u>1,560,297</u>	<u>931,266</u>	<u>(2,160,063)</u>	<u>0</u>	<u>(2,160,063)</u>
Support services:						
Student	268,096	0	0	(268,096)	0	(268,096)
Instructional staff	131,282	0	0	(131,282)	0	(131,282)
Administration	692,628	0	0	(692,628)	0	(692,628)
Operation and maintenance of plant	613,863	0	0	(613,863)	0	(613,863)
Transportation	469,385	0	2,231	(467,154)	0	(467,154)
	<u>2,175,254</u>	<u>0</u>	<u>2,231</u>	<u>(2,173,023)</u>	<u>0</u>	<u>(2,173,023)</u>
Non-instructional programs	2,023	2,125	0	102		102
Other expenditures:						
Facilities acquisitions	146,963	0	0	(146,963)	0	(146,963)
Long-term debt interest	56,082	0	0	(56,082)	0	(56,082)
AEA flowthrough	214,498	0	214,498	0	0	0
Depreciation(unallocated)*	198,785	0	0	(198,785)	0	(198,785)
	<u>616,328</u>	<u>0</u>	<u>214,498</u>	<u>(401,830)</u>	<u>0</u>	<u>(401,830)</u>
Total governmental activities	7,445,231	1,562,422	1,147,995	(4,734,814)	0	(4,734,814)
Business Type activities:						
Support services:						
Administration	10,780	0	0	0	(10,780)	(10,780)
Operation and maintenance of plant	2,377	0	0	0	(2,377)	(2,377)
Total support services	<u>13,157</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(13,157)</u>	<u>(13,157)</u>
Non-instructional programs:						
Nutrition services	298,123	176,514	147,265	0	25,656	25,656
Total business type activities	<u>311,280</u>	<u>176,514</u>	<u>147,265</u>	<u>0</u>	<u>12,499</u>	<u>12,499</u>
Total	\$ 7,756,511	1,738,936	1,295,260	(4,734,814)	12,499	(4,722,315)
General Revenues:						
Property tax levied for:						
General purposes				\$ 1,773,298	0	1,773,298
Debt service				257,875	0	257,875
Capital outlay				49,831	0	49,831
Income surtax				266,689	0	266,689
Statewide sales, services and use tax				416,489	0	416,489
Unrestricted state grants				1,797,539	0	1,797,539
Unrestricted investment earnings				47,237	1,463	48,700
Other general revenues				71,784	349	72,133
Total general revenues				<u>4,680,742</u>	<u>1,812</u>	<u>4,682,554</u>
Changes in net assets				(54,072)	14,311	(39,761)
Net assets beginning of year				5,197,819	174,161	5,371,980
Net assets end of year				\$ 5,143,747	188,472	5,332,219

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

SEE NOTES TO FINANCIAL STATEMENTS

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

	Other Nonmajor			Total
	General	Capital Projects	Governmental Funds	
ASSETS				
Cash and pooled investments	\$ 1,116,268	3,150,332	225,861	4,492,461
Receivables:				
Property tax:				
Delinquent	24,154	0	5,716	29,870
Succeeding year	1,951,050	0	455,663	2,406,713
Income surtax	232,418	0	0	232,418
Due from other governments	353,506	67,767	4,497	425,770
TOTAL ASSETS	\$ 3,677,396	3,218,099	691,737	7,587,232
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 55,018	0	631	55,649
Salaries and benefits payable	548,409	0	0	548,409
Deferred revenue:				
Succeeding year property tax	1,951,050	0	455,663	2,406,713
Income surtax	232,418	0	0	232,418
Other	16,089		0	16,089
Total liabilities	2,802,984	0	456,294	3,259,278
Fund balances:				
Reserved for:				
Categorical funding	78,083	0	0	78,083
Construction	0	3,009,849	0	3,009,849
Debt service	0	0	28,339	28,339
Unreserved	796,329	208,250	207,104	4,299,615
Total fund balances	874,412	3,218,099	235,443	4,327,954
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,677,396	3,218,099	691,737	7,587,232

