

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

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Gary E. Horton CPA

902 Central Ave. E.-PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
BETCO@mchsi.com E-mail

Independent Auditor's Report

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Walnut 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 25, 2011, on our consideration of Walnut 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 4 through 12 and 39 through 41 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 Walnut Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

March 25, 2011

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## WALNUT MANAGEMENT'S DISCUSSION AND ANALYSIS

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Walnut 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 \$2,354,758 in fiscal 2009 to \$2,074,362 in fiscal 2010, while General Fund expenditures decreased from \$2,370,961 in fiscal 2009 to \$2,240,811 in fiscal 2010. The District's General Fund decreased from \$612,640 in fiscal 2009 to \$346,071 in fiscal 2010
- The decrease in General Fund revenues was attributable to sharing incentives created by sharing classes and teachers with a neighboring school district. The decrease in expenditures was due primarily to a decrease in the negotiated salary and benefits and restricted grant expenditures.

### **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 Walnut 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 Walnut 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 Walnut Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

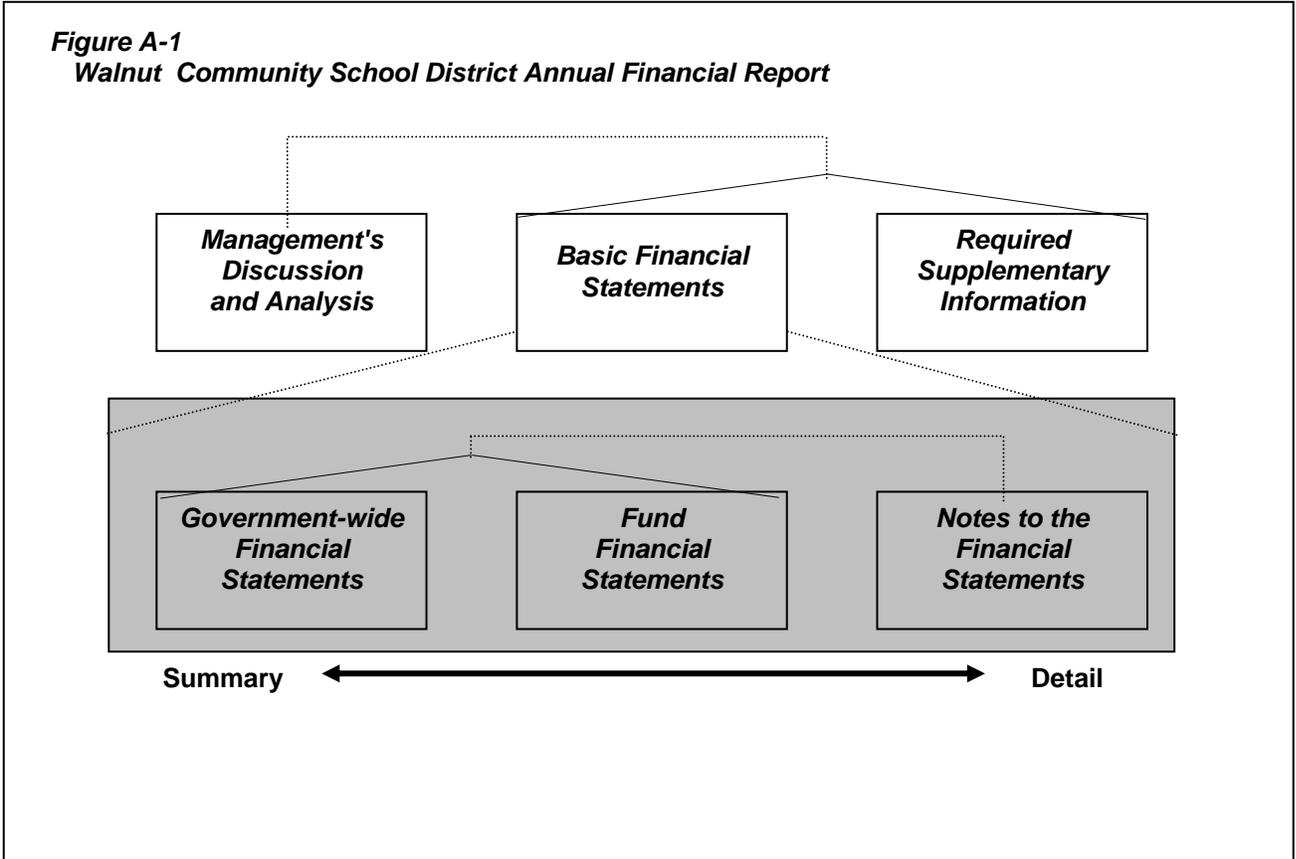


Figure A-2 summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain.

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

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

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The district has three kinds of funds:

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

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

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

- 1) *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 two Enterprise Funds, the School Nutrition Fund and the Day Care fund.
- 2) The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 3) *Fiduciary funds:* The district is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
  - Private-Purpose Trust Fund – The district accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## Government-Wide Financial Analysis

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,007,158	3,044,782	5	4,823	3,007,163	3,049,605	1%
Capital assets	1,979,971	1,868,633	32,570	29,621	2,012,541	1,898,254	-6%
<b>Total assets</b>	<b>4,987,129</b>	<b>4,913,415</b>	<b>32,575</b>	<b>34,444</b>	<b>5,019,704</b>	<b>4,947,859</b>	<b>-1%</b>
Long-term liabilities	938,030	896,970	-	516	938,030	897,486	-4%
Other liabilities	1,494,143	1,511,030	28,394	47,032	1,522,537	1,558,062	2%
<b>Total liabilities</b>	<b>2,432,173</b>	<b>2,408,000</b>	<b>28,394</b>	<b>47,548</b>	<b>2,460,567</b>	<b>2,455,548</b>	<b>&lt;-1%</b>
Net Assets:							
Invested in capital assets, net of related debt	1,054,971	1,093,633	32,570	29,621	1,087,541	1,123,254	3%
Restricted	906,417	1,159,057	-	-	906,417	1,159,057	28%
Unrestricted	593,568	252,725	(28,389)	(42,725)	565,179	210,000	-63%
<b>TOTAL NET ASSETS</b>	<b>2,554,956</b>	<b>2,505,415</b>	<b>4,181</b>	<b>(13,104)</b>	<b>2,559,137</b>	<b>2,492,311</b>	<b>-3%</b>

The district's combined net assets decreased by nearly 3%, or approximately \$66,826, over the prior year. The largest portion of the district's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with 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 approximately \$252,640 or 28% 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 approximately \$355,179, or 63%.

