

**DOWS COMMUNITY SCHOOL DISTRICT
DOWS, IOWA**

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

YEAR ENDED JUNE 30, 2011

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13-14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	24
Statement of Changes in Fiduciary Net Assets	K	25
Notes to Financial Statements		26-41
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances – Budget and Actual – All Governmental Funds and Proprietary Funds		42-43
Notes to Required Supplementary Information – Budgetary Reporting		44
Schedule of Funding Progress for the Retiree Health Plan		45
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	46
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	47
Nonmajor Proprietary Funds:		
Combining Statement of Net Assets	3	48

Table of Contents (continued)

		<u>Page</u>
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets	4	49
Combining Schedule of Cash Flows	5	50
Capital Project Accounts:		
Combining Balance Sheet	6	51
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	7	52
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	8	53
Schedule of Revenues by Source and Expenditures by Function – All Governmental Funds	9	54-55
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		56-58
Schedule of Findings		59-62

Dows Community School District
Dows, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Marty Osterman	President	2011
Corey Jacobson	Board Member	2013
Kristi Hinkle	Board Member	2011
Betty Ellis	Board Member	2013
Jon Bakker	Board Member	Resigned
Cindy Ingelbritson (Appointed)	Board Member	2013

School Officials

Robert Olson	Superintendent	Indefinite
Anita Frye	District Secretary/Treasurer and Business Manager	Indefinite
Rick Engel	Attorney	Indefinite

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

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Fort Dodge, IA 50501-7098
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Independent Auditor's Report

To the Board of Education of
Dows 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 Dows Community School District, Dows, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dows Community School District at June 30, 2011, 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 7, 2012 on our consideration of Dows 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 42 through 45 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 Dows 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 seven years ended June 30, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dows GASB 34 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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Financial Highlights

- General Fund revenues were \$1,400,574 for fiscal year 2011, while General Fund expenditures were \$1,450,680 in fiscal year 2010. This resulted in the District's General Fund balance of \$669,765, which was a decrease of \$50,106 compared to the balance of fiscal year 2010. This decrease is largely due to a decrease in student enrollment, budget scale-down and special education expenses. Decreases in special education expenditures and associated a larger than permissible special education carryover. This required the district to refund the Department of Education and refund of excess special education carryover in FY2010 and corresponding reduction in special education funding in FY2011.

(a) Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

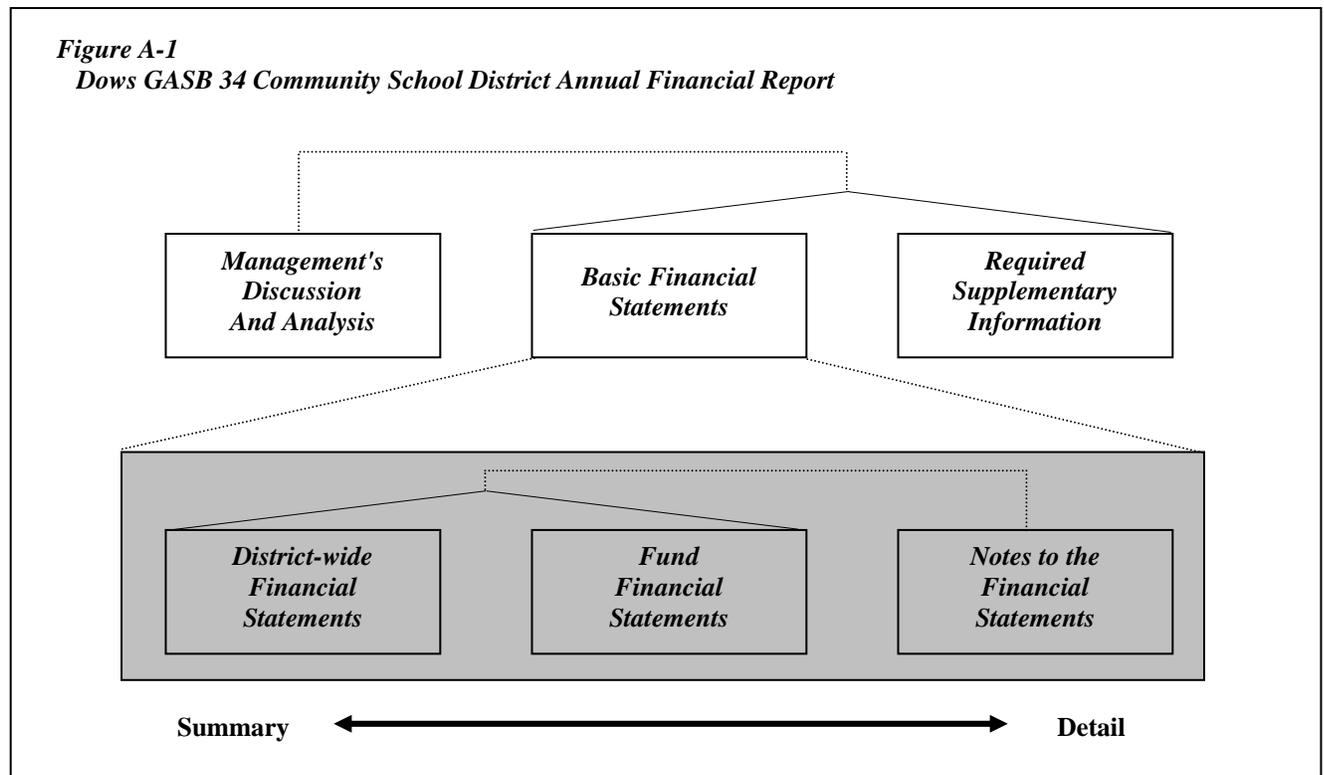


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the District-Wide and Fund Financial Statements				
	District-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 and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

The District-wide 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 District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one needs to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities. Declining student enrollment also impacts the District's overall financial health.