SEE NOTES TO FINANCIAL STATEMENTS

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

Total fund balances of governmental funds (page 20)	\$	4,327,954
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		5,566,486
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.		(8,098)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		232,418
Long-term liabilities, including bonds payable, early retirement payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(4,975,013)</u>
Net assets of governmental activities (page 18)	\$	<u>5,143,747</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,928,772	416,489	397,932	2,743,193
Tuition	1,361,457	0	0	1,361,457
Other	142,699	31,072	202,988	376,759
State sources	2,447,266	0	195	2,447,461
Federal sources	440,984	0	0	440,984
Total revenues	<u>6,321,178</u>	<u>447,561</u>	<u>601,115</u>	<u>7,369,854</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	2,839,272	25,000	26,737	2,891,009
Special	734,869	0	0	734,869
Other	681,475	0	179,962	861,437
	<u>4,255,616</u>	<u>25,000</u>	<u>206,699</u>	<u>4,487,315</u>
Support services:				
Student	266,469	0	0	266,469
Instructional staff	131,282	0	0	131,282
Administration	679,052	0	4,169	683,221
Operation and maintenance of plant	544,284	0	45,769	590,053
Transportation	370,996	0	15,031	386,027
	<u>1,992,083</u>	<u>0</u>	<u>64,969</u>	<u>2,057,052</u>
Non-instructional programs:				
Community service operations	241	0	0	241
Food service operations	0	0	1,782	1,782
	<u>241</u>	<u>0</u>	<u>1,782</u>	<u>2,023</u>
Other expenditures:				
Facilities acquisitions	0	426,884	0	426,884
Long-term debt:				
Principal	0	0	354,948	354,948
Interest and fiscal charges	0	0	60,833	60,833
AEA flowthrough	214,498	0	0	214,498
	<u>214,498</u>	<u>426,884</u>	<u>415,781</u>	<u>1,057,163</u>
Total expenditures	<u>6,462,438</u>	<u>451,884</u>	<u>689,231</u>	<u>7,603,553</u>
Deficiency of revenues under expenditures	(141,260)	(4,323)	(88,116)	(233,699)
Other financing sources(uses):				
Transfers in	0	0	192,392	192,392
Transfers out	0	(108,846)	(83,546)	(192,392)
Qualified school construction bonds issuance	0	3,302,000	0	3,302,000
Sale of equipment	316	0	0	316
Total other financing sources(uses)	<u>316</u>	<u>3,193,154</u>	<u>108,846</u>	<u>3,302,316</u>
Net change in fund balances	(140,944)	3,188,831	20,730	3,068,617
Fund balance beginning of year	1,015,356	29,268	214,713	1,259,337
Fund balance end of year	<u>\$ 874,412</u>	<u>3,218,099</u>	<u>235,443</u>	<u>4,327,954</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

Net change in fund balances - total governmental funds (page 22) \$ 3,068,617

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

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

Capital outlays	\$ 286,357	
Depreciation expense	(324,721)	(38,364)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 20,989

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

Issued	(3,302,000)	
Repaid	354,948	(2,947,052)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it was due. 4,751

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	(127,673)	
Other postemployment benefits	(35,340)	(163,013)

Changes in net assets of governmental activities (page 19) \$ (54,072)

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 126,065
Receivables:	
Other	155
Inventories	9,327
Capital assets, net of accumulated depreciation	71,595
Total assets	207,142
LIABILITIES:	
Salaries and benefits payable	14,450
Unearned revenue	3,650
Net OPEB liability	570
Total liabilities	18,670
NET ASSETS:	
Invested in capital assets	71,595
Unrestricted	116,877
Total net assets	\$ 188,472

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 176,514
Miscellaneous	349
Total operating revenues	176,863
Operating expenses:	
Support services:	
Administration:	
Salaries	8,437
Benefits	2,343
Operation and maintenance of plant:	
Services	2,377
Total support services	13,157
Non-instructional programs:	
Food service operations:	
Salaries	89,792
Benefits	24,683
Services	1,605
Supplies	170,750
Depreciation	11,028
Total non-instructional programs	297,858
Total operating expenses	311,015
Operating loss	(134,152)
Non-operating revenues (expenses):	
State sources	3,469
Federal sources	143,796
Interest on investments	1,463
Loss on asset disposal	(265)
Total non-operating revenues (expenses)	148,463
Change in net assets	14,311
Net assets beginning of year	174,161
Net assets end of year	\$ 188,472

