

NORTHWOOD-KENSETT 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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Northwood-Kensett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2009 Election)</b>		
Larry Hovey	President	2011
John Anderson	Vice President	2011
Don Pangburn	Board Member	2009
Cindy Pangburn	Board Member	2011
Keith Braun	Board Member	2009

**Board of Education**

**(After September 2009 Election)**

Larry Hovey	President	2011
John Anderson	Vice President	2011
Roger Harris	Board Member	2013
Cindy Pangburn	Board Member	2011
Susan Kliment	Board Member	2013

**School Officials**

Tom Nugent	Superintendent	2010
Karen Abrahams	District Secretary/ Treasurer	2010
John Greve	Attorney	2010



**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  
Northwood-Kensett 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 Northwood-Kensett Community School District, Northwood, 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 Northwood-Kensett Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 10, 2011 on our consideration of Northwood-Kensett Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 42 through 44 are not required

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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 Northwood-Kensett 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 five years ended June 30, 2009 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, 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.

February 10, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,057,611 in fiscal year 2009 to \$4,989,208 in fiscal year 2010, while General Fund expenditures increased from \$4,812,917 in fiscal 2009 to \$5,050,678 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$1,193,542 in fiscal 2009 to \$1,132,072 in fiscal 2010, a 5.15% decrease from prior year.
- The decrease in General Fund revenues was largely attributable to the 10% across-the-board cut in state funding. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Overall, the District's net assets in the governmental activities decreased by \$150,816 or 3.19% while net assets decreased in the business type activities by \$936.
- The District is in its 13<sup>th</sup> year of a 20 year Debt Service on New Elementary Construction and Junior/Senior Remodeling Project, which ends in 2017 for \$3,765,000.

### 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 Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

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

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

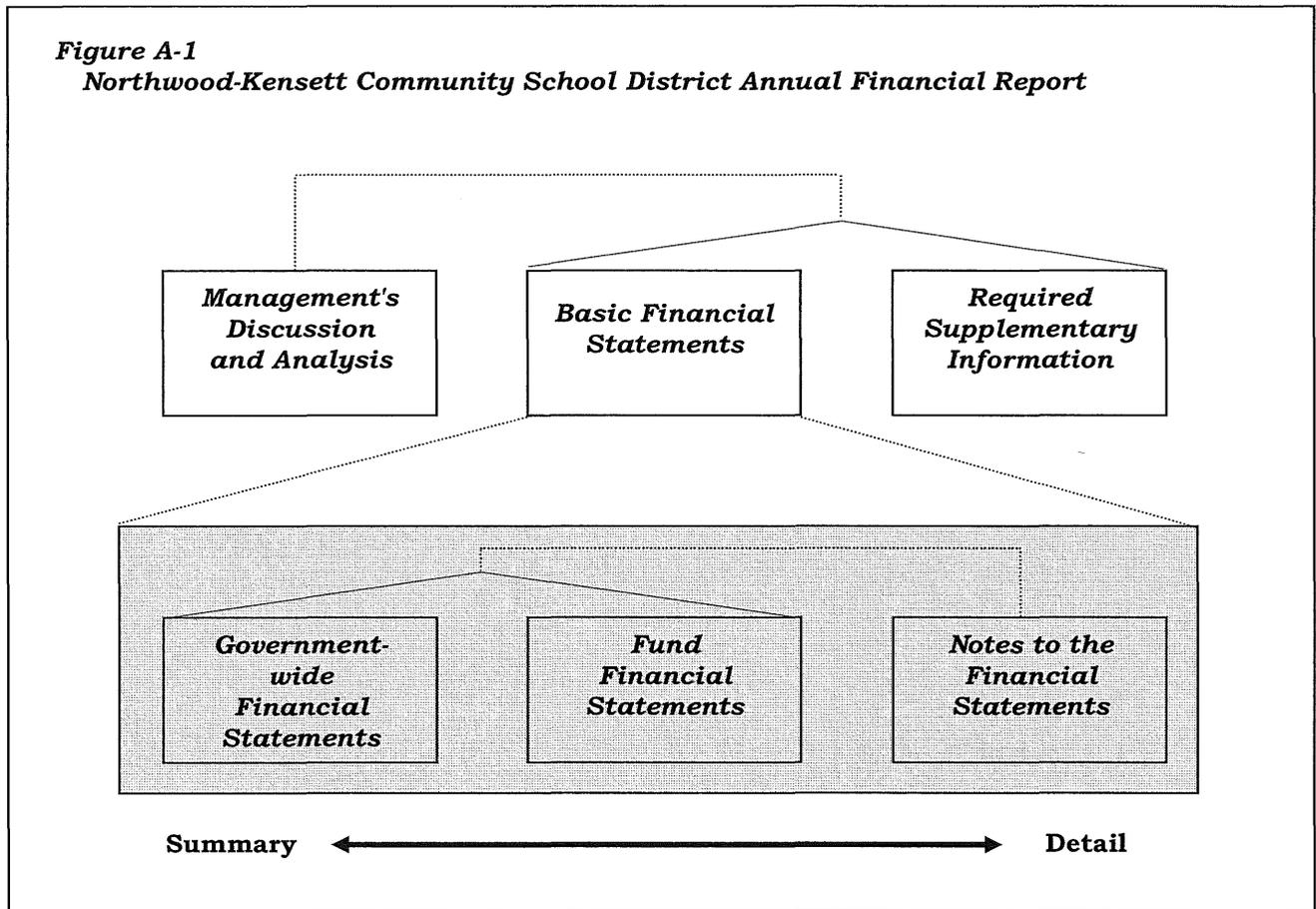


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or 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 three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 5,125,845	5,171,200	57,232	63,425	5,183,077	5,234,625	-0.98%
Capital assets	4,718,462	4,298,569	32,112	24,652	4,750,574	4,323,221	9.89%
Total assets	<u>9,844,307</u>	<u>9,469,769</u>	<u>89,344</u>	<u>88,077</u>	<u>9,933,651</u>	<u>9,557,846</u>	<u>3.93%</u>
Long-term obligations	2,533,340	2,048,271	851	-	2,534,191	2,048,271	23.72%
Other liabilities	2,734,497	2,694,212	4,522	3,170	2,739,019	2,697,382	1.54%
Total liabilities	<u>5,267,837</u>	<u>4,742,483</u>	<u>5,373</u>	<u>3,170</u>	<u>5,273,210</u>	<u>4,745,653</u>	<u>11.12%</u>
Net assets:							
Invested in capital assets, net of related debt	2,239,276	2,286,180	32,112	24,652	2,271,388	2,310,832	-1.71%
Restricted	1,304,823	1,208,899	-	-	1,304,823	1,208,899	7.93%
Unrestricted	1,032,371	1,232,207	51,859	60,255	1,084,230	1,292,462	-16.11%
Total net assets	<u>\$ 4,576,470</u>	<u>4,727,286</u>	<u>83,971</u>	<u>84,907</u>	<u>4,660,441</u>	<u>4,812,193</u>	<u>-3.15%</u>

The District's combined net assets decreased by 3.15%, or \$151,752 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, buildings and equipment), less the 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 \$95,924 or 7.93% over the prior year. The increase was primarily a result of the increase in the Management Levy fund balance.