In the District-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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District’s governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *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 District-wide statements.
- The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.
- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. This subsection isn’t used.

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

(b) – (c) Financial Analysis of the District as a Whole

Net assets - Figure A-3 below provides a summary of the District’s net assets for the year ended June 30, 2011. The District’s net assets for governmental activities were \$1,990,374 on June 30, 2011 for fiscal year 2011. The net assets for business type activities were \$8,246 on June 30, 2011. When these are combined, the total combined net assets were \$1,998,620 on June 30, 2011.

Figure A-3			
Condensed Statement of Net Assets			
June 30, 2011			
	Governmental Activities	Business-type Activities	Total School District
Current Assets	\$2,857,216	\$6,341	\$2,863,557
Capital Assets	\$394,438	\$1,905	\$396,343
Total Assets	\$3,251,654	\$8,246	\$3,259,900
Current Liabilities	\$1,238,017	\$0	\$1,238,017
Other Liabilities	\$23,263	\$0	\$23,263
Total Liabilities	\$1,261,280	\$0	\$1,261,280
Net Assets			
Invested in capital assets, net of debt	\$394,438	\$1,905	\$396,343
Restricted	\$668,933	\$0	\$668,933
Unrestricted	\$927,003	\$6,341	\$933,344
Total Net Assets	\$1,990,374	\$8,246	\$1,998,620

Governmental Activities

Revenues for governmental activities were \$1,659,200 and expenses were \$1,582,577.

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.

	Total Cost of Services	Net Cost of Services
Instruction	971,181	(727,174)
Support Services	497,389	(497,389)
Noninstructional Programs	0	0
Other Expenses	114,007	(49,881)
Total Net Assets	1,582,577	(1,274,444)

- Federal and state governments subsidized certain programs with grants and contributions totaling \$363,408.
- The net cost of governmental activities was financed with \$1,061,033 in property tax, and other taxes, \$280,845 in unrestricted state grants, \$2,703 in interest income, and \$6,632 in other revenue.

Business-Type Activities

Revenues of the District's business-type activities were \$54,144 and expenses were \$53,609 for a decrease (\$535). The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.. Supporting the nutrition program with custodial help and supplies charged to the general fund, the nutrition program still experienced a decline in the ending balance compared to last year.

(d) Financial Analysis of the District's Funds

As previously noted, the Dows GASB 34 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 fiscal year 2011, its governmental funds reported combined fund balances of \$1,604,548.

Governmental Fund Highlights

- The District's General Fund financial position has remained fairly constant and is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was offset by the District's increase in General Fund expenditures to meet its financial obligations during the year.

- The General Fund balance increased from \$719,871 to \$669,765. The district has historically exercised restraint in regard to expenditures, however decreasing enrollment, decreased federal revenue and higher operational costs attributed to the decrease of the ending balance of (50,106).
- The Physical Plant and Equipment Levy (PPEL) Fund balance was \$351,463 at the end of FY11, compared to \$368,545 in FY10.
- Funds in Capital Projects may be used for the same purposes as PPEL and PERL funds. Revenue for FY11 was \$88,838. District expenditures for FY10 were \$22,768, for facility maintenance and grounds improvements. Fund balance was \$317,372 at the end of FY11, compared to \$251,302 in FY10.

Proprietary Fund Highlights

The School Nutrition Fund net assets for the fiscal year ending June 30, 2011 were \$5,565 compared to \$5,030 at the end of FY10, for a net increase of \$35. The district compelled was to raise meal prices despite difficult economic times for families. The increase was done to show improvement to comply with federal regulations that eliminate any federal or state reimbursement for regular priced meals (limited to milk and commodities). Decreasing enrollment and corresponding fewer meals served contributes to the loss of local revenue. Thankfully Federal EdJobs helped keep the nutrition program in the black. The district will continue to look for ways to be more efficient. It is anticipated that the general fund will be required to help with expenses next year in the form of a fund transfer.

(e) Budgetary Highlights

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 its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis, while accounted based on GAAP. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

Legal Budgetary Highlights

Total actual expenditures were less than budgeted in the General Fund. It is the District's practice to certify budget expenditures at or near the maximum authorized spending authority in all fund categories. Actual expenditures are managed using a line-item budget for the General Fund. As a result, the District's certified budget is always larger than actual expenditures for the year.

(f) Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the District had invested \$394,438, 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-5) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$47,226.

Figure A-5 Capital Assts, End of Year Balance Less Accumulated Depreciation			
June 30, 2011			
	Governmental Activities	Business-type Activities	Total School District
Land	\$4,258		\$4,258
Construction in progress			\$ 0
Buildings	\$891,806		\$891,806
Improvement other than buildings			\$ 0
Furniture	\$436,030	\$38,569	\$474,599
Total capital assets before depreciation	\$1,332,094	\$38,569	\$1,370,663
Building depreciation	\$627,948	\$ 0	\$627,948
Furniture & equipment depreciation	\$309,708	\$36,664	\$346,372
Total depreciation	\$937,656	\$36,664	\$974,320
Capital assets net	\$ 394,438	\$1,905	\$396,343

The original cost of the District's capital assets was \$1,327,836. Governmental funds account for \$1,235,392 with the remainder of \$92,444 in the Proprietary, specific to School Nutrition Fund.