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

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	204,372	169,278	91,690	89,896	296,062	259,174	-12%
Operating grants & contributions	386,516	520,199	55,333	58,241	441,849	578,440	31%
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	1,188,680	1,217,770	-	-	1,188,680	1,217,770	2%
Income Surtax	66,148	51,214	-	-	66,148	51,214	-22%
Statewide sales & services tax	186,961	182,652	-	-	186,961	182,652	-2%
Unrestricted state grants	877,569	549,500	-	-	877,569	549,500	-37%
Unrestricted investment earnings	9,802	10,215	60	91	9,862	10,306	4%
Other revenue	61,365	4,405	-	-	61,365	4,405	-93%
<b>Total Revenues</b>	<b>2,981,413</b>	<b>2,705,233</b>	<b>147,083</b>	<b>148,228</b>	<b>3,128,496</b>	<b>2,853,461</b>	<b>-9%</b>
Expenses:							
Instruction	1,618,143	1,575,283	-	-	1,618,143	1,575,283	-3%
Support services	821,649	885,615	-	-	821,649	885,615	8%
Non-instructional programs	-	-	165,513	165,513	166,674	165,513	-1%
Other expenditures	187,570	255,027	-	-	187,570	255,027	36%
<b>Total expenses</b>	<b>2,627,362</b>	<b>2,715,925</b>	<b>166,513</b>	<b>165,513</b>	<b>2,794,036</b>	<b>2,881,438</b>	<b>3%</b>
<b>CHANGE IN NET ASSETS</b>	<b>354,051</b>	<b>(10,692)</b>	<b>(19,591)</b>	<b>(17,285)</b>	<b>334,460</b>	<b>(27,977)</b>	<b>-108%</b>
Net assets beginning of year (adjusted)	2,200,905	2,516,107	23,772	4,181	2,224,677	2,520,288	13%
Net assets end of year	2,554,956	2,505,415	4,181	(13,104)	2,559,137	2,492,311	-3%

Property tax and unrestricted state grants account for 62% of the total revenue. The district's expenses primarily relate to instruction and support services, which account for 85% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$2,705,233 and expenses were \$2,715,925. The district was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2009 \$</b>	<b>Total Cost of Services 2010 \$</b>	<b>Net Cost of Services 2009 \$</b>	<b>Net Cost of Services 2010 \$</b>
Instruction	1,618,143	1,575,283	1,154,777	1,001,258
Support Services	821,649	885,615	775,915	857,929
Non-instructional Programs	-	-	-	(450)
Other Expenses	187,570	255,027	105,782	167,711
<b>TOTAL</b>	<u>2,627,362</u>	<u>2,715,925</u>	<u>2,036,474</u>	<u>2,026,448</u>

- The cost financed by users of the district's programs was \$169,278.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$520,199.
- The net cost of governmental activities was financed with \$1,451,636 in property and other taxes and \$549,500 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$148,228 and expenses were \$165,513. The district's business type activities include the School Nutrition Fund and Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the district as a whole is reflected in its governmental funds, as well. As the district completed the year, its governmental funds reported a combined fund balance of \$1,518,538 well above last year's ending fund balances of \$1,465,164.

**Governmental Fund Highlights**

- The General Fund balance decreased from \$612,640 to \$346,071.

**Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$7,969 at June 30, 2009 to \$10,867 at June 30, 2010, while the Daycare Fund net assets decreased from \$(3,788) to \$(23,971).

## BUDGETARY HIGHLIGHTS

Over the course of the year, Walnut Community School District did not amend its budget.

The district's receipts were \$626,263 less than budgeted receipts. The most significant variance resulted from the District receiving more from sharing incentives 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.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the district had invested \$1.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the district's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$114,287.

Figure A-6

#### Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2009-2010
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	40,125	40,125	-	-	40,125	40,125	0%
Buildings	1,636,026	1,569,681	30,564	28,432	1,666,590	1,598,113	-4%
Improvements	74,776	71,925	-	-	74,776	71,925	-4%
Equipment & Furniture	229,044	186,902	2,006	1,189	231,050	188,091	-19%
<b>TOTAL</b>	<u>1,979,971</u>	<u>1,868,633</u>	<u>32,570</u>	<u>29,621</u>	<u>2,012,541</u>	<u>1,898,254</u>	<u>-6%</u>

### Long-Term Debt

At June 30, 2010, the district had \$896,970 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 4% from last year. (See Figure A-7) Additional information about the district's long-term debt is presented in Note 5 to the financial statements.

**Figure A-7  
Outstanding Long-Term Obligations**

	<b>Total School District</b>		<b>Percentage Change</b>
	2009	2010	2009-2010
	\$	\$	
Governmental Activities:			
General obligation bonds	925,000	775,000	-16%
Termination benefits	13,030	115,000	782%
Net OPEB liability	-	6,970	100%
	<u>938,030</u>	<u>896,970</u>	<u>-4%</u>
Business Type Activities:			
Net OPEB liability	<u>-</u>	<u>516</u>	<u>100%</u>

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Annually the district negotiates a new Master Contract with the WISEA. The district will negotiate a new agreement during fiscal year 2010. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the district's General Fund budget and related fund balance.