Unrestricted net assets - the part of net assets that can be used to finance day-by-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$208,232 or 16.11% from the prior year.

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

	Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 340,935	294,996	151,024	165,577	491,959	460,573	6.81%
Operating grants, contributions and restricted interest	1,285,603	1,081,523	125,453	99,532	1,411,056	1,181,055	19.47%
Capital grants, contributions and restricted interest	151,647	-	-	-	151,647	-	100.00%
General revenues:							
Property tax	2,668,648	2,876,671	-	-	2,668,648	2,876,671	-7.23%
Statewide sales, services and use tax	296,429	289,972	-	-	296,429	289,972	2.23%
Unrestricted state grants	1,354,393	1,731,742	-	-	1,354,393	1,731,742	-21.79%
Other	76,303	68,962	322	350	76,625	69,312	10.55%
Total revenues	<u>6,173,958</u>	<u>6,343,866</u>	<u>276,799</u>	<u>265,459</u>	<u>6,450,757</u>	<u>6,609,325</u>	<u>-2.40%</u>
Program expenses:							
Governmental activities:							
Instructional	3,723,782	3,504,090	-	-	3,723,782	3,504,090	6.27%
Support services	1,773,197	1,426,492	-	-	1,773,197	1,426,492	24.30%
Non-instructional programs	-	-	277,735	253,353	277,735	253,353	9.62%
Other expenses	827,795	481,757	-	-	827,795	481,757	71.83%
Total expenses	<u>6,324,774</u>	<u>5,412,339</u>	<u>277,735</u>	<u>253,353</u>	<u>6,602,509</u>	<u>5,665,692</u>	<u>16.53%</u>
Change in net assets	(150,816)	931,527	(936)	12,106	(151,752)	943,633	-116.08%
Net assets beginning of year	<u>4,727,286</u>	<u>3,795,759</u>	<u>84,907</u>	<u>72,801</u>	<u>4,812,193</u>	<u>3,868,560</u>	<u>24.39%</u>
Net assets end of year	<u>\$ 4,576,470</u>	<u>4,727,286</u>	<u>83,971</u>	<u>84,907</u>	<u>4,660,441</u>	<u>4,812,193</u>	<u>-3.15%</u>

In fiscal 2010, property tax and unrestricted state grants account for 65.16% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.88% of the revenue from business type activities.

The District's total revenues were approximately \$6.45 million of which \$6.17 million was for governmental activities and \$.28 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.40% decrease in revenues and a 16.53% increase in expenses. The largest real money increase in expenses occurred in the support services functional area.

### Governmental Activities

Revenues for governmental activities were \$6,173,958 and expenses were \$6,324,774.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 3,723,782	3,504,090	6.27%	2,319,860	2,308,941	0.47%
Support services	1,773,197	1,426,492	24.30%	1,765,618	1,426,492	23.77%
Other expenses	827,795	481,757	71.83%	461,111	300,387	53.51%
Totals	<u>\$ 6,324,774</u>	<u>5,412,339</u>	<u>16.86%</u>	<u>4,546,589</u>	<u>4,035,820</u>	<u>12.66%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$340,935.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,437,250.
- The net cost of governmental activities was financed with \$2,668,648 in property tax, \$296,429 in statewide sales, services and use tax, \$1,354,393 in unrestricted state grants and \$76,303 in other income.

### **Business Type Activities**

Revenues of the District's business type activities were \$276,799 and expenses were \$277,735. 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 Northwood-Kensett Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,268,917, down from last year's ending fund balances of \$2,348,027.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. The most increase in revenues from federal sources was more than offset by the reduction in state sources. The reduction in revenues combined with a 4.94% increases in expenses required the District to use carryover fund balance to meet its financial obligations during the year.
- The District continued receiving statewide sales, services and use tax, which helped to bolster revenues. The Capital Projects Fund transferred \$136,000 to the Debt Service Fund during the year for debt relief. The fund balance during the year experienced a modest increase of \$5,923.
- The Special Revenue, Management Levy fund balance increased from \$443,175 to \$541,690, due to the District limiting expenditures during the current year.

### **Proprietary Funds Highlights**

The School Nutrition Fund net assets decreased from \$84,907 at June 30, 2009 to \$83,971 at June 30, 2010, representing a decrease of \$936.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$61,742 less than budgeted revenues, a variance of 0.95%. The most significant real money variance resulted from the District receiving less from state sources than originally anticipated.

Total expenditures exceeded amounts budgeted. 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and other expenditures functional areas due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$4,750,574, 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 \$337,841.

The original cost of the District's capital assets was \$9,221,017. Governmental funds account for \$9,094,390 with the remainder of \$126,627 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$243,708 at June 30, 2009 compared to \$646,341 at June 30, 2010.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2009-10
Land	\$ 36,425	36,425	-	-	36,425	36,425	0.00%
Construction in Progress	94,175	252,270	-	-	94,175	252,270	-62.67%
Buildings	3,856,957	3,669,478	-	-	3,856,957	3,669,478	5.11%
Improvements other than buildings	116,676	121,340	-	-	116,676	121,340	-3.84%
Machinery and equipment	614,229	219,056	32,112	24,652	646,341	243,708	165.21%
Total	\$ 4,718,462	4,298,569	32,112	24,652	4,750,574	4,323,221	9.89%

### Long-Term Debt

At June 30, 2010, the District had \$2,534,191 in other long-term debt outstanding. This represents an increase of 23.72% over last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonded indebtedness payable of \$1,775,000 at June 30, 2010.

The District retired their energy capital loan notes payable from the Special Revenue, Physical Plant and Equipment Levy during the year ending June 30, 2010.