Long-Term Debt

At June 30, 2011, the Dows Community School District has no long-term debt.

(h) Factors Bearing on the District's Future

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

- Dows Community School District entered into a one-way whole-grade sharing agreement for grades 7-12 with Clarion-Goldfield beginning in 2005-06. The district also sent sixth grade to Clarion-Goldfield in 2006-2007, due to small grade enrollment and to take advantage of staffing changes.
- The district approved amending the sharing agreement with Clarion-Goldfield for 2007-2008, to include sixth grade. The 2010-2011 school year represents year six of a ten-year, whole-grade sharing agreement.
- Dows maintains an elementary school for grades preschool through fifth grade.
- The district amended its sharing agreement with Clarion-Goldfield in 2009-2010 to expand administrative sharing. With the departure of Elementary Principal and Curriculum Coordinator, Sara Pralle-Keehn, the district expanded administrative sharing with Clarion-Goldfield to include Elementary administrative. Steve Haberman was assigned the position of Lead-Principal and Shared Superintendent, Dr. Bob Olson was assigned the position of Co-Principal.
- The sharing agreement calls for 65% of the Clarion-Goldfield cost per student to follow the student with the balance of 35% remaining with Dows.
- The District continues to experience declining enrollment. The past four years, enrollment dropped from 159.2 in the fall of 2005, to 144.2, 134.1, 142, and 137.1 in 2006, 2007, 2008 and 2009 respectively. In fall of 2010, enrollment decreased to 129. Since 2005 this represents enrollment drop of 30.2 students or a percentage decrease of 18.9%. Enrollment impacts funding the following year. Since the district is in the budget guarantee scale-down, with a 2004 base enrollment of 163.1, the increase wasn't enough to bring the district out of the budget guarantee scale-down.
- The district is deep into the budget guarantee and will be authorized a smaller portion of the guarantee each year as a function of the statewide "scale down". The district remains optimistic about stable student enrollment, but must continue to closely monitor its financial situation in times of diminishing revenue and increasing expenditures. The district will continue to look for opportunities to reduce expenditures to match the reductions in revenue. This includes reducing the number of personnel; continue sharing with Clarion-Goldfield, receiving reorganization and supplemental weighting incentives.
- The district was approved for a state funded preschool grant for FY2010. Preschool enrollment will be included in the certified enrollment for FY2011 at 60% of the district, controlled pupil cost. It is uncertain if the state will continue to financial support four year-old preschool. Obviously, significant cuts or elimination of state funding will adversely impact the district's financial position.
- Sending the sixth grade to Clarion-Goldfield Middle School, allowed the district to take advantage of a departure of a sixth grade teacher who accepted a position in another district. This allowed the district to eliminate this position and reduced corresponding expenditures. This increased expenditures for tuition to the Clarion-Goldfield School District, but the net difference was a savings for the district. The district took advantage of a retirement and terminated a teacher. The district expanded a part-time teaching contract from an FTE of .5 to 1.0. The net decrease was -1.5 teachers. This significantly reduced expenditures beginning in FY09.
- The district continues to encourage the community to increase and promote the availability of affordable housing. If families do not move into the district, it is predicted that enrollment will continue to decline and threaten its ability to provide educational services locally.
- It is hoped the agreement with Clarion-Goldfield will continue to be positive and strengthen the district's ability to provide quality educational programs for its students for many years to come.

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 Dr. Robert A. Olson, Superintendent, or Anita Frye, District Secretary/Treasurer and Business Manager, Dows Community School District, 404 Park Avenue, Dows, Iowa 50071-7273.

Basic Financial Statements

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Assets			
Cash and cash equivalents:			
Other	\$ 1,826,743	3,779	1,830,522
Receivables:			
Property tax:			
Delinquent	8,820	-	8,820
Succeeding year	985,939	-	985,939
Due from other governments	28,585	-	28,585
Prepaid insurance	7,129	-	7,129
Inventories	-	2,562	2,562
Capital assets, net of accumulated depreciation	394,438	1,905	396,343
Total assets	<u>3,251,654</u>	<u>8,246</u>	<u>3,259,900</u>
Liabilities			
Accounts payable	205,844	-	205,844
Salaries and benefits payable	3,236	-	3,236
Deferred revenue:			
Succeeding year property tax	985,939	-	985,939
Other	42,136	-	42,136
Long-term liabilities:			
Portion due within one year:			
Early retirement	15,513	-	15,513
Portion due after one year:			
Early retirement	5,171	-	5,171
Compensated absences	2,579	-	2,579
Net OBEP liability	862	-	862
Total liabilities	<u>1,261,280</u>	<u>-</u>	<u>1,261,280</u>

(continued)

