

SIDNEY 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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Sidney Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2009 Election)		
Jeff Jorgensen	President	2011
Randy Bishop	Vice President	2009
Mike Daly	Board Member	2011
Janet Teten	Board Member	2011
Heidi Lowthorp	Board Member	2009
Board of Education (After September 2009 Election)		
Jeff Jorgensen	President	2011
Randy Bishop	Vice President	2013
Mike Daly	Board Member (resigned)	2011
Alisha Ettleman	Board Member (appointed)	2011
Janet Teten	Board Member	2011
Heidi Lowthorp	Board Member	2013
School Officials		
Gregg Cruickshank	Superintendent	2010
Janet Lemrick	Board Secretary	2010
Jennifer Maher	Board Treasurer/ Business Manager	2010
Mundt, Franck, & Schumacher	Attorney	2010

SIDNEY COMMUNITY SCHOOLS

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

In accordance with Government Auditing Standards, we have also issued our report dated March 28, 2011 on our consideration of Sidney Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sidney Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sidney 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 \$3,869,524 in fiscal year 2009 to \$3,840,026 in fiscal year 2010, while General Fund expenditures increased from \$3,813,934 in fiscal 2009 to \$4,011,693 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$856,288 in fiscal 2009 to a balance of \$684,621 in fiscal 2010.
- The decrease in General Fund revenues was attributable to decreased funding from state sources in fiscal 2010. The increase in expenditures was somewhat evenly distributed across all functional areas.
- Overall, the District's net assets decreased \$301,750 in governmental activities and increased \$5,958 in business type activities.

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

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

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

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

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

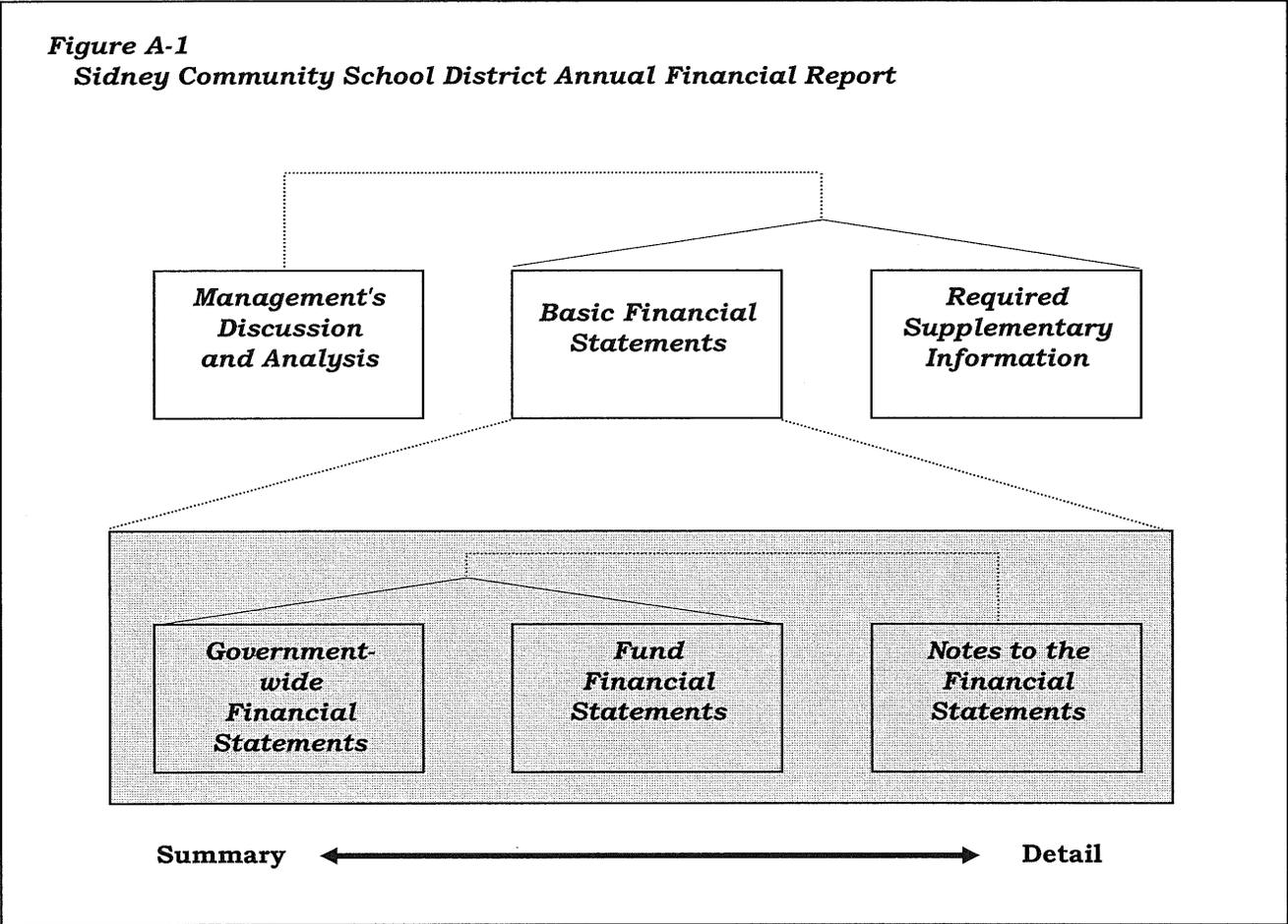


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, 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 District's Internal Service Funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3 Condensed Statement of Net Assets								
	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	\$ 3,587,815	3,846,619	69,688	49,382	3,657,503	3,896,001	-6.12%	
Capital assets	3,366,015	3,520,205	32,005	31,046	3,398,020	3,551,251	-4.31%	
Total assets	<u>6,953,830</u>	<u>7,366,824</u>	<u>101,693</u>	<u>80,428</u>	<u>7,055,523</u>	<u>7,447,252</u>	<u>-5.26%</u>	
Long-term obligations	2,464,707	2,561,272	260	-	2,464,967	2,561,272	-3.76%	
Other liabilities	1,826,097	1,840,776	20,192	5,145	1,846,289	1,845,921	0.02%	
Total liabilities	<u>4,290,804</u>	<u>4,402,048</u>	<u>20,452</u>	<u>5,145</u>	<u>4,311,256</u>	<u>4,407,193</u>	<u>-2.18%</u>	
Net assets:								
Invested in capital assets, net of related debt	918,048	958,933	32,005	31,046	950,053	989,979	-4.03%	
Restricted	1,071,406	1,009,623	-	-	1,071,406	1,009,623	6.12%	
Unrestricted	673,572	996,220	49,236	44,237	722,808	1,040,457	-30.53%	
Total net assets	<u>\$ 2,663,026</u>	<u>2,964,776</u>	<u>81,241</u>	<u>75,283</u>	<u>2,744,267</u>	<u>3,040,059</u>	<u>-9.73%</u>	