The District entered into a lease agreement to purchase computer equipment. The liability facing the District at June 30, 2010 was \$704,186.

The District had total outstanding early retirement payable from the Special Revenue, Management Fund of \$5,759 at June 30, 2010.

Also, the District had compensated absences of \$20,520 at June 30, 2010, which is a decrease of 10.30% from the prior year.

The District recorded its initial year of net OPEB liability totaling \$28,726.

	Figure A-7		
	Outstanding Long-Term Obligations		
	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 1,775,000	2,000,000	-11.25%
Capital loan notes	-	12,389	-100.00%
Leases payable	704,186	-	100.00%
Early retirement	5,759	13,006	-55.72%
Compensated absences	20,520	22,876	-10.30%
Net OPEB liability	28,726	-	100.00%
Totals	<u>\$ 2,534,191</u>	<u>2,048,271</u>	<u>23.72%</u>

## 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:

- Increases in health insurance premiums, along with salaries and benefits for the employees is always a concern for the District.
- Open enrollment cost the District significant revenues in fiscal 2010 as 28 resident students were certified as open enrolled out to other Districts while only 7 non-residents students open enrolled in.
- With the September 25, 2009 ten percent across-the-board reduction and continued financial pressures facing the state and country, the District will continue to implement cost-saving measures and search for new sources of revenue. The Board of Education will determine what cost-saving measures we will implement and how much we can spend from our reserves.

## 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 Karen Abrahams, District Secretary and Business Manager, Northwood-Kensett Community School District, 1200 1<sup>st</sup> Avenue North, P.O. Box 289, Northwood, Iowa, 50459-0289.



BASIC FINANCIAL STATEMENTS

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 2,135,065	52,232	2,187,297
Receivables:			
Property tax:			
Delinquent	37,654	-	37,654
Succeeding year	2,549,064	-	2,549,064
Income surtax	126,897	-	126,897
Accounts	2,894	-	2,894
Due from other governments	274,271	-	274,271
Inventories	-	5,000	5,000
Capital assets, net of accumulated depreciation	4,718,462	32,112	4,750,574
<b>Total assets</b>	<b>9,844,307</b>	<b>89,344</b>	<b>9,933,651</b>
<b>Liabilities</b>			
Accounts payable	165,553	1,199	166,752
Salaries and benefits payable	704	-	704
Accrued interest payable	4,466	-	4,466
Deferred revenue:			
Succeeding year property tax	2,549,064	-	2,549,064
Other	14,710	-	14,710
Unearned revenue	-	3,323	3,323
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	230,000	-	230,000
Computer lease payable	176,047	-	176,047
Early retirement payable	5,759	-	5,759
Compensated absences payable	20,520	-	20,520
Portion due after one year:			
General obligation bonds payable	1,545,000	-	1,545,000
Computer lease payable	528,139	-	528,139
Net OPEB liability	27,875	851	28,726
<b>Total liabilities</b>	<b>5,267,837</b>	<b>5,373</b>	<b>5,273,210</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	2,239,276	32,112	2,271,388
Restricted for:			
Categorical funding	173,737	-	173,737
Management levy	535,931	-	535,931
Physical plant and equipment levy	54,878	-	54,878
Capital projects	369,087	-	369,087
Debt service	71,744	-	71,744
Other special revenue purposes	99,446	-	99,446
Unrestricted	1,032,371	51,859	1,084,230
<b>Total net assets</b>	<b>\$ 4,576,470</b>	<b>83,971</b>	<b>4,660,441</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Operating Grants, Contributions		Capital Grants, Contributions	Governmental Activities	Business Type Activities	
		Charges for Services	and Restricted Interest	and Restricted Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,421,329	90,121	939,398	-	(1,391,810)	-	(1,391,810)
Special	716,357	69,358	131,168	-	(515,831)	-	(515,831)
Other	586,096	173,877	-	-	(412,219)	-	(412,219)
	<u>3,723,782</u>	<u>333,356</u>	<u>1,070,566</u>	<u>-</u>	<u>(2,319,860)</u>	<u>-</u>	<u>(2,319,860)</u>
Support services:							
Student	99,667	-	-	-	(99,667)	-	(99,667)
Instructional staff	480,155	-	-	-	(480,155)	-	(480,155)
Administration	542,328	-	-	-	(542,328)	-	(542,328)
Operation and maintenance of plant	403,814	-	-	-	(403,814)	-	(403,814)
Transportation	247,233	7,579	-	-	(239,654)	-	(239,654)
	<u>1,773,197</u>	<u>7,579</u>	<u>-</u>	<u>-</u>	<u>(1,765,618)</u>	<u>-</u>	<u>(1,765,618)</u>
Other expenditures:							
Facilities acquisitions	388,041	-	-	151,647	(236,394)	-	(236,394)
Long-term debt interest	61,050	-	-	-	(61,050)	-	(61,050)
AEA flowthrough	215,037	-	215,037	-	-	-	-
Depreciation(unallocated)*	163,667	-	-	-	(163,667)	-	(163,667)
	<u>827,795</u>	<u>-</u>	<u>215,037</u>	<u>151,647</u>	<u>(461,111)</u>	<u>-</u>	<u>(461,111)</u>
Total governmental activities	6,324,774	340,935	1,285,603	151,647	(4,546,589)	-	(4,546,589)
Business Type activities:							
Non-instructional programs:							
Nutrition services	277,735	151,024	125,453	-	-	(1,258)	(1,258)
Total business type activities	<u>277,735</u>	<u>151,024</u>	<u>125,453</u>	<u>-</u>	<u>-</u>	<u>(1,258)</u>	<u>(1,258)</u>
Total	<u>\$ 6,602,509</u>	<u>491,959</u>	<u>1,411,056</u>	<u>151,647</u>	<u>(4,546,589)</u>	<u>(1,258)</u>	<u>(4,547,847)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes				\$ 2,299,539	-		2,299,539
Capital outlay				197,303	-		197,303
Debt service				171,806	-		171,806
Statewide sales, services and use tax				296,429	-		296,429
Unrestricted state grants				1,354,393	-		1,354,393
Unrestricted investment earnings				22,591	322		22,913
Other				53,712	-		53,712
Total general revenues				<u>4,395,773</u>	<u>322</u>		<u>4,396,095</u>
Changes in net assets				(150,816)	(936)		(151,752)
Net assets beginning of year				4,727,286	84,907		4,812,193
Net assets end of year				<u>\$ 4,576,470</u>	<u>83,971</u>		<u>4,660,441</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Manage- ment Levy	Physical Plant & Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>						
Cash and pooled investments	\$ 1,000,854	538,651	168,380	258,496	168,684	2,135,065
Receivables:						
Property tax						
Delinquent	29,679	2,592	2,877	-	2,506	37,654
Succeeding year	2,003,613	175,000	198,021	-	172,430	2,549,064
Income surtax	126,897	-	-	-	-	126,897
Accounts	2,447	447	-	-	-	2,894
Due from other governments	163,680	-	-	110,591	-	274,271
<b>Total assets</b>	<b>\$ 3,327,170</b>	<b>716,690</b>	<b>369,278</b>	<b>369,087</b>	<b>343,620</b>	<b>5,125,845</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 49,174	-	116,379	-	-	165,553
Salaries and benefits payable	704	-	-	-	-	704
Deferred revenue:						
Succeeding year property tax	2,003,613	175,000	198,021	-	172,430	2,549,064
Income surtax	126,897	-	-	-	-	126,897
Other	14,710	-	-	-	-	14,710
<b>Total liabilities</b>	<b>2,195,098</b>	<b>175,000</b>	<b>314,400</b>	<b>-</b>	<b>172,430</b>	<b>2,856,928</b>
Fund balances:						
Reserved for:						
Categorical funding	173,737	-	-	-	-	173,737
Debt service	-	-	-	-	71,744	71,744
Unreserved	958,335	541,690	54,878	369,087	99,446	2,023,436
<b>Total fund balances</b>	<b>1,132,072</b>	<b>541,690</b>	<b>54,878</b>	<b>369,087</b>	<b>171,190</b>	<b>2,268,917</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,327,170</b>	<b>716,690</b>	<b>369,278</b>	<b>369,087</b>	<b>343,620</b>	<b>5,125,845</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT 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)	\$	2,268,917
 <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 in the governmental funds.		4,718,462
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		126,897
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.		(4,466)
Long-term liabilities, including general obligation bonds payable, lease obligations, early retirement, compensated absences and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(2,533,340)</u>
<b>Net assets of governmental activities (page 18)</b>	<b>\$</b>	<b><u>4,576,470</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Manage- ment Levy	Physical Plant & Equipment Levy	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 2,132,308	174,448	197,303	296,429	171,806	2,972,294
Tuition	150,764	-	-	-	-	150,764
Other	313,204	19,581	152,631	1,207	178,228	664,851
State sources	1,884,527	105	122	-	107	1,884,861
Federal sources	508,405	-	-	-	-	508,405
Total revenues	4,989,208	194,134	350,056	297,636	350,141	6,181,175
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular	2,324,536	40,044	-	49,919	3,554	2,418,053
Special	716,357	-	-	-	-	716,357
Other	401,135	-	-	-	184,961	586,096
	3,442,028	40,044	-	49,919	188,515	3,720,506
Support services:						
Student	99,287	-	-	-	-	99,287
Instructional staff	147,398	-	-	704,186	-	851,584
Administration	528,058	13,653	-	-	-	541,711
Operation and maintenance of plant	385,606	31,916	-	-	-	417,522
Transportation	233,264	10,006	-	-	-	243,270
	1,393,613	55,575	-	704,186	-	2,153,374
Other expenditures:						
Facilities acquisitions	-	-	470,634	105,794	-	576,428
Long-term debt:						
Principal	-	-	-	-	237,389	237,389
Interest	-	-	-	-	61,737	61,737
AEA flowthrough	215,037	-	-	-	-	215,037
	215,037	-	470,634	105,794	299,126	1,090,591
Total expenditures	5,050,678	95,619	470,634	859,899	487,641	6,964,471
Excess(deficiency) of revenues over(under) expenditures	(61,470)	98,515	(120,578)	(562,263)	(137,500)	(783,296)
Other financing sources(uses):						
Proceeds from lease	-	-	-	704,186	-	704,186
Transfer in	-	-	-	-	148,879	148,879
Transfer out	-	-	(12,879)	(136,000)	-	(148,879)
Total other financing sources(uses)	-	-	(12,879)	568,186	148,879	704,186
Net change in fund balances	(61,470)	98,515	(133,457)	5,923	11,379	(79,110)
Fund balances beginning of year	1,193,542	443,175	188,335	363,164	159,811	2,348,027
Fund balances end of year	\$ 1,132,072	541,690	54,878	369,087	171,190	2,268,917