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
Net assets			
Invested in capital assets, net of related debt	394,438	1,905	396,343
Restricted for:			
Categorical funding	51,522	-	51,522
Management levy purposes	247,026	-	247,026
Physical plant and equipment	351,463	-	351,463
Student activities	18,922	-	18,922
Unrestricted	<u>927,003</u>	<u>6,341</u>	<u>933,344</u>
Total net assets	<u>\$ 1,990,374</u>	<u>8,246</u>	<u>1,998,620</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa
Statement of Activities
Year ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 633,332	839	243,013	-
Special instruction	215,442	-	-	-
Other instruction	122,407	17	138	-
	<u>971,181</u>	<u>856</u>	<u>243,151</u>	<u>-</u>
Support services:				
Student	47,842	-	-	-
Instructional staff	11,331	-	-	-
Administration	185,220	-	-	-
Operation and maintenance of plant	181,102	-	-	-
Transportation	71,894	-	-	-
	<u>497,389</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	49,881	-	-	-
AEA flowthrough	64,126	-	64,126	-
	<u>114,007</u>	<u>-</u>	<u>64,126</u>	<u>-</u>
Total governmental activities	<u>1,582,577</u>	<u>856</u>	<u>307,277</u>	<u>-</u>
Business type activities:				
Nonmajor enterprise	53,609	10,400	43,598	-
Total	<u>\$ 1,636,186</u>	<u>11,256</u>	<u>350,875</u>	<u>-</u>
General Revenues:				
Property tax levied for:				
General purposes				
Capital outlay				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Exhibit B

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(389,480)	-	(389,480)
(215,442)	-	(215,442)
(122,252)	-	(122,252)
<u>(727,174)</u>	<u>-</u>	<u>(727,174)</u>
(47,842)	-	(47,842)
(11,331)	-	(11,331)
(185,220)	-	(185,220)
(181,102)	-	(181,102)
(71,894)	-	(71,894)
<u>(497,389)</u>	<u>-</u>	<u>(497,389)</u>
(49,881)	-	(49,881)
-	-	-
<u>(49,881)</u>	<u>-</u>	<u>(49,881)</u>
(1,274,444)	-	(1,274,444)
-	389	389
<u>(1,274,444)</u>	<u>389</u>	<u>(1,274,055)</u>
\$ 888,072	-	888,072
84,320	-	84,320
88,641	-	88,641
280,845	-	280,845
2,703	-	2,703
6,486	146	6,632
<u>1,351,067</u>	<u>146</u>	<u>1,351,213</u>
76,623	535	77,158
<u>1,913,751</u>	<u>7,711</u>	<u>1,921,462</u>
<u>\$ 1,990,374</u>	<u>8,246</u>	<u>1,998,620</u>

Dows Community School District
Dows, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2011

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Assets					
Cash and pooled investments:					
Other	\$ 883,397	261,813	662,611	18,922	1,826,743
Receivables:					
Property tax:					
Delinquent	7,331	726	763	-	8,820
Succeeding year	771,540	125,000	89,399	-	985,939
Due from other governments	21,300	-	7,285	-	28,585
Prepaid insurance	<u>7,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,129</u>
Total assets	<u>\$ 1,690,697</u>	<u>387,539</u>	<u>760,058</u>	<u>18,922</u>	<u>2,857,216</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 204,020	-	1,824	-	205,844
Salaries and benefits payable	3,236	-	-	-	3,236
Early retirement payable	-	15,513	-	-	15,513
Deferred revenue:					
Succeeding year property tax	771,540	125,000	89,399	-	985,939
Other	<u>42,136</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,136</u>
Total liabilities	<u>1,020,932</u>	<u>140,513</u>	<u>91,223</u>	<u>-</u>	<u>1,252,668</u>
Fund balances:					
Restricted for:					
Categorical funding	51,522	-	-	-	51,522
Physical plant and equipment	-	-	351,463	-	351,463
Management levy purposes	-	247,026	-	-	247,026
School infrastructure	-	-	317,372	-	317,372
Student activities	-	-	-	18,922	18,922
Unassigned	<u>618,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>618,243</u>
Total fund balances	<u>669,765</u>	<u>247,026</u>	<u>668,835</u>	<u>18,922</u>	<u>1,604,548</u>
Total liabilities and fund balances	<u>\$ 1,690,697</u>	<u>387,539</u>	<u>760,058</u>	<u>18,922</u>	<u>2,857,216</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit D

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

June 30, 2011

Total fund balances of governmental funds (page 17)	\$ 1,604,548
<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.	394,438
Long-term liabilities, including compensated absences, and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(8,612)</u>
Net assets of governmental activities (page 14)	<u>\$ 1,990,374</u>

See notes to financial statements.

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

Year ended June 30, 2011

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Revenues:					
Local sources:					
Local tax	\$ 807,547	80,033	172,913	-	1,060,493
Tuition	1,442	-	-	-	1,442
Other	4,907	4,906	666	17	10,496
State sources	460,279	44	47	-	460,370
Federal sources	126,399	-	-	-	126,399
Total revenues	<u>1,400,574</u>	<u>84,983</u>	<u>173,626</u>	<u>17</u>	<u>1,659,200</u>
Expenditures:					
Current:					
Instruction:					
Regular	626,412	8,703	-	-	635,115
Special	215,442	-	-	-	215,442
Other	122,364	-	-	43	122,407
	<u>964,218</u>	<u>8,703</u>	<u>-</u>	<u>43</u>	<u>972,964</u>
Support services:					
Student	28,567	19,275	-	-	47,842
Instructional staff	8,072	-	3,259	-	11,331
Administration	181,241	3,979	-	-	185,220
Operation and maintenance of plant	158,670	18,660	71,498	-	248,828
Transportation	45,786	4,305	-	-	50,091
	<u>422,336</u>	<u>46,219</u>	<u>74,757</u>	<u>-</u>	<u>543,312</u>
Other expenditures:					
Facilities acquisition	-	-	49,881	-	49,881
AEA flowthrough	64,126	-	-	-	64,126
	<u>64,126</u>	<u>-</u>	<u>49,881</u>	<u>-</u>	<u>114,007</u>
Total expenditures	<u>1,450,680</u>	<u>54,922</u>	<u>124,638</u>	<u>43</u>	<u>1,630,283</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(50,106)</u>	<u>30,061</u>	<u>48,988</u>	<u>(26)</u>	<u>28,917</u>
Net change in fund balances	(50,106)	30,061	48,988	(26)	28,917
Fund balances beginning of year, as restated	719,871	216,965	619,847	18,948	1,575,631
Fund balances end of year	<u>\$ 669,765</u>	<u>247,026</u>	<u>668,835</u>	<u>18,922</u>	<u>1,604,548</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit F