SEE NOTES TO FINANCIAL STATEMENTS

NORTHEAST 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	\$ 176,558
Cash received from miscellaneous operating activities	349
Cash payments to employees for services	(122,422)
Cash payments to suppliers for goods or services	(153,127)
Net cash used in operating activities	(98,642)
Cash flows from non-capital financing activities:	
State grants received	3,469
Federal grants received	113,946
Net cash provided by non-capital financing activities	117,415
Cash flows from capital and related financing activities	
Purchase of capital assets	(6,426)
Cash flows from investing activities:	
Interest on investments	1,463
Net increase in cash and cash equivalents	13,810
Cash and cash equivalents at beginning of year	112,255
Cash and cash equivalents at end of year	\$ 126,065
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (134,152)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	29,850
Depreciation	11,028
Increase in inventories	(2,521)
Increase in accounts receivable	(111)
Decrease in accounts payable	(5,724)
Increase in salaries and benefits payable	2,263
Increase in unearned revenue	155
Increase in other postemployment benefits	570
Net cash used in operating activities	\$ (98,642)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$29,850.

SEE NOTES TO FINANCIAL STATEMENTS

NORTHEAST COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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

The Northeast Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Goose Lake, Iowa, and the predominate agricultural territory in Clinton 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, Northeast 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 Northeast 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 Clinton Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary 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 the collection of statewide sales, services and use tax and capital improvement expenditures.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which

it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	100,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

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

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

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

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

At June 30, 2010 the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$9,385 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) **Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 75,000
Debt Service	Physical Plant and Equipment Levy	83,546
Physical Plant and Equipment Levy	Capital Projects	<u>33,846</u>
Total		<u>\$ 192,392</u>

The transfer from the Capital Projects Fund to the Debt Service Fund was for General Obligation bond debt relief.

The transfer from the Physical Plant and Equipment Levy Fund to the Debt Service Fund was for principal and interest due on the District's bus lease.

The transfer from the Capital Projects Fund to the Physical Plant and Equipment Levy Fund was for part of the payment of the District's bus lease the Physical Plant and Equipment Levy Fund didn't have the money for.

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 202,905	0	0	202,905
Construction in progress	193,072	275,364	176,285	292,151
Total capital assets not being depreciated	<u>395,977</u>	<u>275,364</u>	<u>176,285</u>	<u>495,056</u>
Capital assets being depreciated:				
Buildings	6,818,376	0	0	6,818,376
Land improvements	1,212,355	180,842	0	1,393,197
Machinery and equipment	2,423,294	6,436	23,571	2,406,159
Total capital assets being depreciated	<u>10,454,025</u>	<u>187,278</u>	<u>23,571</u>	<u>10,617,732</u>
Less accumulated depreciation for:				
Buildings	2,731,961	137,369	0	2,869,330
Land improvements	540,397	61,416	0	601,813
Machinery and equipment	1,972,794	125,936	23,571	2,075,159
Total accumulated depreciation	<u>5,245,152</u>	<u>324,721</u>	<u>23,571</u>	<u>5,546,302</u>
Total capital assets being depreciated, net	<u>5,208,873</u>	<u>(137,443)</u>	<u>0</u>	<u>5,071,430</u>
Governmental activities capital assets, net	<u>\$ 5,604,850</u>	<u>137,921</u>	<u>176,285</u>	<u>5,566,486</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 197,021	6,426	795	202,652
Less accumulated depreciation	120,559	11,028	530	131,057
Business type activities capital assets, net	\$ 76,462	(4,602)	265	71,595

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 13,416
Support services:	
Administration	5,262
Operation and maintenance of plant	24,130
Transportation	83,128
	<u>125,936</u>
Unallocated depreciation	198,785
	<u>198,785</u>
Total governmental activities depreciation expense	\$ 324,721
Business type activities:	
Food services	\$ 11,028
	<u>11,028</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 1,785,000	0	275,000	1,510,000	280,000
Early retirement	0	127,673	0	127,673	85,115
Bus lease	79,948	0	79,948	0	0
Qualified school construction bonds	0	3,302,000	0	3,302,000	0
Net OPEB liability	0	35,340	0	35,340	0
	<u>\$ 1,864,948</u>	<u>3,465,013</u>	<u>354,948</u>	<u>4,975,013</u>	<u>365,115</u>
Total	\$ 1,864,948	3,465,013	354,948	4,975,013	365,115
Business Type Activities:					
Net OPEB liability	\$ 0	570	0	570	0
	<u>\$ 0</u>	<u>570</u>	<u>0</u>	<u>570</u>	<u>0</u>