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 22) \$ (79,110)

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

Depreciation expense	\$ (332,838)	
Capital outlays	<u>752,731</u>	419,893

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (7,217)

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

Early Retirement	7,247	
Compensated absences	2,356	
Other postemployment benefits	<u>(27,875)</u>	(18,272)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments as follows:

Issued	(704,186)	
Repaid	<u>237,389</u>	(466,797)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 687

Changes in net assets of governmental activities (page 19) \$ (150,816)

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 JUNE 30, 2010

	School Nutrition
<b>Assets</b>	
Cash and pooled investments	\$ 52,232
Inventories	5,000
Capital assets, net of accumulated depreciation	32,112
<b>Total assets</b>	<b>89,344</b>
 <b>Liabilities</b>	
Accounts payable	1,199
Unearned revenues	3,323
Net OPEB liability	851
<b>Total liabilities</b>	<b>5,373</b>
 <b>Net Assets</b>	
Invested in capital assets	32,112
Unrestricted	51,859
<b>Total net assets</b>	<b>\$ 83,971</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ 151,024
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	84,740
Benefits	25,789
Services	9,140
Supplies	149,434
Depreciation	5,003
Other	3,629
Total operating expenses	277,735
Operating loss	(126,711)
Non-operating revenues:	
State sources	3,011
Federal sources	122,442
Interest income	322
Total non-operating revenues	125,775
Decrease in net assets	(936)
Net assets beginning of year	84,907
Net assets end of year	\$ 83,971

SEE NOTES TO FINANCIAL STATEMENTS.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 153,002
Cash received from miscellaneous operating activities	493
Cash payments to employees for services	(109,678)
Cash payments to suppliers for goods or services	(144,238)
Net cash used in operating activities	(100,421)
Cash flows from non-capital financing activities:	
State grants received	3,011
Federal grants received	105,017
Net cash provided by non-capital financing activities	108,028
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(12,463)
Cash flows from investing activities:	
Interest on investment	322
Net decrease in cash and cash equivalents	(4,534)
Cash and cash equivalents at beginning of year	56,766
Cash and cash equivalents at end of year	\$ 52,232
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (126,711)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,425
Depreciation	5,003
Decrease in inventories	36
Decrease in accounts receivable	1,623
Increase in accounts payable	504
Increase in unearned revenue	848
Increase in net OPEB liability	851
Net cash used in operating activities	\$ (100,421)

