

WALNUT COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011

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Walnut Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
Shannon Griffith	President	2011
Troy Schaben	Vice President	2013
Bryan Simonsen	Board Member	2011
Ron Hamilton	Board Member	2011
Todd Ehlers	Board Member	2013
<u>School Officials</u>		
James Hammrich	Superintendent	2011
Karli North	Board Secretary	2011
Mary Beth Fast	Business Manager	2011
Mundt, Franck & Schumacher	Attorney	Indefinite

WALNUT COMMUNITY SCHOOL DISTRICT

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Walnut Community School District:

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Walnut Community School District, Walnut, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Walnut Community School District at June 30, 2011 and the respective changes in financial position and cash flows, where applicable, thereof 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 12, 2012 on our consideration of the Walnut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Walnut Community School District's basic financial statements. Another auditor previously audited, in accordance with 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 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Walnut Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,076,627 in fiscal 2010 to \$2,292,070 in fiscal 2011, while General Fund expenditures decreased from \$2,240,811 in fiscal 2010 to \$2,189,326 in fiscal 2011. The District's General Fund balance increased from \$346,071 at June 30, 2010 to \$448,815 at June 30, 2011.
- The increase in General Fund revenues was attributable to an increase in state and local sources. The decrease in expenditures was due to the decrease in support services expenditures.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Walnut Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Walnut Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Walnut Community School District acts solely as an agent or custodian for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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