General Obligation Bonds Payable

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

Year Ending June 30,	Bond issue dated May 1, 2004			
	Interest Rates	Principal	Interest	Total
2011	3.00 %	\$ 280,000	48,585	328,585
2012	3.10	290,000	40,185	330,185
2013	3.25	300,000	31,195	331,195
2014	3.30	315,000	21,445	336,445
2015	3.40	325,000	11,050	336,050
Total		\$ 1,510,000	152,460	1,662,460

Qualified School Construction Bonds

During the year ended June 30, 2010, the District issued Qualified School Construction Bonds (QSCB). Annual transfers of \$177,537.25 from the Capital Projects Fund to a debt sinking fund at Gateway State Bank will be made to pay the indebtedness due September 1, 2024, of \$3,302,000.

(6) Property Lease

The District currently has a lease with the City of Goose Lake for rental of rooms for the District's alternative school. Payments are \$800 per month until either the District or the landlord terminates the lease.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$259,848, \$243,218, and \$213,890, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits

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 and prescription drug benefits for retirees and their spouses. There are 63 active and 6 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District's 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	\$ 44,769
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>44,769</u>
Contributions made	<u>(8,859)</u>
Increase in net OPEB obligation	35,910
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u>\$ 35,910</u>

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

For the year ended June 30, 2010, the District contributed \$22,872 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 44,769	19.79%	\$ 35,910

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$355,874, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$355,874. The covered payroll (annual payroll of active employees covered by the plan) was \$3,319,879, and the ratio of the UAAL to covered payroll was 10.72%. 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 event far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of July 1, 2009 actuarial valuation date, the Frozen Entry Age Actuarial Cost Method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were based upon the 2006 Society of Actuaries studies. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$214,498 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Construction Commitments

The District began construction on a Fine Arts Building during the year. As of June 30, 2010, costs of \$292,151 have been incurred on the project in architect fees. Construction costs will be capitalized as they are incurred and the project progresses.

(12) **Categorical Funding**

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

<u>Project</u>	<u>Amount</u>
LEP weighting	\$ 6,178
At risk supplemental weighting	12,642
Talented and gifted	1,141
Dropout and dropout prevention	21,907
Salary improvement program	2,285
Professional development	5,024
Market factor	4,578
Core curriculum	10,721
Market factor incentives	4,447
Teacher development academy	3,000
Empowerment	6,160
	<hr/>
Total	<u>\$ 78,083</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 4,481,409	178,326	4,659,735	4,308,600	4,308,600	351,135
Intermediate sources	0	0	0	28,000	28,000	(28,000)
State sources	2,447,461	3,469	2,450,930	3,004,394	3,004,394	(553,464)
Federal sources	440,984	143,796	584,780	197,400	197,400	387,380
Total revenues	<u>7,369,854</u>	<u>325,591</u>	<u>7,695,445</u>	<u>7,538,394</u>	<u>7,538,394</u>	<u>157,051</u>
Expenditures/expenses:						
Instruction	4,487,315	0	4,487,315	4,752,800	4,752,800	265,485
Support services	2,057,052	13,157	2,070,209	2,180,300	2,180,300	110,091
Non-instructional programs	2,023	297,858	299,881	329,300	329,300	29,419
Other expenditures	1,057,163	0	1,057,163	1,035,245	4,500,000	3,442,837
Total expenditures/expenses	<u>7,603,553</u>	<u>311,015</u>	<u>7,914,568</u>	<u>8,297,645</u>	<u>11,762,400</u>	<u>3,847,832</u>
Excess(deficiency) of revenues over(under) expenditures/expenses before other financing sources(uses)	(233,699)	14,576	(219,123)	(759,251)	(4,224,006)	4,004,883
Other financing sources, net	<u>3,302,316</u>	<u>(265)</u>	<u>3,302,051</u>	<u>0</u>	<u>0</u>	<u>3,302,051</u>
Excess(deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing sources	3,068,617	14,311	3,082,928	(759,251)	(4,224,006)	7,306,934
Balance beginning of year	<u>1,259,337</u>	<u>174,161</u>	<u>1,433,498</u>	<u>1,549,436</u>	<u>1,549,436</u>	<u>(115,938)</u>
Balance end of year	<u>\$ 4,327,954</u>	<u>188,472</u>	<u>4,516,426</u>	<u>790,185</u>	<u>(2,674,570)</u>	<u>7,190,996</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year ended June 30, 2010, the District adopted one budget amendment increasing other expenditures by \$3,464,755.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ 0	\$ 355,874	\$ 355,874	0.00%	\$ 3,319,879	10.72%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