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

During the year ended June 30, 2010, the District received \$17,425 of federal commodities.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2010

	Private Purpose Trust	Scholarship
<b>Assets</b>		
Cash and pooled investments	\$ 451,751	
Accounts receivable		358
<b>Total assets</b>	<b>\$ 452,109</b>	
<b>Net Assets</b>		
Restricted for scholarships	\$ 303,453	
Unrestricted		148,656
<b>Total net assets</b>	<b>\$ 452,109</b>	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	
Local sources:	
Interest	\$ 1,166
Contributions	44,728
Total additions	<u>45,894</u>
Deductions:	
Scholarships	<u>8,550</u>
Change in net assets	37,344
Net assets beginning of year	<u>414,765</u>
Net assets end of year	<u>\$ 452,109</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

The Northwood-Kensett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Northwood and Kensett, Iowa, and the predominate agricultural territory in Worth 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, Northwood-Kensett 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 Northwood-Kensett Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for 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, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant & Equipment Levy (PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

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

The District's proprietary fund is the School Nutrition Fund.

The Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims 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	\$ 0
Buildings	2,000
Land improvements	2,000
Intangibles	50,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Life (In Years)
Buildings	50 years
Land improvements	20-50 years
Intangibles	5-10 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for 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 Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Balances - 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. During the year ended June 30, 2010, expenditures in the support services and other expenditures functional areas exceeded the amounts budgeted.

#### (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.

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 136,000
Debt Service	Special Revenue: Physical Plant and Equipment Levy	<u>12,879</u>
Total		<u>\$ 148,879</u>

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

**(4) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Machinery and equipment	\$ 117,558	12,463	3,394	126,627
Less accumulated depreciation	92,906	5,003	3,394	94,515
Business type activities capital assets, net	<u>\$ 24,652</u>	<u>7,460</u>	<u>-</u>	<u>32,112</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 36,425	-	-	36,425
Construction in Progress	252,270	-	158,095	94,175
Total capital assets not being depreciated	<u>288,695</u>	-	158,095	<u>130,600</u>
Capital assets being depreciated:				
Buildings	6,232,520	346,482	-	6,579,002
Land improvements	167,981	-	-	167,981
Machinery and equipment	1,661,963	564,344	9,500	2,216,807
Total capital assets being depreciated	<u>8,062,464</u>	910,826	9,500	<u>8,963,790</u>
Less accumulated depreciation for:				
Buildings	2,563,042	159,003	-	2,722,045
Land improvements	46,641	4,664	-	51,305
Machinery and equipment	1,442,907	169,171	9,500	1,602,578
Total accumulated depreciation	<u>4,052,590</u>	332,838	9,500	<u>4,375,928</u>
Total capital assets being depreciated, net	<u>4,009,874</u>	577,988	-	<u>4,587,862</u>
Governmental activities capital assets, net	<u>\$ 4,298,569</u>	577,988	158,095	<u>4,718,462</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 25,898
Support services:	
Instructional staff	93,117
Operation and maintenance of plant	8,558
Transportation	<u>41,598</u>
	169,171
Unallocated depreciation	<u>163,667</u>
Total governmental activities depreciation expense	<u>\$ 332,838</u>
Business type activities:	
Food services	<u>\$ 5,003</u>

**(5) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 2,000,000	-	225,000	1,775,000	230,000
Energy capital loan notes	12,389	-	12,389	-	-
Leases payable	-	704,186	-	704,186	176,047
Early retirement	13,006	326	7,573	5,759	5,759
Compensated absences	22,876	20,520	22,876	20,520	20,520
Net OPEB liability	-	27,875	-	27,875	-
<b>Total</b>	<b>\$ 2,048,271</b>	<b>752,907</b>	<b>267,838</b>	<b>2,533,340</b>	<b>432,326</b>
<b>Business type activities:</b>					
Net OPEB liability	\$ -	851	-	851	-

#### 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 of May 5,			
	Interest Rates	Principal	Interest	Total
2011	3.00 %	\$ 230,000	53,594	283,594
2012	3.00	235,000	46,694	281,694
2013	3.00	250,000	39,644	289,644
2014	3.00	255,000	32,143	287,143
2015	3.00	260,000	24,494	284,494
2016	3.00	270,000	16,694	286,694
2017	3.13	275,000	8,594	283,594
<b>Total</b>		<b>\$ 1,775,000</b>	<b>221,857</b>	<b>1,996,857</b>

#### Leases Payable

During the year ended June 30, 2010, the District entered into a computer lease with Apple Inc. Details of the District's June 30, 2010 computer lease indebtedness are as follows:

Year Ending June 30,	Principal
2011	\$ 176,047
2012	176,046
2013	176,047
2014	176,046
<b>Total</b>	<b>\$ 704,186</b>

#### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must reach the age of fifty-five on or before June 30 of the year the certified employee wishes to retire and must have completed fifteen years

of full time service to the District. Employees must complete an application, which is subject to be approval by the Board of Education. Early retirement incentives are based in the differences between the employee's current base salary and the starting base salary. Early retirement benefits paid during the year ended June 30, 2010, totaled \$7,573. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(6) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$204,283, \$187,804 and \$172,041 respectively, equal to the required contributions for each year.

**(7) Other Postemployment Benefits**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 63 active and 1 retired members in the plan. Participants must be age 55 or older at age of retirement.

The medical benefits are provided through a fully-insured plan with Mercer. Retirees under age 65 pay the same premium for the medical/vision benefit 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 any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual required contribution	\$ 30,290
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>30,290</u>
Contributions made	<u>(1,564)</u>
Increases in net OPEB obligation	28,726
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 28,726</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 \$1,564 to the medical plan.