The District's combined net assets decreased by 9.73%, or \$295,792, from the prior year. The District's net assets were somewhat evenly disbursed between restricted net assets, unrestricted net assets, and invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$61,783, or 6.12% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$317,649, or 30.53%. This decrease in unrestricted net assets was largely a result of the District's decrease in the General Fund balance.

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

	Figure A-4 Changes of Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 464,307	290,217	86,191	81,698	550,498	371,915	48.02%
Operating grants, contributions and restricted interest	1,034,476	720,439	97,255	94,186	1,131,731	814,625	38.93%
General revenues:							
Property tax	1,229,674	1,387,194	-	-	1,229,674	1,387,194	-11.36%
Income surtax	141,982	150,120	-	-	141,982	150,120	-5.42%
Statewide sales, services and use tax	251,155	218,829	-	-	251,155	218,829	14.77%
Unrestricted state grants	1,328,570	1,659,491	-	-	1,328,570	1,659,491	-19.94%
Unrestricted investment earnings	28,270	56,552	24	20	28,294	56,572	-49.99%
Other	45,987	70,592	763	-	46,750	70,592	-33.77%
Transfers	8,294	(9,981)	(8,294)	9,981	-	-	0.00%
Total revenues	<u>4,532,715</u>	<u>4,543,453</u>	<u>175,939</u>	<u>185,885</u>	<u>4,708,654</u>	<u>4,729,338</u>	<u>-0.44%</u>
Program expenses:							
Governmental activities:							
Instructional	2,698,057	2,617,811	-	-	2,698,057	2,617,811	3.07%
Support services	1,742,880	1,259,806	-	-	1,742,880	1,259,806	38.35%
Non-instructional programs	-	-	169,981	154,420	169,981	154,420	10.08%
Other expenses	393,528	342,126	-	-	393,528	342,126	15.02%
Total expenses	<u>4,834,465</u>	<u>4,219,743</u>	<u>169,981</u>	<u>154,420</u>	<u>5,004,446</u>	<u>4,374,163</u>	<u>14.41%</u>
Changes in net assets	(301,750)	323,710	5,958	31,465	(295,792)	355,175	-183.28%
Beginning net assets	<u>2,964,776</u>	<u>2,641,066</u>	<u>75,283</u>	<u>43,818</u>	<u>3,040,059</u>	<u>2,684,884</u>	<u>13.23%</u>
Ending net assets	<u>\$ 2,663,026</u>	<u>2,964,776</u>	<u>81,241</u>	<u>75,283</u>	<u>2,744,267</u>	<u>3,040,059</u>	<u>-9.73%</u>

In fiscal 2010, local tax, statewide sales, services and use tax and unrestricted state grants account for 65.11% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly all of the revenue from business type activities.

The District's total revenues were approximately \$4.71 million, of which \$4.53 million was for governmental activities and less than \$0.18 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.44% decrease in revenues and a 14.41% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$4,532,715 and expenses were \$4,834,465 for the year ended June 30, 2010.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 2,698,057	2,617,811	3.07%	1,352,543	1,745,962	-22.53%
Support services	1,742,880	1,259,806	38.35%	1,737,442	1,259,324	37.97%
Other expenses	393,528	342,126	15.02%	245,697	203,801	20.56%
Totals	\$ 4,834,465	4,219,743	14.57%	3,335,682	3,209,087	3.94%

For the year ended June 30, 2010:

- The cost of all governmental activities this year was \$4,834,465.
- A portion of the cost financed by users of the District's programs was \$464,307.
- The federal and state government subsidized certain programs with operating grants and contributions totaling \$1,034,476.
- The net cost portion of governmental activities was financed with \$1,229,674 in property tax, \$141,982 in income surtax, \$251,155 in statewide sales, services and use tax, \$1,328,570 in unrestricted state grants, \$28,270 in interest income and \$54,281 in other general revenue and transfers.

Business Type Activities

Revenues of the Districts business type activities were \$175,939 and expenses were \$169,981. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and other income including investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Sidney 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 \$1,637,956, compared to last year's ending fund balance in governmental funds of \$1,835,299.

Governmental Fund Highlights

- The District's General Fund decreased \$171,667. The decrease was largely a result of the ten percent across-the-board cut in state funding during the year.
- The District's Physical Plant and Equipment Levy (PPEL) Fund increased by \$8,718. Revenues increased slightly and the District reduced spending from the PPEL Fund in order to eliminate the prior year deficit and improve the financial condition of the fund.
- The District's Capital Projects Fund decreased by \$69,326. The decrease is a result of the District paying the first two installments, or half of the lease obligation entered into by the District during the year for the new one-to-one computer program.

- The District's Management Fund decreased by \$54,156 due to a reduction in revenues and a substantial increase in property insurance costs.
- The District's Debt Service Fund increased by \$86,830 due primarily to a transfer from the Capital Projects Fund for future payment on the qualified zone academy bonds.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$75,283 to \$81,241. The increase in net assets is mainly due to increases in local and federal sources of revenue.

BUDGETARY HIGHLIGHTS

The District's revenues were \$18,596 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more from federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested governmental funds of \$3,398,020, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers and audio-visual equipment, transportation equipment and intangible assets. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$228,178.