NORTHEAST COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 177,345	22,949	933	201,227	24,634	225,861
Receivables:						
Property tax:						
Delinquent	1,295	0	716	2,011	3,705	5,716
Succeeding year	75,000	0	51,678	126,678	328,985	455,663
Due from other governments	0	4,497	0	4,497	0	4,497
TOTAL ASSETS	\$ 253,640	27,446	53,327	334,413	357,324	691,737
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 310	321	0	631	0	631
Deferred revenue:						
Succeeding year property tax	75,000	0	51,678	126,678	328,985	455,663
Total liabilities	75,310	321	51,678	127,309	328,985	456,294
Fund balances:						
Reserved for:						
Debt service	0	0	0	0	28,339	28,339
Unreserved	178,330	27,125	1,649	207,104	0	207,104
Total fund balances	178,330	27,125	1,649	207,104	28,339	235,443
TOTAL LIABILITIES AND FUND BALANCES	\$ 253,640	27,446	53,327	334,413	357,324	691,737

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST 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 Other Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 90,226	0	49,831	140,057	257,875	397,932
Other	15,669	186,053	0	201,722	1,266	202,988
State sources	44	0	24	68	127	195
TOTAL REVENUES	105,939	186,053	49,855	341,847	259,268	601,115
EXPENDITURES:						
Current:						
Instruction:						
Regular	26,737	0	0	26,737	0	26,737
Other	0	179,962	0	179,962	0	179,962
Support services:						
Administration	4,169	0	0	4,169	0	4,169
Operation and maintenance of plant	45,769	0	0	45,769	0	45,769
Student transportation	15,031	0	0	15,031	0	15,031
Non-instructional programs:						
Food service operations	1,782	0	0	1,782	0	1,782
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	354,948	354,948
Interest and fiscal charges	0	0	0	0	60,833	60,833
TOTAL EXPENDITURES	93,488	179,962	0	273,450	415,781	689,231
Excess(Deficiency) of revenues over(under) expenditures before other financing sources(uses)	12,451	6,091	49,855	68,397	(156,513)	(88,116)
Other financing sources(uses):						
Transfers in	0	0	33,846	33,846	158,546	192,392
Transfers out	0	0	(83,546)	(83,546)	0	(83,546)
Total other financing sources(uses)	0	0	(49,700)	(49,700)	158,546	108,846
Net change in fund balances	12,451	6,091	155	18,697	2,033	20,730
Fund balance beginning of year	165,879	21,034	1,494	188,407	26,306	214,713
Fund balance end of year	\$ 178,330	27,125	1,649	207,104	28,339	235,443