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

Year Ended	Annual OPEB cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 30,290	5.2%	\$ 28,726

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 \$277,457, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$277,457. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,424,048 and the ratio of the UAAL to covered payroll was 11.4%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$500 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(8) Risk Management**

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

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$215,037 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**(10) Categorical Funding**

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

Project	Amount
Returning dropouts and dropout prevention programs	\$ 54,749
Beginning teacher mentoring and induction program	111
Teacher salary supplement	74,256
Additional teacher contract day	2,100
Additional salary, professional development or both	371
Market factor	3,807
Professional development for model core curriculum	14,766
Professional development	21,812
Market factor incentives	1,765
	<hr/>
Total reserved for categorical funding	<u>\$ 173,737</u>

**(11) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2010, expenditures in the support services and other expenditures functional areas exceeded the budgeted amounts.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 3,787,909	151,346	3,939,255	3,827,846	3,827,846	111,409
State sources	1,884,861	3,011	1,887,872	2,462,677	2,462,677	(574,805)
Federal sources	508,405	122,442	630,847	229,193	229,193	401,654
Total revenues	6,181,175	276,799	6,457,974	6,519,716	6,519,716	(61,742)
<b>Expenditures/Expenses:</b>						
Instruction	3,720,506	-	3,720,506	3,939,000	3,939,000	218,494
Support services	2,153,374	-	2,153,374	1,823,700	1,823,700	(329,674)
Non-instructional programs	-	277,735	277,735	307,000	307,000	29,265
Other expenditures	1,090,591	-	1,090,591	847,671	847,671	(242,920)
Total expenditures/expenses	6,964,471	277,735	7,242,206	6,917,371	6,917,371	(324,835)
Deficiency of revenues under expenditures/expenses	(783,296)	(936)	(784,232)	(397,655)	(397,655)	(386,577)
Other financing sources, net	704,186	-	704,186	-	-	704,186
Deficiency of revenues and other financing sources under expenditures/expenses and other financing uses	(79,110)	(936)	(80,046)	(397,655)	(397,655)	317,609
Balances beginning of year	2,348,027	84,907	2,432,934	2,049,776	2,049,776	383,158
Balances end of year	\$ 2,268,917	83,971	2,352,888	1,652,121	1,652,121	700,767

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT 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. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2010, expenditures in the support services and other expenditures functional areas exceeded the amounts budgeted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR THE  
 RETIREE HEALTH PLAN  
 REQUIRED SUPPLEMENTARY INFORMATION

Year June 30,	Actuarial Date	Actuarial Value of (a)	Actuarial Accrued Liability (b)	Unfunded AAL (b-a)	Funded (a/b)	Covered (c)	UAAAL as a Percentage of Covered ((b-a)/c)
2010	July 1, 2009	0	\$ 277,457	277,457	0.00%	\$ 2,424,048	11.45%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL REVENUE FUNDS  
 JUNE 30, 2010

	Special Revenue			Debt Service	Total Other Nonmajor Governmental Funds
	Student Activity	Support Trust	Total Special Revenue Funds		
<b>Assets</b>					
Cash and pooled investments	\$ 82,857	16,589	99,446	69,238	168,684
Receivables:					
Property tax:					
Delinquent	-	-	-	2,506	2,506
Succeeding year	-	-	-	172,430	172,430
<b>Total assets</b>	<b>\$ 82,857</b>	<b>16,589</b>	<b>99,446</b>	<b>244,174</b>	<b>343,620</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ -	-	-	172,430	172,430
Fund balances:					
Reserved for:					
Debt service	-	-	-	71,744	71,744
Unreserved	82,857	16,589	99,446	-	99,446
Total fund balances	82,857	16,589	99,446	71,744	171,190
<b>Total liabilities and fund balances</b>	<b>\$ 82,857</b>	<b>16,589</b>	<b>99,446</b>	<b>244,174</b>	<b>343,620</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2010

	Special Revenue				Total
	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	\$ -	-	-	171,806	171,806
Other	175,640	1,471	177,111	1,117	178,228
State sources	-	-	-	107	107
TOTAL REVENUES	175,640	1,471	177,111	173,030	350,141
EXPENDITURES:					
Current:					
Instruction:					
Regular	-	3,554	3,554	-	3,554
Other	184,961	-	184,961	-	184,961
Other expenditures:					
Long-term debt:					
Principal	-	-	-	237,389	237,389
Interest	-	-	-	61,737	61,737
TOTAL EXPENDITURES	184,961	3,554	188,515	299,126	487,641
Excess(deficiency) of revenues over expenditures	(9,321)	(2,083)	(11,404)	(126,096)	(137,500)
OTHER FINANCING SOURCES:					
Transfer in	-	-	-	148,879	148,879
Excess(deficiency) of revenues and other financing sources over(under) expenditures	(9,321)	(2,083)	(11,404)	22,783	11,379
FUND BALANCES BEGINNING OF YEAR	92,178	18,672	110,850	48,961	159,811
FUND BALANCES END OF YEAR	\$ 82,857	16,589	99,446	71,744	171,190

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT 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	\$ 1,643	1,902	3,342	203
Speech	-	950	658	292
Vocal music	3,807	496	1,385	2,918
Choir robe	1,415	135	-	1,550
High school band	-	2,500	2,292	208
Elementary band	-	210	156	54
High school band uniforms	1,236	622	1,807	51
High school horn rent/repair	152	570	-	722
Instrument repair	385	1,775	498	1,662
Elementary horn repair	-	135	-	135
Band trip	8,515	6,431	4,206	10,740
General athletics	-	1,282	1,282	-
Athletic passes	-	16,860	16,860	-
Athletic uniforms	1,375	8,000	6,280	3,095
Camps	-	9,246	10,540	(1,294)
Corn bowl conference	8,503	-	8,503	-
Boys Basketball	-	3,164	3,164	-
Football	-	11,255	11,255	-
Baseball	-	936	2,778	(1,842)
Boys track	-	2,386	1,892	494
LMNK Wrestling	-	1,030	934	96
Girls basketball	-	4,902	4,902	-
Volleyball	-	1,933	1,933	-
Girls track	-	1,320	1,320	-
Girls golf	-	175	175	-
FFA	5,760	35,141	33,227	7,674
Math Club	418	3,619	1,465	2,572
Honor society	119	840	900	59
High school student council	191	2,086	1,391	886
Student leadership	347	-	-	347
FBLA	66	-	-	66
Cheerleaders	-	1,006	45	961
Spanish club	6,391	29,654	34,797	1,248
FCCLA club	146	5,999	4,358	1,787