The original cost of the District's capital assets was \$6,688,597. Governmental funds accounted for \$6,579,369, with the remainder of \$109,228 accounted for 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 \$196,911 at June 30, 2010 compared to \$245,704 reported at June 30, 2009. This decrease resulted from the depreciation expense for the year.

	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
Land	\$ 7,500	7,500	-	-	7,500	7,500	0.00%
Buildings	3,181,889	3,285,532	-	-	3,181,889	3,285,532	-3.15%
Land improvements	11,720	12,515	-	-	11,720	12,515	-6.35%
Machinery and equipment	164,906	214,658	32,005	31,046	196,911	245,704	-19.86%
Total	\$ 3,366,015	3,520,205	32,005	31,046	3,398,020	3,551,251	-4.31%

Long-Term Debt

At June 30, 2010, the District had \$2,464,967 in general obligation and other long-term debt outstanding. (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 total outstanding General Obligation Bonds payable of \$1,630,000 at June 30, 2010.

The District had total outstanding Qualified Zone Academy Bonds payable of \$700,000 at June 30, 2010.

As of June 30, 2010, the District had two computer leases, one for teacher laptops and the other for the one-to-one program totaling \$117,967.

During its initial year of recording net OPEB liability in accordance with GASB Statement No. 45, the District disclosed a balance of \$17,000 at June 30, 2010.

	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 1,630,000	1,840,000	-11.41%
Qualified Zone Academy Bonds	700,000	700,000	0.00%
Laptop lease	112,206	-	100.00%
Computer lease	5,761	11,212	-48.62%
Elementary lab lease	-	10,060	-100.00%
Net OPEB liability	17,000	-	100.00%
Totals	\$ 2,464,967	2,561,272	-3.76%

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:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

- With the September 25, 2009 ten percent across-the-board reduction, the District will continue to implement cost-saving measures. 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 Jennifer Maher, Business Manager, Sidney Community School District, 2754 Knox Road, PO Box 609, Sidney, Iowa, 51652.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,777,429	66,935	1,844,364
Receivables:			
Property tax:			
Delinquent	27,199	-	27,199
Succeeding year	1,229,789	-	1,229,789
Income surtax	128,398	-	128,398
Accounts	522	25	547
Due from other governments	424,478	-	424,478
Inventories	-	2,728	2,728
Capital assets, net of accumulated depreciation	3,366,015	32,005	3,398,020
Total assets	6,953,830	101,693	7,055,523
Liabilities			
Accounts payable	217,833	9,416	227,249
Salaries and benefits payable	373,839	10,463	384,302
Accrued interest payable	4,636	-	4,636
Deferred revenue:			
Succeeding year property tax	1,229,789	-	1,229,789
Unearned revenue	-	313	313
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	215,000	-	215,000
Qualified Zone Academy Bonds payable	700,000	-	700,000
Computer lease	5,761	-	5,761
1 to 1 laptop lease	56,103	-	56,103
Portion due after one year:			
General obligation bonds payable	1,415,000	-	1,415,000
1 to 1 laptop lease	56,103	-	56,103
Net OPEB liability	16,740	260	17,000
Total liabilities	4,290,804	20,452	4,311,256
Net assets			
Invested in capital assets, net of related debt	918,048	32,005	950,053
Restricted for:			
Categorical funding	118,071	-	118,071
Capital projects	191,835	-	191,835
Management levy	74,269	-	74,269
Physical plant and equipment levy	7,836	-	7,836
Debt service levy	637,169	-	637,169
Other special revenue purposes	42,226	-	42,226
Unrestricted	673,572	49,236	722,808
Total net assets	\$ 2,663,026	81,241	2,744,267

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Services	Operating Grants, and Restricted Interest	Contributions	Govern- mental Activities	Business Type Activities	
Expenses						
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 1,791,308	334,073	738,256	(718,979)	-	(718,979)
Special	371,106	41,797	73,988	(255,321)	-	(255,321)
Other	535,643	85,999	71,401	(378,243)	-	(378,243)
	<u>2,698,057</u>	<u>461,869</u>	<u>883,645</u>	<u>(1,352,543)</u>	<u>-</u>	<u>(1,352,543)</u>
Support services:						
Student	133,951	-	-	(133,951)	-	(133,951)
Instructional staff	408,440	-	-	(408,440)	-	(408,440)
Administration	551,427	-	3,000	(548,427)	-	(548,427)
Operation and maintenance of plant	349,232	-	-	(349,232)	-	(349,232)
Transportation	299,830	2,438	-	(297,392)	-	(297,392)
	<u>1,742,880</u>	<u>2,438</u>	<u>3,000</u>	<u>(1,737,442)</u>	<u>-</u>	<u>(1,737,442)</u>
Other expenditures:						
Facilities acquisitions	79,700	-	-	(79,700)	-	(79,700)
Long-term debt interest	61,559	-	-	(61,559)	-	(61,559)
AEA flowthrough	147,831	-	147,831	-	-	-
Depreciation(unallocated)*	104,438	-	-	(104,438)	-	(104,438)
	<u>393,528</u>	<u>-</u>	<u>147,831</u>	<u>(245,697)</u>	<u>-</u>	<u>(245,697)</u>
Total governmental activities	4,834,465	464,307	1,034,476	(3,335,682)	-	(3,335,682)
Business Type activities:						
Non-instructional programs:						
Nutrition services	169,981	86,191	97,255	-	13,465	13,465
Total	<u>\$ 5,004,446</u>	<u>550,498</u>	<u>1,131,731</u>	<u>(3,335,682)</u>	<u>13,465</u>	<u>(3,322,217)</u>
General Revenues and Transfers:						
General Revenues:						
Local tax for:						
General purposes				\$ 927,521	-	927,521
Debt service				272,428	-	272,428
Capital outlay				29,725	-	29,725
Statewide sales and services				251,155	-	251,155
Income surtax				141,982	-	141,982
Unrestricted state grants				1,328,570	-	1,328,570
Unrestricted investment earnings				28,270	24	28,294
Other				45,987	763	46,750
Transfers				8,294	(8,294)	-
Total general revenues and transfers				<u>3,033,932</u>	<u>(7,507)</u>	<u>3,026,425</u>
Changes in net assets				(301,750)	5,958	(295,792)
Net assets beginning of year				<u>2,964,776</u>	<u>75,283</u>	<u>3,040,059</u>
Net assets end of year				<u>\$ 2,663,026</u>	<u>81,241</u>	<u>2,744,267</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Debt Service	Capital Projects	Nonmajor	Total
				Governmental Funds	
Assets					
Cash and pooled investments	\$ 845,000	631,188	115,775	185,466	1,777,429
Receivables:					
Property tax:					
Delinquent	19,237	5,981	-	1,981	27,199
Succeeding year	963,478	233,345	-	32,966	1,229,789
Income surtax	128,398	-	-	-	128,398
Accounts	522	-	-	-	522
Due from other governments	318,841	-	105,619	18	424,478
Total assets	\$ 2,275,476	870,514	221,394	220,431	3,587,815
Liabilities and fund balances					
Liabilities:					
Accounts payable	\$ 125,140	-	29,559	63,134	217,833
Salaries and benefits payable	373,839	-	-	-	373,839
Deferred revenue:					
Succeeding year property tax	963,478	233,345	-	32,966	1,229,789
Income surtax	128,398	-	-	-	128,398
Total liabilities	1,590,855	233,345	29,559	96,100	1,949,859
Fund balances:					
Reserved for:					
Categorical funding	118,071	-	-	-	118,071
Debt service	-	637,169	-	-	637,169
Unreserved, reported in:					
General fund	566,550	-	-	-	566,550
Special revenue funds	-	-	-	124,331	124,331
Capital projects fund	-	-	191,835	-	191,835
Total fund balances	684,621	637,169	191,835	124,331	1,637,956
Total liabilities and fund balances	\$ 2,275,476	870,514	221,394	220,431	3,587,815