### **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 Jim Hammrich, Walnut Superintendent, Walnut Community School District, 415 Antique City Drive, Walnut, Iowa, 51577.

## BASIC FINANCIAL STATEMENTS

## WALNUT COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,566,151	9,831	1,575,982
Receivables:			
Property tax:			
Delinquent	13,361	-	13,361
Succeeding year	1,334,648		1,334,648
Accounts	-	1,095	1,095
Due from other governments	124,041	-	124,041
Internal balances	6,581	(6,581)	-
Inventories	-	478	478
Capital assets, net of accumulated depreciation	1,868,633	29,621	1,898,254
	<u>4,913,415</u>	<u>34,444</u>	<u>4,947,859</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Warrants issued in excess of bank balance	-	45,798	45,798
Accounts payable	174,421	365	174,786
Accrued interest payable	1,961	-	1,961
Deferred revenue:			
Succeeding year property tax	1,334,648	-	1,334,648
Other	-	869	869
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	160,000	-	160,000
Termination benefits	115,000	-	115,000
Portion due after one year:			
General obligation bonds payable	615,000	-	615,000
Net OPEB liability	6,970	516	7,486
	<u>2,408,000</u>	<u>47,548</u>	<u>2,455,548</u>
<b>Total liabilities</b>			

## WALNUT COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,093,633	29,621	1,123,254
Restricted for:			
Categorical funding	103,551	-	103,551
Management levy	94,423	-	94,423
Physical plant and equipment levy	209,036	-	209,036
Other special revenue purposes	36,033	-	36,033
Sales tax capital projects	636,058	-	636,058
Debt service	79,956	-	79,956
Unrestricted	<u>252,725</u>	<u>(42,725)</u>	<u>210,000</u>
<b>Total net assets</b>	<u><u>2,505,415</u></u>	<u><u>(13,104)</u></u>	<u><u>2,492,311</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year Ended June 30, 2010

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Instruction:				
Regular	1,218,705	77,036	355,562	-
Special	109,465	-	43,931	-
Other	247,113	64,106	33,390	-
	<u>1,575,283</u>	<u>141,142</u>	<u>432,883</u>	<u>-</u>
Support services:				
Student	73,830	-	-	-
Instructional staff	150,714	-	-	-
Administration	335,613	27,386	-	-
Operation and maintenance of plant	235,595	300	-	-
Transportation	89,863	-	-	-
	<u>885,615</u>	<u>27,686</u>	<u>-</u>	<u>-</u>
Non-instructional programs	-	450	-	-
Other expenditures:				
Facilities acquisition	65,480	-	-	-
Long-term debt interest	27,443	-	-	-
AEA flowthrough	87,316	-	87,316	-
Depreciation (unallocated)*	74,788	-	-	-
	<u>255,027</u>	<u>-</u>	<u>87,316</u>	<u>-</u>
Total governmental activities	<u>2,715,925</u>	<u>169,278</u>	<u>520,199</u>	<u>-</u>
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	105,819	50,463	58,241	-
Daycare	59,694	39,433	-	-
Total business-type activities	<u>165,513</u>	<u>89,896</u>	<u>58,241</u>	<u>-</u>
Total	<u>2,881,438</u>	<u>259,174</u>	<u>578,440</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Statewide sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year, as restated

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(786,107)	-	(786,107)
(65,534)	-	(65,534)
(149,617)	-	(149,617)
<u>(1,001,258)</u>	<u>-</u>	<u>(1,001,258)</u>
(73,830)	-	(73,830)
(150,714)	-	(150,714)
(308,227)	-	(308,227)
(235,295)	-	(235,295)
(89,863)	-	(89,863)
<u>(857,929)</u>	<u>-</u>	<u>(857,929)</u>
<u>450</u>	<u>-</u>	<u>450</u>
(65,480)	-	(65,480)
(27,443)	-	(27,443)
-	-	-
<u>(74,788)</u>	<u>-</u>	<u>(74,788)</u>
<u>(167,711)</u>	<u>-</u>	<u>(167,711)</u>
<u>(2,026,448)</u>	<u>-</u>	<u>(2,026,448)</u>
-	2,885	2,885
-	(20,261)	(20,261)
-	(17,376)	(17,376)
<u>(2,026,448)</u>	<u>(17,376)</u>	<u>(2,043,824)</u>
961,013	-	961,013
174,572	-	174,572
82,185	-	82,185
51,214	-	51,214
182,652	-	182,652
549,500	-	549,500
10,215	91	10,306
4,405	-	4,405
<u>2,015,756</u>	<u>91</u>	<u>2,015,847</u>
(10,692)	(17,285)	(27,977)
<u>2,516,107</u>	<u>4,181</u>	<u>2,520,288</u>
<u>2,505,415</u>	<u>(13,104)</u>	<u>2,492,311</u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2010

	General Fund	Management	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and pooled investments	464,482	179,061	631,119	79,850	210,269	1,564,781
Receivables:						
Property tax:						
Delinquent	8,744	1,589	-	2,067	961	13,361
Succeeding year	921,993	150,000	-	171,767	90,888	1,334,648
Interfund receivable	-	28,773	-	-	36,581	65,354
Due from other governments	87,082	-	36,959	-	-	124,041
<b>Total assets</b>	<b>1,482,301</b>	<b>359,423</b>	<b>668,078</b>	<b>253,684</b>	<b>338,699</b>	<b>3,102,185</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	160,506	-	9,257	-	2,742	172,505
Interfund payable	36,010	-	22,763	-	-	58,773
Deferred revenue:						
Succeeding year property tax	921,993	150,000	-	171,767	90,888	1,334,648
Income surtax	17,721	-	-	-	-	17,721
Total liabilities	<u>1,136,230</u>	<u>150,000</u>	<u>32,020</u>	<u>171,767</u>	<u>93,630</u>	<u>1,583,647</u>
Fund balances:						
Reserved for:						
Categorical funding	103,551	-	-	-	-	103,551
Debt service	-	-	-	81,917	-	81,917
Unreserved reported in:						
General Fund	242,520	-	-	-	-	242,520
Special Revenue Funds	-	209,423	-	-	245,069	454,492
Capital Projects Fund	-	-	636,058	-	-	636,058
Total fund balances	<u>346,071</u>	<u>209,423</u>	<u>636,058</u>	<u>81,917</u>	<u>245,069</u>	<u>1,518,538</u>
<b>Total liabilities and fund balances</b>	<b>1,482,301</b>	<b>359,423</b>	<b>668,078</b>	<b>253,684</b>	<b>338,699</b>	<b>3,102,185</b>

## WALNUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2010

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,518,538
<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.	1,868,633
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	17,721
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.	(1,961)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	(546)
Long-term liabilities, including bonds payable, termination benefits, and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(896,970)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,505,415</u></u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2010

	General Fund	Management	Capital Projects	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	895,613	147,771	182,652	174,572	82,185	1,482,793
Tuition	36,229	-	-	-	-	36,229
Other	72,821	7,166	716	359	64,342	145,404
Intermediate sources	2,365	-	-	-	-	2,365
State sources	833,860	-	-	-	-	833,860
Federal sources	233,474	-	-	-	-	233,474
Total revenues	<u>2,074,362</u>	<u>154,937</u>	<u>183,368</u>	<u>174,931</u>	<u>146,527</u>	<u>2,734,125</u>
Expenditures:						
Current:						
Instruction:						
Regular	1,084,767	11,728	-	-	-	1,096,495
Special	108,949	-	-	-	-	108,949
Other	182,540	-	-	-	64,573	247,113
	<u>1,376,256</u>	<u>11,728</u>	<u>-</u>	<u>-</u>	<u>64,573</u>	<u>1,452,557</u>
Support services:						
Student	64,573	-	9,257	-	-	73,830
Instructional staff	150,714	-	-	-	-	150,714
Administration	335,613	-	-	-	-	335,613
Operation and maintenance of plant	158,815	64,385	5,800	-	4,365	233,365
Transportation	67,524	-	-	-	-	67,524
	<u>777,239</u>	<u>64,385</u>	<u>15,057</u>	<u>-</u>	<u>4,365</u>	<u>861,046</u>
Other expenditures:						
Facilities acquisition	-	-	37,296	-	28,184	65,480
Long-term debt:						
Principal	-	-	-	150,000	-	150,000
Interest and fiscal charges	-	-	-	27,768	-	27,768
AEA flowthrough	87,316	-	-	-	-	87,316
	<u>87,316</u>	<u>-</u>	<u>37,296</u>	<u>177,768</u>	<u>28,184</u>	<u>330,564</u>
Total expenditures	<u>2,240,811</u>	<u>76,113</u>	<u>52,353</u>	<u>177,768</u>	<u>97,122</u>	<u>2,644,167</u>
Excess (deficiency) of revenues over (under) expenditures	(166,449)	78,824	131,015	(2,837)	49,405	89,958
Other financing sources (uses):						
Compensation for loss of fixed assets	2,265	-	-	-	-	2,265
Net change in fund balances	(164,184)	78,824	131,015	(2,837)	49,405	92,223
Fund balances beginning of year	612,640	128,995	451,164	78,429	193,936	1,465,164
Adjustments to beginning balance	(102,385)	1,604	53,879	6,325	1,728	(38,849)
Fund balances end of year	<u>346,071</u>	<u>209,423</u>	<u>636,058</u>	<u>81,917</u>	<u>245,069</u>	<u>1,518,538</u>

See notes to financial statements.

## WALNUT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2010

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		92,223
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year, as follows:		
Expenditures for capital assets	-	
Depreciation expense	<u>(111,338)</u>	(111,338)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		(31,157)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		150,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		325
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	(101,970)	
Other postemployment benefits	<u>(6,970)</u>	(108,940)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>(1,805)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>(10,692)</u></u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	9,831	1,370
Accounts receivable	1,095	-
Inventories	478	-
Capital assets, net of accumulated depreciation	29,621	-
	<u>41,025</u>	<u>1,370</u>
<b>Total assets</b>	<u>41,025</u>	<u>1,370</u>
<b>Liabilities</b>		
Accounts payable	365	1,916
Interfund payable	6,581	-
Excess of warrants issued over bank balance	45,798	-
Deferred revenue	869	-
Net OPEB liability	516	-
	<u>54,129</u>	<u>1,916</u>
<b>Total liabilities</b>	<u>54,129</u>	<u>1,916</u>
<b>Net assets</b>		
Invested in capital assets	29,621	-
Unrestricted	(42,725)	(546)
	<u>(13,104)</u>	<u>(546)</u>
<b>Total net assets</b>	<u>(13,104)</u>	<u>(546)</u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	89,896	22,567
Operating expenses:		
Non-instructional programs:		
Salaries	81,887	-
Benefits	18,822	24,372
Purchased services	1,877	-
Supplies	59,607	-
Depreciation	2,949	-
Other	371	-
Total operating expenses	165,513	24,372
Operating gain (loss)	(75,617)	(1,805)
Non-operating revenues:		
State sources	1,037	-
Federal sources	57,204	-
Interest income	91	-
Total non-operating revenues	58,332	-
Change in net assets	(17,285)	(1,805)
Net assets beginning of year	4,181	1,259
Net assets end of year	(13,104)	(546)

## WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2010

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from contributions	-	22,567
Cash received from sale of lunches and breakfasts	50,547	-
Cash received from daycare services	39,433	-
Cash payments to employees for services/benefits	(100,193)	(22,456)
Cash payments to suppliers for goods or services	(52,978)	-
Net cash (used) provided by operating activities	<u>(63,191)</u>	<u>111</u>
Cash flows from non-capital financing activities:		
State grants received	1,037	-
Federal grants received	48,551	-
Net cash provided by non-capital financing activities	<u>49,588</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	91	-
Net increase (decrease) in cash and cash equivalents	(13,512)	111
Cash and cash equivalents at beginning of year	<u>(22,455)</u>	<u>1,259</u>
Cash and cash equivalents at end of year	<u><u>(35,967)</u></u>	<u><u>1,370</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(75,617)	(1,805)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	8,653	-
Depreciation	2,949	-
Decrease (increase) in inventories	(141)	-
Decrease (increase) in accounts receivable	(161)	-
(Decrease) increase in accounts payable	365	1,916
(Decrease) increase in deferred revenue	245	-
(Decrease) increase in other postemployment benefits	516	-
Net cash (used) provided by operating activities	<u>(63,191)</u>	<u>111</u>

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

During the year ended June 30, 2010, the District received \$8,653 of federal commodities.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2010

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	2,928	917
<b>Liabilities</b>		
Accounts payable	<u>-</u>	<u>917</u>
<b>Net assets</b>		
Reserved for scholarships	<u><u>2,928</u></u>	<u><u>-</u></u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,149
Deductions	
Support services:	
Scholarships awarded	<u>1,450</u>
Change in net assets	(301)
Net assets beginning of year	<u>3,229</u>
Net assets end of year	<u><u>2,928</u></u>

# WALNUT COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2010

### 1. Summary of Significant Accounting Policies

Walnut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Walnut, Iowa and the predominately agricultural territory in a portion of Pottawattamie, Shelby and Cass Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Walnut 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 Walnut Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

*Unrestricted net assets* consist of net assets not meeting 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 that are 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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Fund is a special revenue fund that is used to account for the revenues from and expenditures of the management property tax levy.

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

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

The District's proprietary fund consists of the Enterprise, School Nutrition Fund and Day Care Fund. These funds are used to account for the operations of the District's food service and day care operations.

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's employee flexible benefit plan.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the

timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2009.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment 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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	5,000
Improvements other than buildings	5,000
Intangibles	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Intangibles	5-20 years
Furniture and equipment	3-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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 receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

Restricted Net Assets – In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or are 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 did not exceed the amended amounts budgeted.

**2. Cash and Pooled Investments**

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

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

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	792,270

The investments are valued at an amortized cost 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 Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2010 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Management Fund	Capital Projects-Lost	22,763
Nonmajor Governmental:		
Physical Plant and Equipment Levy Fund	General Fund	30,000
Nonmajor Governmental:		
Physical Plant and Equipment Levy Fund	Nonmajor Enterprise:	
Management Fund	Day Care Fund	6,581
	General Fund	6,010

The PPEL Fund has advanced funds to the General Fund and Day Care Fund to help cash flow in those funds. Capital Projects Fund owes Management Fund for funds advanced to the Capital Projects Fund. These advances are to be repaid in the next fiscal year.

**4. Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	40,125	-	-	40,125

Capital assets being depreciated:				
Buildings	4,233,457	-	-	4,233,457
Improvements other than buildings	82,616	-	-	82,616
Furniture and equipment	<u>916,052</u>	-	-	<u>916,052</u>
Total capital assets being deprec.	<u>5,232,125</u>	-	-	<u>5,232,125</u>
Less accumulated depreciation for:				
Buildings	2,597,431	66,345	-	2,663,776
Improvements other than buildings	7,840	2,851	-	10,691
Furniture and equipment	<u>687,008</u>	<u>42,142</u>	-	<u>729,150</u>
Total accumulated depreciation	<u>3,292,279</u>	<u>111,338</u>	-	<u>3,403,617</u>
Total capital assets being depreciated, net	<u>1,939,846</u>	<u>(111,338)</u>	-	<u>1,828,508</u>
Governmental activities capital assets, net	<u>1,979,971</u>	<u>(111,338)</u>	-	<u>1,868,633</u>
	Balance			Balance End
	Beginning of			of Year
	Year	Increases	Decreases	
	\$	\$	\$	\$
<b>Business type activities:</b>				
Capital assets being depreciated:				
Buildings	42,645	-	-	42,645
Furniture and equipment	<u>37,913</u>	-	-	<u>37,913</u>
Total capital assets being deprec.	<u>80,558</u>	-	-	<u>80,558</u>
Less accumulated depreciation for:				
Buildings	12,081	2,132	-	14,213
Furniture and equipment	<u>35,907</u>	<u>817</u>	-	<u>36,724</u>
Total accumulated depreciation	<u>47,988</u>	<u>2,949</u>	-	<u>50,937</u>
Business type activities capital assets, net	<u>32,570</u>	<u>(2,949)</u>	-	<u>29,621</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	13,788
Support services:	
Operation and maintenance of plant	939
Transportation	<u>21,823</u>
	36,550
Unallocated depreciation	<u>74,788</u>
Total depreciation expense – governmental activities	<u>111,338</u>
Business type activities:	
Day care	2,132
Food services	<u>817</u>
Total depreciation expense – business type activities	<u>2,949</u>

## 5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental Activities:					
General obligation bonds	925,000	-	150,000	775,000	160,000
Termination benefits	13,030	115,000	13,030	115,000	115,000
Net OPEB liability	-	6,970	-	6,970	-
<b>Total</b>	<b>938,030</b>	<b>121,970</b>	<b>163,030</b>	<b>896,970</b>	<b>275,000</b>
	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Business type activities:					
Net OPEB liability	-	516	-	516	-

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education. At June 30, 2010, the District has obligations to three participants with a total liability of \$115,000. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$13,030.