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

Year ended June 30, 2011

Net change in fund balances - total governmental funds (page 19)	\$ 28,917
---	-----------

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay exceeded depreciation expenses in the current year as follows:

Expenditures for capital assets	92,444	
Depreciation expense	<u>(46,521)</u>	<u>45,923</u>

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

Early retirement		1,884
Compensated absences		850
Other postemployment benefits		<u>(951)</u>

Change in net assets of governmental activities (page 16)	\$ <u>76,623</u>
--	-------------------------

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit G

Statement of Net Assets
Proprietary Funds

June 30, 2011

	<u>Nonmajor Enterprise</u>
Assets	
Cash and cash equivalents	\$ 3,779
Inventories	2,562
Capital assets, net of accumulated depreciation	<u>1,905</u>
Total assets	<u><u>8,246</u></u>
Net Assets	
Invested in capital assets, net of related debt	1,905
Unrestricted	<u>6,341</u>
Total net assets	<u><u>\$ 8,246</u></u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit H

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

Year ended June 30, 2011

	<u>Nonmajor Enterprise</u>
Operating revenues:	
Local sources:	
Charges for service	\$ 10,400
Miscellaneous	146
Total operating revenues	<u>10,546</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	29,807
Supplies	23,097
Depreciation	705
Total operating expenses	<u>53,609</u>
Operating loss	<u>(43,063)</u>
Non-operating revenues:	
State sources	400
Federal sources	43,198
Total non-operating revenues	<u>43,598</u>
Increase in net assets	535
Net assets beginning of year	<u>7,711</u>
Net assets end of year	<u>\$ 8,246</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2011

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 10,400
Cash received from miscellaneous receipts	146
Cash paid to employees for services	(29,807)
Cash paid to suppliers for goods or services	<u>(20,821)</u>
Net cash used by operating activities	<u>(40,082)</u>
Cash flows from non-capital financing activities:	
State grants received	400
Federal grants received	<u>40,692</u>
Net cash provided by non-capital financing activities	<u>41,092</u>
Net increase in cash and cash equivalents	1,010
Cash and cash equivalents beginning of year	<u>2,769</u>
Cash and cash equivalents end of year	<u>\$ 3,779</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (43,063)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	2,506
Depreciation	705
Decrease in inventories	<u>(230)</u>
Net cash used by operating activities	<u>\$ (40,082)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$2,506 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2011

	<u>Private Purpose Trust Scholarship</u>
Assets	
Cash and pooled investments	\$ <u>60,180</u>
Total assets	<u>60,180</u>
Liabilities	<u>---</u>
Net assets	
Reserved for scholarships	<u>\$ <u>60,180</u></u>

See notes to financial statements

Dows Community School District
Dows, Iowa

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2011

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ -
Interest income	<u>64</u>
Total additions	<u>64</u>
Deductions:	
Support services:	
Scholarships awarded	<u>1,900</u>
Change in net assets	(1,836)
Net assets beginning of year	<u>62,016</u>
Net assets end of year	<u>\$ 60,180</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

Dows Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades preschool through five. The geographic area served includes the City of Dows, Iowa, and the predominate agricultural territory in Wright and Franklin 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, Dows 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. Dows Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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 the 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 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 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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. Combining Schedules are also included for the Capital Project Fund accounts.

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 that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Management Levy Fund is used to account for the revenues and expenditures on the taxes levied for insurance and early retirement.

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

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 principal and income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

The proprietary funds 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 maintained 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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 become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	8-10 years

Salaries and Benefits Payable - An accrual has been made for any hourly employees for hours worked in June.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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

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

Compensated Absences – District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Fund Equity – In the governmental fund financial statements, fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints place on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed – Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

Unassigned – All amounts not included in other spendable classifications.