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY 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)	\$	1,637,956
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		3,366,015
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.		(4,636)
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.		128,398
Long-term liabilities, including bonds payable, qualified zone academy bonds payable, computer lease payable and other post-employment benefits payable are not due and payable in the current period and, therefore, are not reported in the funds.		<u>(2,464,707)</u>
 Net assets of governmental activities (page 18)	 \$	 <u><u>2,663,026</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:					
Local sources:					
Local tax	\$ 1,002,765	272,428	251,155	89,629	1,615,977
Tuition	364,338	-	-	-	364,338
Other	54,723	17,327	6,599	101,720	180,369
State sources	1,763,359	-	-	-	1,763,359
Federal sources	591,159	-	-	-	591,159
Total revenues	3,776,344	289,755	257,754	191,349	4,515,202
Expenditures:					
Current:					
Instruction:					
Regular	1,772,782	-	8,483	-	1,781,265
Special	371,106	-	-	-	371,106
Other	448,581	-	-	84,535	533,116
	2,592,469	-	8,483	84,535	2,685,487
Support services:					
Student	133,380	-	-	-	133,380
Instructional staff	128,134	-	273,822	6,211	408,167
Administration	528,595	-	-	12,899	541,494
Operation and maintenance of plant	241,549	-	5,920	114,887	362,356
Transportation	233,816	-	-	8,668	242,484
	1,265,474	-	279,742	142,665	1,687,881
Other expenditures:					
Facilities acquisitions	-	-	71,577	8,123	79,700
Long-term debt:					
Principal	-	337,717	-	-	337,717
Interest and fiscal charges	-	62,023	-	-	62,023
AEA flowthrough	147,831	-	-	-	147,831
	147,831	399,740	71,577	8,123	627,271
Total expenditures	4,005,774	399,740	359,802	235,323	5,000,639
Excess(deficiency) of revenues over(under) expenditures	(229,430)	(109,985)	(102,048)	(43,974)	(485,437)
Other financing sources(uses):					
Sale of equipment	2,385	-	-	-	2,385
Transfers in	61,297	196,815	5,125	794	264,031
Transfers out	(5,919)	-	(196,815)	-	(202,734)
Lease proceeds	-	-	224,412	-	224,412
Total other financing sources(uses)	57,763	196,815	32,722	794	288,094
Net change in fund balances	(171,667)	86,830	(69,326)	(43,180)	(197,343)
Fund balances beginning of year	856,288	550,339	261,161	167,511	1,835,299
Fund balances end of year	\$ 684,621	637,169	191,835	124,331	1,637,956

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 22) \$ (197,343)

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

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

Capital outlays	\$ 70,108	
Depreciation expense	(224,298)	(154,190)

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

Issued	(224,412)	
Repaid	337,717	113,305

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (54,080)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 6,834

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. 464

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.
 Other postemployment benefits (16,740)

Changes in net assets of governmental activities (page 19) \$ (301,750)

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

	Business Type Activities: Enterprise Fund
	School Nutrition
Assets	
Cash and pooled investments	\$ 66,935
Accounts receivable	25
Inventories	2,728
Capital assets, net of accumulated depreciation	32,005
Total assets	101,693
Liabilities	
Accounts payable	9,416
Salaries and benefits payable	10,463
Unearned revenue	313
Net OPEB liability	260
Total liabilities	20,452
Net Assets	
Invested in capital assets	32,005
Unrestricted	49,236
Total net assets	\$ 81,241

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Operating revenues:		
Local sources:		
Charges for services	\$ 86,191	-
Miscellaneous revenues	763	-
Total operating revenues	86,954	-
Operating expenses:		
Support services:		
Administration:		
Benefits	-	1,077
Non-instructional programs:		
Salaries	66,375	-
Benefits	13,406	-
Services	3,590	-
Supplies	82,730	-
Depreciation	3,880	-
Total operating expenses	169,981	1,077
Operating loss	(83,027)	(1,077)
Non-operating revenues:		
State sources	1,827	-
Federal sources	95,428	-
Interest on investments	24	-
Total non-operating revenues	97,279	-
Change in net assets before other financing sources	14,252	(1,077)
Other financing uses:		
Transfer out	(8,294)	(53,003)
Changes in net assets	5,958	(54,080)
Net assets beginning of year	75,283	54,080
Net assets end of year	\$ 81,241	-