### General Obligation Bonds Payable

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

Year Ending June 30,	Refunding Bond Issue of April, 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	2.75	160,000	23,533	183,533
2012	2.90	160,000	19,132	179,132
2013	3.05	165,000	14,493	179,493
2014	3.20	170,000	9,460	179,460
2015	3.35	120,000	4,020	124,020
		<u>775,000</u>	<u>70,638</u>	<u>845,638</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 payroll for the years ended June 30, 2010, 2009 and 2008. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$81,713, \$77,786, and \$70,764 respectively, equal to the required contributions for each year.

**7. Other Postemployment Benefits (OPEB)**

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 21 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit 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 that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

	\$
Annual required contribution	14,479
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>14,479</u>
Contributions made	<u>6,993</u>
Increase in net OPEB obligation	7,486
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>7,486</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 \$6,993 to the medical plan.

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

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u> %	<u>Net OPEB Obligation</u> \$
June 30, 2010	14,479	48.29%	7,486

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 \$81,649, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$81,649. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,100,000, and the ratio of the UAAL to covered payroll was 7.42%. As of June 30, 2010, there were no trust fund assets.

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized over 30 years.

## 8. Risk Management

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

## 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$87,316 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. Deficit Fund Balances

At June 30, 2010 the District had a deficit net assets balance of \$23,971 in the Enterprise Daycare Fund.

## 11. Categorical Funding

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

<u>Program</u>	<u>Amount</u>
	\$
Gifted and Talented	20,514
Returning dropout and dropout prevention program	23,442
Four year old Preschool	46,915
At risk supplemental weighting	12,680
	<u>103,551</u>

## 12. Beginning Balances

Beginning balances were adjusted in the following governmental funds to correct for prior period errors:

<u>Fund</u>	<u>Amount</u>
	\$
General	(102,385)
Management	1,604
PPEL	1,728
Capital Projects	53,879
Debt Service	<u>6,325</u>
Total	<u>(38,849)</u>

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,664,426	89,987	1,754,413	1,857,799	1,857,799	(103,386)
Intermediate sources	2,365	-	2,365	-	-	2,365
State sources	833,860	1,037	834,897	1,226,817	1,226,817	(391,920)
Federal sources	233,474	57,204	290,678	424,000	424,000	(133,322)
Total revenues	<u>2,734,125</u>	<u>148,228</u>	<u>2,882,353</u>	<u>3,508,616</u>	<u>3,508,616</u>	<u>(626,263)</u>
Expenditures/Expenses:						
Instruction	1,452,557	-	1,452,557	2,362,013	2,362,013	909,456
Support services	861,046	-	861,046	1,398,547	1,277,306	416,260
Non-instructional programs	-	165,513	165,513	170,000	291,241	125,728
Other expenditures	330,564	-	330,564	604,713	604,713	274,149
Total expenditures/expenses	<u>2,644,167</u>	<u>165,513</u>	<u>2,809,680</u>	<u>4,535,273</u>	<u>4,535,273</u>	<u>1,725,593</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	89,958	(17,285)	72,673	(1,026,657)	(1,026,657)	1,099,330
Other financing sources (uses) net	<u>2,265</u>	<u>-</u>	<u>2,265</u>	<u>-</u>	<u>-</u>	<u>2,265</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures/expenses	92,223	(17,285)	74,938	(1,026,657)	(1,026,657)	1,101,595
Balance beginning of year	1,465,164	4,181	1,469,345	1,155,746	1,155,746	313,599
Adjustments to beginning balance	<u>(38,849)</u>	<u>-</u>	<u>(38,849)</u>	<u>-</u>	<u>-</u>	<u>(38,849)</u>
Balance end of year	<u><u>1,518,538</u></u>	<u><u>(13,104)</u></u>	<u><u>1,505,434</u></u>	<u><u>129,089</u></u>	<u><u>129,089</u></u>	<u><u>1,376,345</u></u>

See accompanying independent auditor's report.

## WALNUT COMMUNITY SCHOOL DISTRICT

### Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, 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. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did amend its budget during the year.

During the year ended June 30, 2010, expenditures did not exceed the amended amount budgeted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

<u>Year Ended June 30,</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets ( a )</u>	<u>Actuarial Accrued Liability (AAL) ( b )</u>	<u>Unfunded AAL (UAAL) ( b-a )</u>	<u>Funded Ratio ( a/b )</u>	<u>Covered Payroll ( c )</u>	<u>UAAL as a Percentage of Covered Payroll ( ( b-a)/c )</u>
		\$	\$	\$	%	\$	%
2009	July 1, 2009	-	81,649	81,649	0.0%	1,100,000	7.4%

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

OTHER SUPPLEMENTARY INFORMATION

## WALNUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds		
	Student Activity Fund	Physical Plant and Equipment Levy	Total
	\$	\$	\$
Cash and pooled investments	38,775	171,494	210,269
Receivables:			
Property tax:			
Delinquent	-	961	961
Succeeding year	-	90,888	90,888
Interfund receivable	-	36,581	36,581
<b>Total assets</b>	<b>38,775</b>	<b>299,924</b>	<b>338,699</b>
<b>Liabilities &amp; Fund Balances</b>			
Liabilities:			
Accounts payable	2,742	-	2,742
Deferred revenue:			
Succeeding year property tax	-	90,888	90,888
Total liabilities	2,742	90,888	93,630
Fund balances:			
Unreserved fund balance reported in:			
Special Revenue Funds	36,033	209,036	245,069
<b>Total liabilities and fund balances</b>	<b>38,775</b>	<b>299,924</b>	<b>338,699</b>

## WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds

Year ended June 30, 2010

	<u>Special Revenue Funds</u>		<u>Total</u>
	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	-	82,185	82,185
Other	64,220	122	64,342
Total revenues	<u>64,220</u>	<u>82,307</u>	<u>146,527</u>
Expenditures:			
Current:			
Instruction:			
Other	64,573	-	64,573
Support services:			
Operation and maintenance of plant	-	4,365	4,365
Other expenditures:			
Facilities acquisition	-	28,184	28,184
Total expenditures	<u>64,573</u>	<u>32,549</u>	<u>97,122</u>
Net change in fund balance	(353)	49,758	49,405
Fund balances beginning of year	36,386	157,550	193,936
Adjustments to beginning balance	-	1,728	1,728
Fund balances end of year	<u><u>36,033</u></u>	<u><u>209,036</u></u>	<u><u>245,069</u></u>

## WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets  
Nonmajor Enterprise Funds

June 30, 2010

	<u>Nonmajor Enterprise Funds</u>		
	School		Total
	Nutrition	Daycare	
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	9,831	-	9,831
Accounts receivable	1,095	-	1,095
Inventories	478	-	478
Capital assets, net of accumulated depreciation	1,190	28,431	29,621
	<u>12,594</u>	<u>28,431</u>	<u>41,025</u>
<b>Total assets</b>			
<b>Liabilities</b>			
Accounts payable	342	23	365
Interfund Payable	-	6,581	6,581
Excess of warrants issued over bank balance	-	45,798	45,798
OPEB liability	516	-	516
Deferred revenue	869	-	869
	<u>1,727</u>	<u>52,402</u>	<u>54,129</u>
<b>Total liabilities</b>			
<b>Net assets</b>			
Invested in capital assets	1,190	28,431	29,621
Unrestricted	9,677	(52,402)	(42,725)
	<u>10,867</u>	<u>(23,971)</u>	<u>(13,104)</u>
<b>Total net assets</b>			

## WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets  
Nonmajor Enterprise Funds

Year ended June 30, 2010

	Nonmajor Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Operating revenues:			
Local sources:			
Charges for service	50,463	39,433	89,896
Operating expenses:			
Non-instructional programs:			
Salaries	34,681	47,206	81,887
Benefits	12,460	6,362	18,822
Purchased services	-	1,877	1,877
Supplies	57,490	2,117	59,607
Depreciation	817	2,132	2,949
Other	371	-	371
Total operating expenses	105,819	59,694	165,513
Operating gain (loss)	(55,356)	(20,261)	(75,617)
Non-operating revenues:			
State sources	1,037	-	1,037
Federal sources	57,204	-	57,204
Interest income	13	78	91
Total non-operating revenues	58,254	78	58,332
Change in net assets	2,898	(20,183)	(17,285)
Net assets beginning of year	7,969	(3,788)	4,181
Net assets end of year	10,867	(23,971)	(13,104)

## WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows  
Nonmajor Enterprise Funds

Year ended June 30, 2010

	Nonmajor Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	50,547	-	50,547
Cash received from daycare services	-	39,433	39,433
Cash payments to employees for services	(46,625)	(53,568)	(100,193)
Cash payments to suppliers for goods or services	(49,007)	(3,971)	(52,978)
Net cash used by operating activities	<u>(45,085)</u>	<u>(18,106)</u>	<u>(63,191)</u>
Cash flows from non-capital financing activities:			
State grants received	1,037	-	1,037
Federal grants received	48,551	-	48,551
Net cash provided by non-capital financing activities	<u>49,588</u>	<u>-</u>	<u>49,588</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:			
Interest on investments	<u>13</u>	<u>78</u>	<u>91</u>
Net increase (decrease) in cash and cash equivalents	4,516	(18,028)	(13,512)
Cash and cash equivalents at beginning of year	<u>5,315</u>	<u>(27,770)</u>	<u>(22,455)</u>
Cash and cash equivalents at end of year	<u><u>9,831</u></u>	<u><u>(45,798)</u></u>	<u><u>(35,967)</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>			
Operating gain (loss)	(55,356)	(20,261)	(75,617)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	8,653	-	8,653
Depreciation	817	2,132	2,949
Decrease (increase) in inventories	(141)	-	(141)
Decrease (increase) in accounts receivable	(161)	-	(161)
(Decrease) increase in accounts payable	342	23	365
(Decrease) increase in deferred revenue	245	-	245
(Decrease) increase in other postemployment benefits	516	-	516
Net cash used by operating activities	<u><u>(45,085)</u></u>	<u><u>(18,106)</u></u>	<u><u>(63,191)</u></u>

See accompanying independent auditor's report.

## WALNUT COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Music	358	585	1,712	687	(82)
Show choir	163	94	257	-	-
Vocal	-	158	421	263	-
Drama/Class play	614	474	450	-	638
Athletics	20,296	28,300	22,364	(5,039)	21,193
Cheerleaders	(18)	152	96	-	38
Student services	975	124	1,269	214	44
FFA	2,137	-	-	(2,137)	-
FHA	791	-	-	(791)	-
Middle school leadership	834	1,425	4,315	2,055	(1)
Industrial arts	88	-	-	(88)	-
Class of 2016	-	211	-	-	211
Class of 2007	127	-	-	(127)	-
Class of 2008	1	-	-	(1)	-
Class of 2009	1,673	-	1,015	(658)	-
Class of 2010	3,582	227	3,244	(1,027)	(462)
Class of 2011	1,256	12,965	10,096	-	4,125
Class of 2012	-	1,449	200	-	1,249
Class of 2013	-	246	-	-	246
Class of 2014	-	3,298	1,490	-	1,808
Class of 2015	-	189	-	-	189
National Honor Society	118	104	96	-	126
Student council	2,742	994	235	-	3,501
Annual	(5,649)	2,105	3,104	6,649	1
Speech	51	-	50	-	1
Academic programs	304	10,800	10,064	-	1,040
Dare	571	-	-	-	571
PBS program	2,437	320	1,353	-	1,404
K-2 classroom	480	-	-	-	480
AR/Reading	2,455	-	-	-	2,455
June 30, 2010 accrual entries	-	-	2,742	-	(2,742)
<b>Total</b>	<b>36,386</b>	<b>64,220</b>	<b>64,573</b>	<b>-</b>	<b>36,033</b>

## WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	1,482,793	1,437,711	1,430,486	1,391,325	1,353,605	1,181,776	1,223,342
Tuition	36,229	84,835	89,027	110,488	101,699	103,592	102,756
Other	145,404	141,314	424,473	312,915	136,432	157,984	217,241
Intermediate sources	2,365	8,252	-	3,712	-	-	8,653
State sources	833,860	1,176,420	1,242,027	1,186,901	1,163,532	1,156,676	947,343
Federal sources	233,474	79,413	63,513	69,375	101,510	96,168	62,578
<b>Total revenues</b>	<b>2,734,125</b>	<b>2,927,945</b>	<b>3,249,526</b>	<b>3,074,716</b>	<b>2,856,778</b>	<b>2,696,196</b>	<b>2,561,913</b>
Expenditures:							
Instruction:							
Regular instruction	1,096,495	1,198,812	1,164,182	1,069,698	985,505	1,047,186	1,068,045
Special instruction	108,949	156,365	283,397	259,215	283,536	214,994	186,190
Other instruction	247,113	278,411	245,763	232,989	241,488	307,833	326,994
Support services:							
Student services	73,830	54,112	51,170	42,422	41,132	7,010	6,922
Instructional staff services	150,714	119,007	63,013	64,883	53,640	61,268	72,740
Administration services	335,613	330,948	307,244	282,857	255,348	316,334	329,441
Operation and maintenance	233,365	256,598	374,956	325,228	213,562	173,457	182,263
Transportation services	67,524	63,398	105,085	81,249	90,836	57,201	56,063
Central support services	-	-	-	-	-	-	33,251
Non-instructional programs	-	-	-	-	-	35	-
Other expenditures:							
Facilities acquisition	65,480	26,562	75,589	177,857	62,000	41,530	67,185
Long-term debt:							
Principal	150,000	140,000	1,180,000	120,000	131,310	120,315	114,380
Interest and other charges	27,768	36,887	78,349	63,303	71,108	78,552	84,194
AEA flowthrough	87,316	81,788	79,750	77,505	73,640	74,175	71,495
<b>Total expenditures</b>	<b>2,644,167</b>	<b>2,742,888</b>	<b>4,008,498</b>	<b>2,797,206</b>	<b>2,503,105</b>	<b>2,499,890</b>	<b>2,599,163</b>

Gary E. Horton CPA

PO Box 384  
Clarion, IA 50525-0384  
(515)532-6681 Phone  
(515) 532-2405 Fax  
[BETCO@mchsi.com](mailto:BETCO@mchsi.com) E-mail

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  
Walnut 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 Walnut 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 25, 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 Walnut 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 an opinion on the effectiveness of Walnut Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walnut 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 Responses, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Walnut 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 II of the accompanying Schedule of Findings and Responses.

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.

Walnut Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit Walnut 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 Walnut Community School District and other parties to whom Walnut Community School District may report 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 Walnut 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.

BURTON E. TRACY & CO., P.C.  
Certified Public Accountants

March 25, 2011

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

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

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

District Response: We will continue to review our procedures and implement additional controls where possible.

Conclusion: Response accepted.

10-I-B Accounting System: We noted that the bank reconciliations were not completed monthly and had not been completed for the whole fiscal year. We also noted several errors recording revenues in the wrong funds during the year and the accounting system did not reconcile to the cash in bank. Also, some payments were credited to expense accounts when they should have been recorded in revenue accounts.

Recommendation: The District should ensure that the bank reconciles to the District records each month without adjustments and that all receipts are recorded as revenues so the board has a more accurate reporting of actual expenses with which to make decisions and for proper reporting to governmental agencies.

District Response: We will review our procedures and make any necessary changes.

Conclusion: Response accepted.

10-I-C Supporting Documentation: We noted some expenditures that were not supported by detailed invoices.

Recommendation: The District should receive sufficient documentation for expenditures.

District Response: We will review our policies and make any necessary adjustments.

Conclusion: Response accepted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements (Continued):

10-I-D Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- 10-II-A Certified Budget: Expenditures for the year ended June 30, 2010, did not exceed the amended amounts budgeted.
- 10-II-B Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 10-II-C Travel Expenses: 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.
- 10-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.
- 10-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 10-II-F Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.
- 10-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 10-II-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.
- 10-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 10-II-J Certified Annual Report (CAR): The Certified Annual Report was not certified to the Iowa Department of Education by the due date.
- Recommendation: The CAR should be filed with the Department of Education by its due date.
- District Response: We will file by the due date in the future.
- Conclusion: Response accepted.
- 10-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, and then were reclassified as categorical spending at the end of the year.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued):

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

District Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure accounts.

Conclusion: Response accepted.

10-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning balance	\$	\$
		505,043
Statewide sales, services and use tax		182,652
Interest		716
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	37,296	
Equipment	15,057	52,353
		<u>636,058</u>
Ending balance		

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

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Physical plant and equipment levy	.2213	182,652

10-II-M Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend the accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting (continued):

10-II-N Physical Plant and Equipment Levy Fund: We noted that the Physical Plant and Equipment Levy Fund was used to purchase equipment costing less than \$500 per item.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund and consider reimbursing the Physical Plant and Equipment Fund for the purchases.

District Response: We will monitor the expenditures from this fund in the future.

Conclusion: Response accepted.

10-II-O Deficit Balances: The District has a \$23,971 deficit net assets balance in the Enterprise Daycare Fund at June 30, 2010.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on ways to eliminate the deficit.

Conclusion: Response accepted.

10-II-P Interfund loans: On October 22, 2009 the Iowa Department of Education issued a revised declaratory order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loans and the loans must be repaid before the October 1, after each year-end.

Recommendation: The District should follow the declaratory order with respect to the interfund loans that are listed in Note 3 to the financial statements and any future interfund loans.

District Response: We will review our procedures for interfund loans and will follow the declaratory order.

Conclusion: Response accepted.