NORTHWOOD-KENSETT 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
Class of 2008	299	-	299	-
Class of 2009	508	-	300	208
Class of 2010	1,237	192	1,194	235
Class of 2011	2,612	1,517	2,901	1,228
Class of 2012	1,656	1,100	-	2,756
Class of 2013	794	1,105	-	1,899
Class of 2014	330	440	-	770
Class of 2015	-	275	-	275
Stevens Tech Lab	526	-	-	526
Chip	391	4,335	3,078	1,648
Science projects	136	-	-	136
HS student of the month	443	167	610	-
Yearbook	6,171	8,185	11,714	2,642
Interest on checking	-	210	210	-
Interest on CD's	-	380	380	-
Elementary activities	460	-	-	460
Band CD	36,146	1,174	1,930	35,390
<b>Total</b>	<b>\$ 92,178</b>	<b>175,640</b>	<b>184,961</b>	<b>82,857</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2010

	Reuben/Helen Cornelius Scholarship	Gilbert Charles Stevens	Hellen Hollen Holstad	Richard Moen	Margaret Sigmond	Total
<b>Assets</b>						
Cash and pooled investments	\$ 65,380	78,930	182,017	19,125	106,299	451,751
Accounts receivable	-	358	-	-	-	358
<b>Total assets</b>	<b>\$ 65,380</b>	<b>79,288</b>	<b>182,017</b>	<b>19,125</b>	<b>106,299</b>	<b>452,109</b>
<b>Net Assets</b>						
Restricted for scholarships	\$ 65,380	56,056	182,017	-	-	303,453
Unrestricted	-	23,232	-	19,125	106,299	148,656
<b>Total net assets</b>	<b>\$ 65,380</b>	<b>79,288</b>	<b>182,017</b>	<b>19,125</b>	<b>106,299</b>	<b>452,109</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2010

	Reuben/Helen Scholarship	Gilbert Cornelius Stevens	Hellen Holstad	Richard Moen	Pheasants Forever	Margaret Sigmond	Total
Additions:							
Local sources:							
Interest	\$ -	550	-	-	-	616	1,166
Contributions	-	-	-	14,134	-	30,594	44,728
	-	550	-	14,134	-	31,210	45,894
Deductions:							
Scholarships		- 6,050	-	2,000	500	-	8,550
Change in net assets	-	(5,500)	-	12,134	(500)	31,210	37,344
Net assets beginning of year	65,380	84,788	182,017	6,991	500	75,089	414,765
Net assets end of year	\$ 65,380	79,288	182,017	19,125	-	106,299	452,109

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 2,972,294	3,131,384	2,824,046	2,637,136	2,473,383	2,376,421	2,154,280
Tuition	150,764	124,768	107,205	102,073	72,369	81,471	64,500
Other	664,851	631,206	472,856	309,594	275,466	242,923	226,566
Intermediate sources	-	-	-	-	-	13,093	-
State sources	1,884,861	2,258,461	2,449,968	2,307,226	2,311,952	2,150,064	1,887,359
Federal sources	508,405	162,788	137,119	149,978	149,419	190,625	200,208
Total	<u>\$ 6,181,175</u>	<u>6,308,607</u>	<u>5,991,194</u>	<u>5,506,007</u>	<u>5,282,589</u>	<u>5,054,597</u>	<u>4,532,913</u>
Expenditures:							
Instruction:							
Regular	\$ 2,418,053	2,247,875	2,056,668	1,958,278	1,824,877	1,744,473	1,882,702
Special	716,357	753,003	738,386	743,155	669,142	719,381	642,003
Other	586,096	573,905	564,915	560,747	511,898	473,065	409,380
Support services:							
Student	99,287	92,398	90,615	64,307	74,091	133,658	128,773
Instructional staff	851,584	179,334	179,418	103,279	96,818	100,568	123,543
Administration	541,711	568,510	524,524	538,601	513,783	450,089	427,141
Operation and maintenance of plant	417,522	346,522	387,131	391,114	366,725	335,670	323,659
Transportation	243,270	197,434	228,921	213,196	197,981	143,065	137,278
Other expenditures:							
Facilities acquisition	576,428	252,567	438,706	73,987	119,990	192,102	361,474
Long-term debt:							
Principal	237,389	211,917	201,463	274,895	204,290	225,078	219,167
Interest	61,737	113,782	118,566	129,451	138,463	149,020	157,512
AEA flowthrough	215,037	181,370	178,412	170,051	164,998	155,958	151,485
Total	<u>\$ 6,964,471</u>	<u>5,718,617</u>	<u>5,707,725</u>	<u>5,221,061</u>	<u>4,883,056</u>	<u>4,822,127</u>	<u>4,964,117</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expendi- tures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	19,781
National School Lunch Program	10.555	FY10	102,661 *
			<u>122,442</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	24,920
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY09	4,890
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	9,780
			<u>39,590</u>
Vocational Education - Basic Grants to States	84.048	FY10	<u>7,959</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY10	<u>1,287</u>
Rural Education	84.358	FY10	<u>39,332</u>
Improving Teacher Quality State Grants	84.367	FY10	<u>19,365</u>
Grants for State Assessment and Related Activities	84.369	FY10	<u>3,198</u>
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY09	41,590
ARRA - State Fiscal Stabilization Fund (SFSF)- Education State Grants, Recovery Act	84.394	FY10	224,915
			<u>266,505</u>
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY10	25,579
Special Education - Grants to States, Recovery Act	84.391	FY09	13,988
Special Education - Grants to States, Recovery Act	84.391	FY10	55,951
			<u>95,518</u>
Total			<u>\$ 595,196</u>

\* -Includes \$17,425 of non-cash awards.

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.



# **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 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  
Northwood-Kensett 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 Northwood-Kensett 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 February 10, 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 Northwood-Kensett Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northwood-Kensett Community School District's internal control over financial reporting.

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

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

Compliance and Other Matters

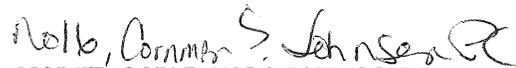
As part of obtaining reasonable assurance about whether Northwood-Kensett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could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

Northwood-Kensett 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 Northwood-Kensett 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 Northwood-Kensett Community School District and other parties to whom Northwood-Kensett 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 Northwood-Kensett 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.

February 10, 2011

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of  
Northwood-Kensett Community School District:

Compliance

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

We conducted our audit on compliance in accordance with U.S. generally accepted accounting 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 Northwood-Kensett 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 Northwood-Kensett Community School District's compliance with those requirements.

In our opinion, Northwood-Kensett 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

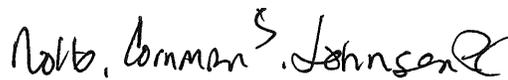
The management of Northwood-Kensett Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Northwood-Kensett 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 Northwood-Kensett Community School District's internal control over compliance.