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 85,720	-
Cash received from miscellaneous operating activities	763	-
Cash payments to employees for services	(69,314)	(1,077)
Cash payments to suppliers for goods or services	(71,100)	-
Net cash used in operating activities	<u>(53,931)</u>	<u>(1,077)</u>
Cash flows from non-capital financing activities:		
Transfer to General Fund	(8,294)	(53,003)
State grants received	1,827	-
Federal grants received	85,150	-
Net cash provided(used) by non-capital financing activities	<u>78,683</u>	<u>(53,003)</u>
Cash flows from capital and related financing		
Acquisition of capital assets	(4,839)	-
Cash flows from investing activities:		
Interest on investments	24	-
Net increase(decrease) in cash and cash equivalents	19,937	(54,080)
Cash and cash equivalents at beginning of year	46,998	54,080
Cash and cash equivalents at end of year	<u>\$ 66,935</u>	<u>-</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (83,027)	(1,077)
Adjustments to reconcile operating loss to net cash provided used by operating activities:		
Commodities consumed	10,278	-
Depreciation	3,880	-
Increase in inventories	(344)	-
Increase in accounts receivable	(25)	-
Increase in accounts payable	5,286	-
Increase in salaries and benefits payable	10,207	-
Increase in net OPEB liability	260	-
Decrease in unearned revenue	(446)	-
Net cash used by operating activities	<u>\$ (53,931)</u>	<u>(1,077)</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2010, the District received \$10,278 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

SIDNEY COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

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

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest 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 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded insurance plan of the

District. The Internal Service Fund is charged back to the Governmental Funds and shown combined in the Statement of Net Assets and the Statement of Activities.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's

principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Intangibles	150,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,000

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

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

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

Fund 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.

Designated Fund Balances - In the governmental fund financial statements, designated funds are not available for appropriation, but are set aside 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 non-instructional programs functional area exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2010 were entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$20 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 128,545
Debt Sinking	Capital Projects	68,270
Capital Projects	General	5,125
General	Nutrition	8,294
Activity	General	794
General	Internal Service: Employee Flex	839
	Internal Service: Employee HRA	52,164
Total		<u>\$ 264,031</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
Business type activities:				
Machinery and equipment	\$ 104,389	4,839	-	109,228
Less accumulated depreciation	73,343	3,880	-	77,223
Business type activities capital assets, net	<u>\$ 31,046</u>	<u>959</u>	<u>-</u>	<u>32,005</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,500	-	-	7,500
Total capital assets not being depreciated	7,500	-	-	7,500
Capital assets being depreciated:				
Buildings	5,290,905	-	-	5,290,905
Land improvements	193,934	-	-	193,934
Machinery and equipment	1,016,922	70,108	-	1,087,030
Total capital assets being depreciated	6,501,761	70,108	-	6,571,869
Less accumulated depreciation for:				
Buildings	2,005,373	103,643	-	2,109,016
Land improvements	181,419	795	-	182,214
Machinery and equipment	802,264	119,860	-	922,124
Total accumulated depreciation	2,989,056	224,298	-	3,213,354
Total capital assets being depreciated, net	3,512,705	(154,190)	-	3,358,515
Governmental activities capital assets, net	\$ 3,520,205	(154,190)	-	3,366,015

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 39,783
Other	2,527

Support services:

Administration	2,987
Operation and maintenance of plant	2,711
Transportation	71,852

Unallocated depreciation

119,860
104,438

Total depreciation expense - governmental activities

\$ 224,298

Business type activities:

Food services operations	\$ 3,880
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(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 1,840,000	-	210,000	1,630,000	215,000
Qualified zone academy bonds	700,000	-	-	700,000	700,000
Laptop lease	-	224,412	112,206	112,206	56,103
Computer lease - teacher laptops	11,212	-	5,451	5,761	5,761
Elementary lab lease	10,060	-	10,060	-	-
Net OPEB liability	-	16,740	-	16,740	-
Total	\$ 2,561,272	241,152	337,717	2,464,707	976,864
Business type activities:					
Net OPEB liability	\$ -	260	-	260	-

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

Year Ending June 30,	Bond Issue of April 1, 2004				
	Interest Rates	Principal	Interest	Total	
2011	2.85	% \$ 215,000	55,630	270,630	
2012	3.15	220,000	49,502	269,502	
2013	3.35	235,000	42,572	277,572	
2014	3.45	240,000	34,700	274,700	
2015	3.55	250,000	26,420	276,420	
2016-17	3.65-3.80	470,000	27,425	497,425	
Total		\$ 1,630,000	236,249	1,866,249	

Qualified Zone Academy Bonds

During the year ended June 30, 2003, the District issued zero interest Qualified Zone Academy Bonds (QZAB). Annual transfers from the Capital Projects - Statewide Sales and Services Tax fund to a debt sinking fund will be made to pay the indebtedness due December 15, 2010, of \$700,000.

Computer Leases

Details of the District's June 30, 2010 computer lease indebtedness is as follows:

Year Ending June 30,	Teacher Laptops			
	Interest Rates	Principal	Interest	Total
2011	1.90%	\$ 5,761	328	6,089

Year Ending June 30,	1 to 1 Laptop Lease Principal
2011	\$ 56,103
2012	56,103
Total	<u>\$ 112,206</u>

(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 \$155,721, \$134,702, and \$122,380 respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 44 active and 4 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 Wellmark. Retirees under age 65 pay the same premium for the medical 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	\$ 42,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>42,000</u>
Contributions made	<u>(25,000)</u>
Increase in net OPEB obligation	17,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 17,000</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 \$25,000 to the medical plan. Plan members eligible for the plan contributed \$31,000 or 55.36% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$42,000	59.52%	\$17,000

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 \$373,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$373,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,914,906 and the ratio of the UAAL to covered payroll was 19.48%. 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 Projected Unit Credit Cost Method was used. The actuarial assumptions include a 4.50% discount rate based on the District's funding policy. The projected annual health care cost trend rate is 11.00% for the year ended June 30, 2010. It then grades downward by 0.5% each year until reaching the ultimate health care cost trend rate of 5.00% in 2022.