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

E. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 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.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 1,458,318
	=====

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,258	---	---	4,258
Total capital assets not being depreciated	4,258	---	---	4,258
Capital assets being depreciated:				
Buildings	891,806	---	---	891,806
Furniture and equipment	343,586	92,444	---	436,030
Total capital assets being depreciated	1,235,392	92,444	---	1,327,836
Less accumulated depreciation for:				
Buildings	612,785	15,163	---	627,948
Furniture and equipment	278,350	31,358	---	309,708
Total accumulated depreciation	891,135	46,521	---	937,656
Total capital assets being depreciated, net	344,257	45,923	---	390,180
Governmental activities capital assets, net	\$ 348,515	45,923	---	394,438
	=====	=====	=====	=====

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	\$ 38,569	---	---	38,569
Less accumulated depreciation	<u>35,959</u>	<u>705</u>	<u>---</u>	<u>36,664</u>
Business type activities capital assets, net	\$ 2,610	705	---	1,905
	=====	=====	=====	=====

Depreciation expense was charged to the following functions:

Governmental activities:

Support services:

Operation and maintenance of plant	\$ 24,718
Transportation	<u>21,803</u>
Total depreciation expense – governmental activities	\$ 46,521
	=====

Business type activities:

Food service operations	\$ 705
	=====

(4) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental activities:					
Compensated absences	\$ 3,429	---	850	2,579	---
Net OPEB liability	(89)	951	---	862	---
Early retirement	<u>17,638</u>	<u>17,390</u>	<u>14,344</u>	<u>20,684</u>	<u>15,513</u>
Total	\$ 20,978	18,341	15,194	24,125	15,513
	=====	=====	=====	=====	=====

Early Retirement – The District adopted a voluntary early retirement plan for employees. The District will pay health insurance coverage for eligible employees until they are Medicare eligible.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

(5) 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.

(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 4.50% of their annual covered salary and the District is required to contribute 6.95 % of annual covered payroll. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$37,923, \$37,293, and \$44,865, respectively, equal to the required contributions for each year.

(7) Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 9 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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

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

The following table shows the components of the District’s annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan changes in the District’s net OPEB obligation:

Annual required contribution	\$ 3,309
Interest on net OPEB obligation	(2)
Adjustments to annual required contribution	<u>(248)</u>
Annual OPEB cost	3,059
Contributions made	<u>(2,108)</u>
Increase in net OPEB obligation	951
Net OPEB obligation beginning of year	<u>(89)</u>
Net OPEB obligation end of year	\$ <u><u>862</u></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, 2011.

For the year ended June 30, 2011, the District contributed \$ 2,108 to the medical plan. Plan members eligible for benefits contributed nothing, or 0% of the premium costs.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

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 Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation(Asset)</u>
June 30, 2010	\$ 3,151	102.8%	(89)
June 30, 2011	3,309	73.9%	862

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$26,082, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,082. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$564,800 and the ratio of the UAAL to covered payroll was 4.6%. As of June 30, 2011, 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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

As of the July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include 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, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2008 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2008.

Projected claim costs of the medical plan are \$513 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(8) 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 \$64,126 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Subsequent Events

Subsequent events have been evaluated through March 7, 2012, which is the date the financial statements were available to be issued.

Dows Community School District
Dows, Iowa

Notes to Financial Statements

June 30, 2011

(10) Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Gifted and Talented	\$ 10,411
Returning Dropout and Dropout Prevention Program	22,711
Beginning Teacher Mentoring and Induction Program	454
Transportation Aid for Nonpublic students	153
Statewide Voluntary Preschool Program	6,045
Professional Development for Model Care Curriculum	3,523
Professional Development	6,129
Professional Staff Recruitment	<u>2,096</u>
	<u>\$ 51,522</u>

(11) Accounting Change / Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously reported	\$ 251,301	368,545
Change in fund type classification per Implementation of GASB Statement No. 54	<u>368,545</u>	<u>(368,545)</u>
Balances July 1, 2010, as restated	<u>\$ 619,847</u>	<u>---</u>

Required Supplementary Information

Dows Community School District
Dows, Iowa

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Revenues:		
Local sources	\$ 1,072,431	10,546
State sources	460,370	400
Federal sources	<u>126,399</u>	<u>43,198</u>
Total revenues	<u>1,659,200</u>	<u>54,144</u>
Expenditures/Expenses:		
Instruction	972,964	-
Support services	543,312	-
Non-instructional programs	-	53,609
Other expenditures	<u>114,007</u>	<u>-</u>
Total expenditures	<u>1,630,283</u>	<u>53,609</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	28,917	535
Other financing sources, net	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses and other financing uses	28,917	535
Balances beginning of year	<u>1,575,631</u>	<u>7,711</u>
Balances end of year	<u>\$ 1,604,548</u>	<u>8,246</u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,082,977	1,095,919	1,095,919	(12,942)
460,770	709,175	709,175	(248,405)
<u>169,597</u>	<u>209,600</u>	<u>209,600</u>	<u>(40,003)</u>
<u>1,713,344</u>	<u>2,014,694</u>	<u>2,014,694</u>	<u>(301,350)</u>
972,964	2,012,400	2,012,400	1,039,436
543,312	808,500	808,500	265,188
53,609	76,000	76,000	22,391
<u>114,007</u>	<u>165,102</u>	<u>165,102</u>	<u>51,095</u>
<u>1,683,892</u>	<u>3,062,002</u>	<u>3,062,002</u>	<u>1,378,110</u>
29,452	(1,047,308)	(1,047,308)	1,076,760
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
29,452	(1,047,308)	(1,047,308)	1,076,760
<u>1,583,342</u>	<u>1,560,163</u>	<u>1,560,163</u>	<u>23,179</u>
<u>1,612,794</u>	<u>512,855</u>	<u>512,855</u>	<u>1,099,939</u>

Dows Community School District
Dows, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2011

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional 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.