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

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

Northwood-Kensett Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the District's responses, we did not audit Northwood-Kensett 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 Northwood-Kensett Community School District and other parties to whom Northwood-Kensett 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.

February 10, 2011

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies 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 non-compliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major Programs were as follows:
  - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
  - Clustered programs:
    - CFDA Number 10.553 - School Breakfast Program.
    - CFDA Number 10.555 - National School Lunch Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Northwood-Kensett Community School District did not qualify as a low-risk auditee.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District is aware of the lack of segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

II-B-10 Purchase Orders - We noted during our audit of the Special Revenue: Student Activity Fund that purchase orders were dated after the supplies had been either ordered or received.

Recommendation - This procedure should be reviewed and necessary changes made so that all disbursements have a pre-numbered purchase order that is approved by the appropriate administrator before the ordering of supplies takes place.

Response - The District will correct this item in order to comply.

Conclusion - Response accepted.

II-C-10 Timely Deposits - We noted during our audit that deposits for the Nutrition fund were prepared but may not be entered into the system and/or taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - The District is studying in hopes to solve and comply.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

NORTHWOOD-KENSETT 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 (SFSF) – Education State Grants, Recovery Act**  
**Federal Award Year: 2010**  
**U.S. Department of Education**  
**Passed through the Iowa Department of Education**

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipt listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District is aware of the lack of segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

NORTHWOOD-KENSETT COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 YEAR ENDED JUNE 30, 2010

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

IV-A-10 Certified Budget - Expenditures for the year ended June 30, 2010 exceeded the certified budget amounts in the support services and other expenditures functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the code of Iowa before expenditures were allowed to exceed the budget.

Response - The District will amend future budgets in order to comply.

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Robin Fredericks, Bus driver & Aide Spouse owns A&I Auto	Repairs	\$11,813
Brian Campbell, Teacher Co-owns Soup's Pizzeria & Grill	Pizza	\$240

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of Robin Fredericks do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Brian Campbell do not appear to represent a conflict of interest.

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 - No variances in the basic enrollment data certified to the Department of Education were noted.

- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-10 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 being used to supplant rather than supplement other funds.
- IV-L-10 Statewide Sales, Services and Use Tax - We noted during our audit that the District entered into a lease-purchase agreement with Apple Computer Company for laptop computers, network set up, software and other related support/warranties for the District's One on One Initiative. The related debt obligation to this capital asset purchase has been recognized by the District as a Capital Projects capital-lease purchase. The first lease payment is due in fiscal 2011 and the District intends on paying the entire lease amount from the Capital Projects Fund. Per contents of the lease agreement, it appears not all of the items listed in the lease agreement would be allowable Capital Projects Fund expenditures.

Recommendation - According to the Uniform Administrative Procedures Manual, "Iowa school districts operate under Dillon's Rule which states that school corporations possess and can exercise the following powers and not others: Those granted in express words, those necessarily implied or necessarily incident to the powers expressly granted, and those absolutely essential to the declared objects and purposes of the school corporation -- not simply convenient or desired, but indispensable. School districts cannot do by indirect means anything they do not have direct authority to do, and laws granting powers to school districts shall be construed narrowly to limit district authority to the precise language of the authorizing statute. The mere absence of a prohibition against an action or activity in code does not give a school district authority to initiate that action or activity. Interpretation of school law and rules relating to the school laws may only be done by the Iowa Attorney General's Office and the Iowa Department of Education. These Opinions or Rules, once given, have the effect of law on school corporations."

According to the District's revenue purpose statement, statewide sales, services and use tax can be spent for PPEL type expenditures. According to Chapter 298.3 of the Code of Iowa, PPEL monies may be used expressly for the purchase, lease or lease-purchase of a single unit of equipment or technology exceeding \$500 per unit. Additionally, Iowa Administrative Code 281-98.64(3) specifically identifies equipment maintenance as an inappropriate use of PPEL funds. Therefore, statewide sales, services and tax expenditures have the same restrictions outlined in the Code sections.

As school districts operate under Dillon's Rule, the purchase of the individual items for more than \$500 per unit would be allowable Capital Projects Fund expenditures. However, costs included in the lease-purchase agreement for items such as training, maintenance, warranties and software licensing do not appear to be allowable Capital Projects Fund expenditures as expressly stated in Chapter 298.3 of the Code of Iowa.

It would appear that \$238,600 of the lease is for expenditures unallowable from the Capital Projects Fund. It is our opinion that these costs are inappropriate Capital Projects/PPEL Fund expenditures and should be paid from the General Fund. A more detailed breakout of the questioned costs is as follows:

Training	\$	25,110
Maintenance		108,736
Warranties		28,738
Software licensing		76,016
Total	\$	<u>238,600</u>

The District should contact the Iowa Department of Education for a Declaratory Ruling or the Iowa Attorney General's Office for an Attorney General's Opinion specific to the District's purchases made under the lease-purchase agreement.

Response - We were advised by legal counsel that the District's One on One Initiative is a 'package' and not operational without all the components, including the items questioned. We will ask the Department of Education, our cognizant agent, for determination of allowable costs to Capital Projects. We will at that time make necessary adjustments. However, until Department of Education validates the auditor's position, we are following the advice of legal counsel. Therefore, we intend to pay for the lease from Capital Projects-SAVE funds.

Conclusion - Response acknowledged.

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

Beginning Balance		\$	49,764
Statewide sales and services tax revenue			296,429
Expenditures/Transfers out:			
School infrastructure:			
Buildings	\$	155,713	
Debt service for school infrastructure:			
General obligation debt		136,000	291,713
Ending Balance		\$	<u>54,480</u>

Levies reduced as a result of statewide sales and services tax received:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 0.68680	\$ 136,000
Physical plant and equipment levy	\$ 0.67000	\$ 132,674

IV-M-10 Deficit Balances - Two student activity accounts had deficit balances at June 30, 2010 totaling \$3,136.

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

Response - The District will eliminate these deficits.

Conclusion - Response accepted.

IV-N-10 Officiating Contracts - We noted during our audit that the Board President was not 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 District will comply.

Conclusion - Response accepted.

IV-O-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1<sup>st</sup>. The District should submit the outstanding checks to the State Treasurer as unclaimed property.

Response - The District will comply.

Conclusion - Response accepted.