Mortality rates are from the RP-2000 Table, 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 \$346 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

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

(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 \$147,831 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Categorical Funding

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

Project	Amount
Returning Dropouts and Dropout Prevention Programs	\$ 77,785
Teacher Salary Supplement	30,815
Professional Development for Model Core Curriculum	8,663
Teacher Development Academies	808
Total	\$ 118,071

(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 non-instructional programs functional area exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,160,684	86,978	2,247,662	2,098,294	2,098,294	149,368
Intermediate sources	-	-	-	2,700	2,700	(2,700)
State sources	1,763,359	1,827	1,765,186	2,183,845	2,183,845	(418,659)
Federal sources	591,159	95,428	686,587	396,000	396,000	290,587
Total revenues	<u>4,515,202</u>	<u>184,233</u>	<u>4,699,435</u>	<u>4,680,839</u>	<u>4,680,839</u>	<u>18,596</u>
Expenditures/Expenses:						
Instruction	2,685,487	-	2,685,487	3,562,571	3,562,571	877,084
Support services	1,687,881	-	1,687,881	1,889,078	1,889,078	201,197
Non-instructional programs	-	169,981	169,981	165,000	165,000	(4,981)
Other expenditures	627,271	-	627,271	1,088,332	1,088,332	461,061
Total expenditures/expenses	<u>5,000,639</u>	<u>169,981</u>	<u>5,170,620</u>	<u>6,704,981</u>	<u>6,704,981</u>	<u>1,534,361</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(485,437)	14,252	(471,185)	(2,024,142)	(2,024,142)	1,552,957
Other financing sources, net	<u>288,094</u>	<u>(8,294)</u>	<u>279,800</u>	<u>78,500</u>	<u>78,500</u>	<u>201,300</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(197,343)	5,958	(191,385)	(1,945,642)	(1,945,642)	1,754,257
Balances beginning of year	<u>1,835,299</u>	<u>75,283</u>	<u>1,910,582</u>	<u>1,863,264</u>	<u>1,863,264</u>	<u>47,318</u>
Balances end of year	<u>\$ 1,637,956</u>	<u>81,241</u>	<u>1,719,197</u>	<u>(82,378)</u>	<u>(82,378)</u>	<u>1,801,575</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison 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 a GAAP basis.

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

During the year ended June 30, 2010, expenditures in the non-instructional programs functional area exceeded the amounts budgeted.

SIDNEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 373,000	373,000	0.00%	\$ 1,914,906	19.48%

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

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

	Special Revenue			Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and pooled investments	\$ 131,454	46,235	7,777	185,466
Receivables:				
Property tax:				
Delinquent	1,328	-	653	1,981
Succeeding year	-	-	32,966	32,966
Due from other governments	-	18	-	18
Total assets	\$ 132,782	46,253	41,396	220,431
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 58,513	4,027	594	63,134
Deferred revenue:				
Succeeding year property tax	-	-	32,966	32,966
Total liabilities	58,513	4,027	33,560	96,100
Unreserved fund balances	74,269	42,226	7,836	124,331
Total liabilities and fund balances	\$ 132,782	46,253	41,396	220,431

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue			
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax	\$ 59,904	-	29,725	89,629
Other	9,495	85,999	6,226	101,720
Total revenues	<u>69,399</u>	<u>85,999</u>	<u>35,951</u>	<u>191,349</u>
Expenditures:				
Current:				
Instruction:				
Other	-	84,535	-	84,535
Support services:				
Instructional staff	-	-	6,211	6,211
Administration	-	-	12,899	12,899
Operation and maintenance of plant	114,887	-	-	114,887
Transportation	8,668	-	-	8,668
Other expenditures:				
Facilities acquisitions	-	-	8,123	8,123
Total expenditures	<u>123,555</u>	<u>84,535</u>	<u>27,233</u>	<u>235,323</u>
Excess(deficiency) of revenues over(under) expenditures	<u>(54,156)</u>	<u>1,464</u>	<u>8,718</u>	<u>(43,974)</u>
Other financing sources:				
Transfers in	-	794	-	794
Excess(deficiency) of revenues and other financing sources over(under) expenditures	<u>(54,156)</u>	<u>2,258</u>	<u>8,718</u>	<u>(43,180)</u>
Fund balances beginning of year	<u>128,425</u>	<u>39,968</u>	<u>(882)</u>	<u>167,511</u>
Fund balances end of year	<u>\$ 74,269</u>	<u>42,226</u>	<u>7,836</u>	<u>124,331</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY 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	Intra- Fund Transfers	Balance End of Year
Daisy Hummel Memorial	\$ 330	-	-	-	330
Drama Club	(1,080)	304	666	1,038	(404)
Musical	425	-	-	-	425
Vocal Music	563	300	432	-	431
Swing Choir/Jazz Band	118	-	-	-	118
JH Athletics	3,091	3,354	3,435	-	3,010
JH Girls Basketball	16	-	243	-	(227)
Golf	489	569	1,014	-	44
Swimming	-	-	259	-	(259)
Boys Basketball	2,784	3,264	4,179	-	1,869
Football	4,084	8,721	9,649	-	3,156
FB Fundraiser	881	-	-	-	881
Baseball	(341)	1,841	2,272	-	(772)
Boys Track	(303)	1,224	3,062	-	(2,141)
Wrestling	226	2,167	3,524	-	(1,131)
Wrestling fundraiser	(202)	1,180	2,116	-	(1,138)
Girls Basketball	3,390	2,950	2,850	-	3,490
Volleyball	85	3,862	4,354	-	(407)
Softball	72	3,563	3,250	-	385
Girls Track	(1,557)	210	752	-	(2,099)
Art Club	752	11	245	-	518
FFA	2,018	-	-	-	2,018
FCCLA	492	438	644	-	286
Honor Society	607	494	674	-	427
Letterman Club	1,424	-	90	-	1,334
Student Council HS	1,871	18,261	10,325	-	9,807
Student Council JH	1,434	71	-	-	1,505
Trophy Case	170	-	-	-	170
Business Club	2,412	2,150	3,418	-	1,144
Band Projects	831	858	32	-	1,657
BB Cheerleaders	(111)	147	102	-	(66)
Class of 2008	1,604	-	12	(1,592)	-
Class of 2009	136	4,171	1,361	(2,946)	-
Class of 2010	2,295	1,031	3,234	-	92
Class of 2011	-	3,269	2,579	3,500	4,190
FB Cheerleaders	611	1,368	976	-	1,003
WR Cheerleaders	982	414	541	-	855
Athletics Pop Machine	916	10,103	10,127	-	892
Elementary Activities	5,379	7,245	5,836	-	6,788
Industrial Arts	151	-	-	-	151
Interest	133	43	-	-	176
Elementary Pop Machine	286	606	990	-	(98)
P.E. Fundraiser	366	-	-	-	366
Plays	1,278	1,582	1,292	-	1,568
Athletic Season	860	1,022	-	-	1,882
Total	\$ 39,968	86,793	84,535	-	42,226