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NORTHEAST 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
Drama	\$ 2,348	1,530	2,049	1,829
Music	0	1,403	2,072	(669)
Cross Country	641	608	887	362
Golf	0	320	2,959	(2,639)
HS Cheerleading	(3,187)	573	1,803	(4,417)
Cheerleading Fundraiser	551	984	1,104	431
MS Boys Basketball	0	918	982	(64)
HS Boys Basketball	0	5,443	3,948	1,495
HS Boys Basketball Tournament	4,823	238	2,229	2,832
MS Football	0	596	576	20
HS Football	5,911	6,341	8,619	3,633
HS Football Fundraising	1,891	9,158	8,120	2,929
HS Boys Soccer	(6,083)	894	807	(5,996)
Baseball	(7,312)	1,908	4,404	(9,808)
Baseball Fundraising	0	2,987	1,401	1,586
MS Boys Track	330	864	322	872
HS Boys Track	(5,200)	2,353	3,080	(5,927)
Boys Track Fundraising	1,828	6,190	4,602	3,416
MS Wrestling	843	1,340	193	1,990
HS Wrestling	(2,959)	5,382	4,206	(1,783)
Wrestling Fundraising	1,203	10,146	10,566	783
MS Girls Basketball	0	339	804	(465)
HS Girls Basketball	(566)	3,652	3,492	(406)
HS Girls Basketball Fundraising	(350)	7,401	5,442	1,609
MS Volleyball	76	533	435	174
HS Volleyball	0	4,957	3,730	1,227
HS Volleyball Fundraising	933	340	689	584
HS Girls Softball	0	110	148	(38)
MS Girls Softball	0	0	333	(333)
HS Softball	(4,935)	1,840	3,602	(6,697)
HS Softball Fundraising	(2,491)	12,430	11,384	(1,445)
MS Girls Track	340	889	292	937
HS Girls Track	0	5,360	3,098	2,262
HS Girls Track Fundraising	2,092	7,566	7,142	2,516
Activity General Activities	0	11,590	2,732	8,858
Activity Interest Account	0	124	0	124
Student Center-Vending Commissions	0	743	0	743
Post Prom	1,050	2,335	2,058	1,327
Student Leadership	66	175	249	(8)
Spanish Club	12	8,807	8,819	0
Dance Team	260	0	28	232
S.S.D.D.	92	3,512	2,319	1,285
NHS Fundraising	39	742	456	325
FBLA	2,326	7,450	8,743	1,033
FCCLA	0	1,434	743	691
FTA	1,541	0	703	838
FFA	14,844	33,935	40,040	8,739
MS Student Council	799	674	99	1,374
HS Student Council	433	1,251	1,106	578
Class of 2009	(364)	372	0	8
Class of 2010	471	0	486	(15)
Class of 2011	2,494	0	1,386	1,108
Class of 2012	2,309	0	0	2,309
Class of 2013	2,036	0	0	2,036
Class of 2014	1,613	5,020	3,729	2,904
Class of 2015	0	1,411	0	1,411
6th Grade Store	286	885	746	425
Total	\$ 21,034	186,053	179,962	27,125

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 2,743,193	2,649,113	2,660,377	2,692,210	2,547,106	2,580,192	2,686,990
Tuition	1,361,457	1,249,924	1,047,153	860,319	713,013	522,446	549,462
Other	376,759	328,051	345,411	317,999	328,816	379,225	267,975
Intermediate sources	0	0	29,470	36,864	38,159	36,975	31,654
State sources	2,447,461	2,812,220	2,727,325	2,777,706	2,772,517	2,654,881	2,551,781
Federal sources	440,984	198,624	99,773	115,911	106,236	150,752	217,338
Total	\$ 7,369,854	7,237,932	6,909,509	6,801,009	6,505,847	6,324,471	6,305,200
Expenditures:							
Current:							
Instruction:							
Regular	\$ 2,891,009	2,866,720	2,655,381	2,512,909	2,354,686	2,310,146	2,512,182
Special	734,869	742,209	677,998	704,686	612,022	615,999	828,275
Other	861,437	779,628	748,162	680,686	690,736	651,797	545,153
Support services:							
Student	266,469	243,906	228,253	227,253	209,714	198,822	167,693
Instructional staff	131,282	137,313	121,472	108,100	138,799	147,828	91,353
Administration	683,221	676,707	629,884	590,011	608,683	607,246	565,233
Operation and maintenance of plant	590,053	612,086	561,162	573,790	555,690	464,450	441,993
Transportation	386,027	388,819	679,148	502,626	446,526	420,152	410,255
Non-instructional programs	2,023	1,665	5,469	2,901	2,663	1,386	774
Other expenditures:							
Facilities acquisitions	426,884	350,732	137,363	157,320	134,943	284,933	949,633
Long-term debt:							
Principal	354,948	593,791	380,000	370,000	360,000	2,940,000	208,000
Interest and other charges	60,833	73,026	77,462	85,858	93,423	263,183	204,897
AEA flow-through	214,498	199,657	195,507	192,793	186,543	185,900	189,565
Total	\$ 7,603,553	7,666,259	7,097,261	6,708,933	6,394,428	9,091,842	7,115,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	15,130
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	128,666 *
			<u>143,796</u>
U.S. DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	48,491
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 09	2,728
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	12,809
			<u>64,028</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>4,245</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>1,874</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	<u>27,247</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 10	<u>4,420</u>
ARRA - STATE FISCAL STABILIZATION FUND(SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>246,611</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	29,038
ARRA - SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT	84.391	FY 09	15,880
ARRA - SPECIAL EDUCATION GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	47,641
			<u>92,559</u>
TOTAL			<u>\$ 584,780</u>