Dows Community School District

Schedule of Funding Progress for the
Retiree Health Plan

Required Supplementary Information

Year Ended <u>June 30,</u>	Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) <u>(b)</u>	Unfunded AAL (UAAL) <u>(b-a)</u>	Funded Ratio <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a Percentage of Covered Payroll <u>((b-a)/c)</u>
2010	July 1, 2009	-	\$ 26,082	\$ 26,082	0.0%	\$ 564,800	4.6%
2011	July 1, 2009	-	26,082	26,082	0.0%	546,650	4.8%

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

Other Supplementary Information

Dows Community School District
Dows, Iowa

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

	<u>Special Revenue Student Activity</u>
Assets	
Cash and pooled investments	\$ <u>18,922</u>
Total assets	<u><u>18,922</u></u>
Liabilities and Fund Balances	
Fund balances:	
Restricted for:	
Student activities	<u>18,922</u>
Total liabilities and fund equity	<u><u>\$ 18,922</u></u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 2

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

Year ended June 30, 2011

	<u>Special Revenue Student Activity</u>
Revenues:	
Local sources:	
Other	\$ 17
Total revenues	<u>17</u>
Expenditures:	
Current:	
Instruction:	
Other	<u>43</u>
Total expenditures	<u>43</u>
Excess of revenues over (under) expenditures	(26)
Fund balances beginning of year	<u>18,948</u>
Fund balances end of year	<u><u>\$ 18,922</u></u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 3

Combining Statement of Net Assets
Nonmajor Proprietary Funds

June 30, 2011

	<u>Enterprise</u>		
	<u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 1,098	2,681	3,779
Inventories	2,562	-	2,562
Capital assets, net of accumulated depreciation	<u>1,905</u>	<u>-</u>	<u>1,905</u>
Total assets	<u>5,565</u>	<u>2,681</u>	<u>8,246</u>
Net Assets			
Unrestricted	<u>5,565</u>	<u>2,681</u>	<u>8,246</u>
Total net assets	<u>\$ 5,565</u>	<u>2,681</u>	<u>8,246</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 4

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

June 30, 2011

	Enterprise		
	Nutrition	Preschool	Total
Operating revenues:			
Local sources:			
Charges for service	\$ 10,400	-	10,400
Miscellaneous	146	-	146
Total operating revenues	10,546	-	10,546
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries and benefits	29,807	-	29,807
Supplies	23,097	-	23,097
Depreciation	705	-	705
Total operating expenses	53,609	-	53,609
Operating income (loss)	(43,063)	-	(43,063)
Non-operating revenues:			
State sources	400	-	400
Federal sources	43,198	-	43,198
Total non-operating revenues	43,598	-	43,598
Decrease in net assets	535	-	535
Fund balances beginning of year	5,030	2,681	7,711
Fund balances end of year	\$ 5,565	2,681	8,246

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 5

Combining Schedule of Cash Flows
Nonmajor Proprietary Funds

Year ended June 30, 2011

	Enterprise		Total
	Nutrition	Preschool	
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 10,400	-	10,400
Cash received from miscellaneous receipts	146	-	146
Cash paid to employees for services	(29,807)	-	(29,807)
Cash paid to suppliers for goods or services	(20,821)	-	(20,821)
Net cash used by operating activities	(40,082)	-	(40,082)
Cash flows from non-capital financing activities:			
State grants received	400	-	400
Federal grants received	40,692	-	40,692
Net cash provided by non-capital financing activities	41,092	-	41,092
Net increase in cash and cash equivalents	1,010	-	1,010
Cash and cash equivalents beginning of year	88	2,681	2,769
Cash and cash equivalents end of year	\$ 1,098	2,681	3,779
Reconciliation of operating loss to net cash used by operating activities:			
Operating income/(loss)	\$ (43,063)	-	(43,063)
Adjustments to reconcile operating income/(loss) to net cash used by operating activities:			
Commodities used	2,506	-	2,506
Depreciation	705	-	705
Increase in inventories	(230)	-	(230)
Net cash used by operating activities	\$ (40,082)	-	(40,082)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$2,506 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 6

Combining Balance Sheet
Capital Project Accounts

June 30, 2011

	<u>Capital Projects</u>		
	<u>Capital</u>	Physical Plant	
	<u>Projects</u>	and Equipment	<u>Total</u>
		<u>Levy</u>	
Assets			
Cash and pooled investments:	\$ 311,911	350,700	662,611
Other			
Receivables:			
Property tax:			
Delinquent	-	763	763
Succeeding year	-	89,399	89,399
Due from other governments	<u>7,285</u>	-	<u>7,285</u>
Total assets	<u>319,196</u>	<u>440,862</u>	<u>760,058</u>
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	1,824	-	1,824
Deferred revenue:			
Succeeding year property tax	<u>-</u>	<u>89,399</u>	<u>89,399</u>
Total liabilities	<u>1,824</u>	<u>89,399</u>	<u>91,223</u>
 Fund balances			
Restricted for:			
School infrastructure	317,372	-	317,372
Physical plant and equipment	<u>-</u>	<u>351,463</u>	<u>351,463</u>
Total fund balances	<u>317,372</u>	<u>351,463</u>	<u>668,835</u>
 Total liabilities and fund balances	<u>\$ 319,196</u>	<u>440,862</u>	<u>760,058</u>