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 DEBT SERVICE FUNDS
 JUNE 30, 2010

	Debt Service Funds		
	Debt Service	Debt Sinking	Total
Assets			
Cash and pooled investments	\$ 18,370	612,818	631,188
Receivables:			
Property tax:			
Delinquent	5,981	-	5,981
Succeeding year	233,345	-	233,345
Total assets	\$ 257,696	612,818	870,514
Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 233,345	-	233,345
Fund balances:			
Reserved for debt service	24,351	612,818	637,169
Total liabilities and fund balances	\$ 257,696	612,818	870,514

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 DEBT SERVICE FUNDS
 YEAR ENDED JUNE 30, 2010

	Debt Service Funds		
	Debt Service	Debt Sinking	Total
Revenues:			
Local sources:			
Local tax	\$ 272,428	-	272,428
Other	-	17,327	17,327
Total revenues	272,428	17,327	289,755
Expenditures:			
Other expenditures:			
Long-term debt:			
Principal	337,717	-	337,717
Interest and fiscal charges	62,023	-	62,023
Total expenditures	399,740	-	399,740
Excess (deficiency) of revenues over (under) expenditures	(127,312)	17,327	(109,985)
Other financing sources:			
Transfers in	128,545	68,270	196,815
Net change in fund balances	1,233	85,597	86,830
Fund balances beginning of year	23,118	527,221	550,339
Fund balances end of year	\$ 24,351	612,818	637,169

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 YEAR ENDED, JUNE 30, 2010

	Internal Service Funds		
	Employee Flex	Employee HRA	Total
Operating revenues:			
Local sources:			
Charges for services	\$ -	-	-
Total operating revenues	-	-	-
Expenses:			
Support services:			
Administration	850	227	1,077
Total expenses	850	227	1,077
Change in net assets before other financing uses	(850)	(227)	(1,077)
Other financing uses:			
Transfer out	(839)	(52,164)	(53,003)
Change in net assets	(1,689)	(52,391)	(54,080)
Net assets beginning of year	1,689	52,391	54,080
Net assets end of year	\$ -	-	-

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIDNEY COMMUNITY SCHOOL DISTRICT
 COMBINING CASH FLOW STATEMENT
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2010

	Internal Service Funds		
	Employee Flex	Employee HRA	Total
Cash flows from operating activities:			
Cash payments to employees for services	\$ (850)	(227)	(1,077)
Cash flows from other financing uses:			
Interfund transfer	(839)	(52,164)	(53,003)
Net decrease in cash and cash equivalents	(1,689)	(52,391)	(54,080)
Cash and cash equivalents at beginning of year	1,689	52,391	54,080
Cash and cash equivalents at end of year	\$ -	-	-
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	\$ (850)	(227)	(1,077)
Net cash used by operating activities	\$ (850)	(227)	(1,077)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,615,977	1,734,649	1,743,519	1,773,618	1,758,105	1,633,214	1,675,765
Tuition	364,338	205,035	185,330	203,497	146,025	124,819	104,926
Other	180,369	209,693	224,151	281,439	260,332	285,964	151,977
Intermediate sources	-	-	2,368	-	-	-	-
State sources	1,763,359	2,117,573	2,086,935	1,862,149	1,801,552	1,649,337	1,579,256
Federal sources	591,159	256,394	207,350	183,410	170,584	196,792	149,207
Total	<u>\$ 4,515,202</u>	<u>4,523,344</u>	<u>4,449,653</u>	<u>4,304,113</u>	<u>4,136,598</u>	<u>3,890,126</u>	<u>3,661,131</u>
Expenditures:							
Current:							
Instruction:							
Regular	\$ 1,781,265	1,630,114	1,548,722	1,549,988	1,451,545	1,383,753	1,378,326
Special	371,106	666,773	647,232	612,881	488,056	442,290	432,934
Other	533,116	318,744	303,080	222,333	311,437	298,717	279,155
Support services:							
Student	133,380	159,861	139,589	129,148	134,148	113,912	108,455
Instructional staff	408,167	171,791	99,592	108,393	133,909	78,533	72,056
Administration	541,494	397,125	396,570	379,710	370,155	455,720	400,681
Operation and maintenance of plant	362,356	297,942	309,554	305,048	288,372	278,940	245,471
Transportation	242,484	190,068	180,541	185,875	257,805	149,636	162,110
Other expenditures:							
Facilities acquisitions	79,700	59,378	35,959	57,008	39,740	240,802	646,678
Long-term debt:							
Principal	337,717	251,835	206,020	2,250,395	158,207	135,000	130,000
Interest and other charges	62,023	68,857	73,336	191,631	196,603	205,650	220,241
AEA flow-through	147,831	138,325	131,204	115,493	109,205	108,712	110,293
Total	<u>\$ 5,000,639</u>	<u>4,350,813</u>	<u>4,071,399</u>	<u>6,107,903</u>	<u>3,939,182</u>	<u>3,891,665</u>	<u>4,186,400</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Agriculture:			
Rural Education Achievement Program	84.358	FY10	\$ 30,869
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	18,929
National School Lunch Program	10.555	FY 10	76,499 *
			<u>95,428</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY 10	33,522
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 09	5,321
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	26,650
			<u>65,493</u>
Career and Technical Education - Basic Grants to States	84.048	FY 10	<u>3,208</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	<u>1,127</u>
Education Research, Development and Dissemination	84.305	FY 10	<u>1,000</u>
Improving Teacher Quality State Grants	84.367	FY 10	<u>19,713</u>
Grants for State Assessments and Related Activities	84.369	FY 09	1,246
Grants for State Assessments and Related Activities	84.369	FY 10	2,295
			<u>3,541</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 09	33,159
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 10	174,868
			<u>208,027</u>
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY 10	19,812
ARRA - Special Education Grants to States, Recovery Act	84.391	FY 09	10,835
ARRA - Special Education Grants to States, Recovery Act	84.391	FY 10	43,341
			<u>73,988</u>
Total			<u>\$ 502,394</u>