* - Includes \$29,850 of non-cash awards

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Northeast 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.

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

To the Board of Education of the
Northeast 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 Northeast Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 22, 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 Northeast Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northeast Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast 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 material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2011

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

To the Board of Education of
Northeast Community School District

Compliance

We have audited the compliance of Northeast 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. Northeast 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 Northeast Community School District's management. Our responsibility is to express an opinion on Northeast 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 Northeast 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 Northeast Community School District's compliance with those requirements.

In our opinion, Northeast 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 Northeast 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 Northeast Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast 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 the internal control over compliance that might be significant deficiencies or material weaknesses and, therefore there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Finding and Questionable Costs as item III-A-10 as a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 22, 2011

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

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness 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 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:
 - Clustered:
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.553 - School Breakfast Program
 - Individual:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Northeast Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will review our procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

II-B-10 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. When the money is turned into the office there does not appear to be supporting documentation for the money collected that later could be used for reconciliation uses. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors to the central office. When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. When funds are turned in for depositing, the sponsors should receive a pre-numbered receipt from the office for supporting documentation

Response - Pre-numbered receipts are now given to sponsors/fundraising chairpersons when money is submitted to the office.

Conclusion - Response accepted.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

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

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

III-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will review our procedures to obtain the maximum internal control possible.

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2009, did not exceed the amount budgeted.

IV-B-10 Questionable Disbursements - We noted disbursements from the activity fund for student meals on a class trip where students received a specified amount of cash without any documentation as to the amount. In addition the students were not required to submit any documentation subsequently to support the amount.

Recommendation - Disbursements to students should include a sign-off sheet as a practice for internal control measures. It allows the reconciliation of how many students received the money to the amount being disbursed, as well as provides documentation of who received how much.

Response - Sign-off sheets are and have been given to students when cash disbursements are given for expenses on trips. In this particular case, the teacher had completed the sign-off sheet appropriately but didn't submit it immediately and when it was asked for the teacher no longer had it.

Conclusion - Response acknowledged. The District should communicate the procedures to the sponsors and make necessary changes to ensure that forms are turned into the office.

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 - We noted no business transactions between the District and District officials or employees.

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 variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.

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

IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

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

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

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

Beginning Balance		\$	0
Statewide sales, services and use tax revenue			416,489
Expenditures/transfers out:			
School infrastructures:			
Buildings	\$	219,315	
Equipment		44,969	
Other improvements		77,205	
Debt service for school infrastructure:			
General obligation debt		<u>75,000</u>	<u>416,489</u>
Ending Balance			<u>\$ 0</u>

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

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	\$ 0.49792	\$ 75,000
Physical Plant and Equipment Levy (PPEL)	1.34000	201,841

IV-M-10 Financial Condition - The District had sixteen deficit account balances in the Activity Fund totaling \$40,710.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits.

Response - We will look at alternatives to eliminate negative activity fund balances.

Conclusion - Response accepted.

IV-N-10 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. Per Chapter 9 of the LEA Financial Accounting Manual, "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.

Recommendation - We noted during our audit that the Activity Fund was awarding scholarships. Any funds raised for the scholarships should be receipted and expended from the Private Purpose Trust Funds.

Response - Funds will be transferred to the Private Purpose Trust Fund to pay the scholarship award to the student.

Conclusion - Response accepted.

IV-O-10 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District.

Response - The Board President is signing all contracts entered into by the District, either by original signature or by signature stamp with approval given to the Board Secretary.

Conclusion - Response accepted.