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 7

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Capital Project Accounts

June 30, 2011

	Capital Projects		
	Capital Projects	Physical Plant and Equipment Levy	Total
Revenues:			
Local sources:			
Local tax	\$ 88,641	84,272	172,913
Other	197	469	666
State sources	-	47	47
Total revenues	88,838	84,788	173,626
Expenditures:			
Support services:			
Instructional staff	3,259	-	3,259
Operation and maintenance of plant	-	71,498	71,498
	3,259	71,498	74,757
Other expenditures			
Facilities acquisition	19,509	30,372	49,881
Total expenditures	22,768	101,870	124,638
Excess (deficiency) of revenues over (under) expenditures	66,070	(17,082)	48,988
Net change in fund balances	66,070	(17,082)	48,988
Fund balances beginning of year, as restated	251,302	368,545	619,847
Fund balances end of year	\$ 317,372	351,463	668,835

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 8

Schedule of Changes in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Balance End of Year</u>
Instrumental Music	\$ (97)	-	43	(140)
Book Orders	1,593	-	-	1,593
Elementary Fund	<u>17,452</u>	<u>17</u>	<u>-</u>	<u>17,469</u>
Total	<u>\$ 18,948</u>	<u>17</u>	<u>43</u>	<u>18,922</u>

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

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

For the Last Eight Years

	<u>2011</u>	<u>2010</u>	<u>Modified</u> <u>2009</u>
Revenues:			
Local sources:			
Local tax	\$ 1,060,493	996,931	1,013,519
Tuition	1,442	-	36,966
Other	10,496	10,545	22,495
State sources	460,370	541,283	655,878
Federal sources	<u>126,399</u>	<u>149,265</u>	<u>61,354</u>
Total	<u>\$ 1,659,200</u>	<u>1,698,024</u>	<u>1,790,212</u>
Expenditures:			
Instruction:			
Regular	\$ 635,115	602,260	586,306
Special	215,442	252,368	313,467
Other	122,407	67,652	87,970
Support services:			
Student	47,842	26,396	46,596
Instructional staff	11,331	30,005	88,241
Administration	185,220	185,819	181,082
Operation and maintenance of plant	248,828	175,668	199,267
Transportation	50,091	54,864	79,050
Central support	-	-	-
Noninstructional programs	-	868	811
Other expenditures:			
Facilities acquisition	49,881	12,657	19,052
AEA flowthrough	<u>64,126</u>	<u>64,750</u>	<u>55,804</u>
Total	<u>\$ 1,630,283</u>	<u>1,473,307</u>	<u>1,657,646</u>

See accompanying independent auditor's report.

Accrual Basis				
<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
990,078	989,265	1,030,356	987,285	962,111
25,113	24,347	24,081	179,867	187,512
62,193	70,053	74,455	84,236	69,945
619,821	643,970	639,902	623,486	560,494
<u>66,699</u>	<u>68,201</u>	<u>53,279</u>	<u>73,934</u>	<u>111,486</u>
<u>1,763,904</u>	<u>1,795,836</u>	<u>1,822,073</u>	<u>1,948,808</u>	<u>1,891,548</u>
602,668	621,567	687,220	754,189	748,746
420,520	359,105	274,412	392,669	387,814
95,528	78,674	72,031	62,078	60,483
44,679	41,959	45,009	29,852	27,784
61,789	53,852	48,982	59,594	50,958
179,266	172,184	172,258	197,003	223,840
181,846	248,368	192,962	135,745	131,125
75,690	55,319	50,558	54,594	88,930
-	-	-	34,327	30,244
579	1,332	-	-	-
28,253	53,343	23,012	66,753	120,508
<u>55,162</u>	<u>54,917</u>	<u>53,276</u>	<u>52,655</u>	<u>54,272</u>
<u>1,745,980</u>	<u>1,740,620</u>	<u>1,619,720</u>	<u>1,839,459</u>	<u>1,924,704</u>

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of
Dows 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 Dows Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 7, 2012. 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 Dows Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Dows Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Dows 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, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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

material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-C-11 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dows 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Dows 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

March 7, 2012

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

Significant Deficiencies:

I-A-11 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts journal were all done by the same person.

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

Response - We are doing everything we can within our situation and make improvements as the situation changes.

Conclusion - Response accepted.

I-B-11 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the District’s financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the District’s financial statements.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2011

Response – We have in the current and previous years relied on our independent auditor’s to assist us with this process. We will try to be more involved in the future.

Conclusion – Response accepted.

I-C-11 Preparation of Financial Statements – Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). Dows Community School District does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the District’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2011

Part II: Other Findings Related to Statutory Reporting:

- II-A-11 Certified Budget – Disbursements for the year ended June 30, 2011 did not exceed the certified budget in the other expenditures function.
- II-B-11 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.
- II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-11 Business Transactions - No business transactions between the District and District officials or employees were noted.
- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - No transactions requiring Board approval had not been approved by the Board.
- 11-G-11 Certified Enrollment – One variance in the basic enrollment data certified to the Department of Education was noted. The District counted one student that was not enrolled on count day.

Recommendation – The District should develop procedures to ensure accurate enrollment data is certified to the Iowa Department of Education.

Response – This was an oversight this year as this student was home schooled.

Conclusion – Response accepted.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2011

- II-H-11 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-11 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely.
- II-K-11 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-11 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. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011 the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning balance	\$ 251,302
Statewide sales, services and use tax revenue	88,641
Other local revenues	197
Instructional staff	(3,259)
School infrastructure construction	<u>(19,509)</u>
Ending balance	<u>317,372</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.