* -Includes \$10,278 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sidney 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 50208-3050
Telephone (641) 792-1910

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

To the Board of Education of
Sidney 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 Sidney Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 28, 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 Sidney 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 Sidney Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sidney 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 we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

Sidney 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 Sidney 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 Sidney Community School District and other parties to whom Sidney 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 Sidney Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 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
Sidney Community School District:

Compliance

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

In our opinion, Sidney 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 Sidney 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 Sidney 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 Sidney 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.

Sidney Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Sidney 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 Sidney Community School District and other parties to whom Sidney Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 28, 2011

SIDNEY 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 84.010 - Title I Grants to Local Educational Agencies.
 - CFDA Number 84.389 - ARRA - Title I Grants to Local Educational Agencies, Recovery Act.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Sidney Community School District did not qualify as a low-risk auditee.

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

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

Response - The District added office personnel to provide for more segregation of duties.

Conclusion - Response accepted.

II-B-10 Gate Admissions - During our audit we noted that the District doesn't utilize pre-numbered tickets for all events that require admission.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" of the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault

or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.

- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District will continue to review procedures and affect as much internal control as possible.

Conclusion - Response accepted.

II-C-10 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches.

Response - The District will develop a procedure to keep track of hours worked by non-certified coaches.

Conclusion - Response accepted.

II-D-10 Student Activity Fund - We noted during our audit a Scholarship paid from the Student Activity Fund.

Recommendation - A Private-Purpose Trust fund should be set up to handle scholarship monies.

Response - The District will create a Trust Fund to record the activity associated with fundraising for and granting scholarship monies.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIDNEY 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 84.010: Title I Grants to Local Educational Agencies

CFDA Number 84.389: ARRA - Title I Grants to Local Educational Agencies, Recovery Act

Federal Award Year: 2009 - 2010

U.S. Department of Education

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: 2009 - 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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - The District added office personnel to provide for more segregation of duties.

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, exceeded the amounts budgeted in the non-instructional programs functional area.

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 - When necessary, the District will amend the certified budget in future years.

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
Randy Bishop, Board Member Owns Bishop Plumbing & Heating	Repairs/Supplies	\$17,599

In accordance with Chapter 279.7A of the Code of Iowa, the above transaction with the Board Member appears to represent a conflict of interest.

Recommendation - Chapter 279.7A of the Code of Iowa states that a board member cannot have a direct or indirect interest in the contract of goods or services of the school district where the board member would derive a benefit of over \$2,500. The District should contact its attorney regarding this matter to determine the legality of these transactions and if any corrective action is required.

Response - The District will seek legal advice regarding this issue.

Conclusion - Response accepted.

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

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

IV-G-10 Certified Enrollment - We noted that the number of basic resident student reported to the Iowa Department of Education on line 1 of the Certified Enrollment Certification Form for October 2009 was overstated by 0.9 students.

Recommendation - The Iowa Department of Education and the Department of Management should be contacted to resolve this matter.

Response - Our auditors will be contacting the Iowa Department of Education and the Department of Management to resolve this issue.

Conclusion - Response accepted.

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 - We noted no significant deficiencies in the amounts reported, however, we noted the Certified Annual Report was not filed timely with the Department of Education.

Recommendation – The Certified Annual Report should have been filed with the Department of Education before the September 15th deadline.

Response - In the future, the District will file the Certified Annual Report with the Department of Education before the deadline.

Conclusion - Response accepted.

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 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 maintenance and warranties 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 \$47,575 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:

Warranties	\$	47,113
Maintenance		462
Total	\$	<u>47,575</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 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, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	52,627
Statewide Sales, Services and Use Tax			251,155
Expenditures/Transfers Out:			
School infrastructure:			
Buildings	\$	58,523	
Equipment		48,444	
Debt service for school infrastructure:			
Quality zone academy bonds		68,270	
Lease obligations		128,545	303,782
			<u> </u>
Ending Balance		\$	<u> </u> -

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

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy	<u>\$1.34000</u>	<u>\$ 120,948</u>

IV-M-10 Financial Condition - We noted eleven Student Activity Fund accounts with negative balances totaling \$8,742 as of June 30, 2010.

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 business manager has reconciled accounts in the Student Activity Fund.

Conclusion - Response accepted.

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

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

Response - A new contract with the Board President's signature will be used in the future.

Conclusion - Response accepted.

IV-O-10 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the general fund. The district should receipt rent collected for facility usage into the general fund.

Response - Rent collected will be receipted into the General Fund.

Conclusion - Response accepted.

IV-P-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 - The District should determine if the outstanding checks should be reissued, voided, or submitted to the State as unclaimed property. If the checks are submitted as unclaimed property, the District must do so annually before November 1st as required by Chapter 556.1(10) and 556.11 of the Code of Iowa.

Response - Outstanding checks will be reissued or sent to the state as unclaimed property.

Conclusion - Response accepted.