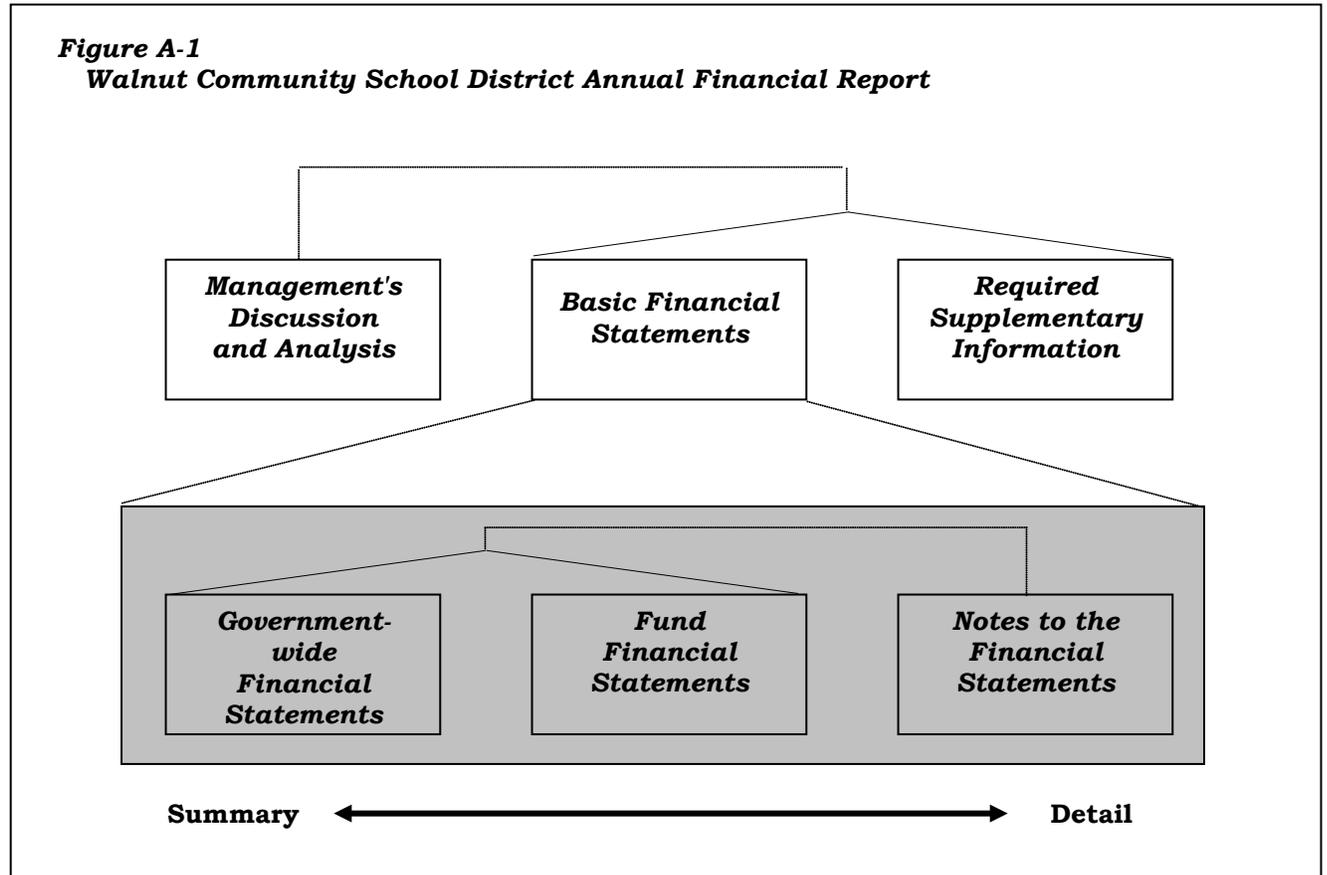


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the 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 - The District administers and accounts for revenues collected and expenditures paid for scholarships to students through the Walnut Education Association.

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 government-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 3,602,574	3,044,782	7,651	4,823	3,610,225	3,049,605	18.38%
Capital assets	1,818,257	1,868,633	27,124	29,621	1,845,381	1,898,254	-2.79%
Total assets	5,420,831	4,913,415	34,775	34,444	5,455,606	4,947,859	10.26%
Long-term obligations	629,093	896,970	525	516	629,618	897,486	-29.85%
Other liabilities	1,825,459	1,511,030	71,735	47,032	1,897,194	1,558,062	21.77%
Total liabilities	2,454,552	2,408,000	72,260	47,548	2,526,812	2,455,548	2.90%
Net assets:							
Invested in capital assets, net of related debt	1,203,257	1,093,633	27,124	29,621	1,230,381	1,123,254	9.54%
Restricted	1,485,576	1,159,057	-	-	1,485,576	1,159,057	28.17%
Unrestricted	277,446	252,725	(64,609)	(42,725)	212,837	210,000	1.35%
Total net assets	\$ 2,966,279	2,505,415	(37,485)	(13,104)	2,928,794	2,492,311	17.51%

The District's combined net assets increased by 17.51%, or \$436,483, from the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$326,519, or 28.17% from the prior year. The increase in restricted net assets is a result of an increase in the categorical funding carryover balance as compared to the prior year as well as and increases in fund balance for the Capital Projects: Statewide Sales, Services and Use Tax Fund and Management Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$2,837, or 1.35%. The increase in unrestricted net assets was a result of the District's increase in General Fund carryover balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2011 compared to June 30, 2010.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change 2010-11
	2011	2010	2011	2010	2011	2010	
Revenues and Transfers:							
Program revenues:							
Charges for services	\$ 125,444	169,278	88,879	89,896	214,323	259,174	-17.31%
Operating grants, contributions and restricted interest	291,329	520,199	52,638	58,241	343,967	578,440	-40.54%
Capital grants, contributions and restricted interest	750	-	-	-	750	-	100.00%
General revenues:							
Property tax	1,332,572	1,217,770	-	-	1,332,572	1,217,770	9.43%
Income surtax	23,611	51,214	-	-	23,611	51,214	-53.90%
Statewide sales, services and use tax	187,078	182,652	-	-	187,078	182,652	2.42%
Unrestricted state grants	847,813	549,500	-	-	847,813	549,500	54.29%
Non specific program federal grants	67,743	-	-	-	67,743	-	100.00%
Other	68,313	14,620	5,962	91	74,275	14,711	404.89%
Total revenues	2,944,653	2,705,233	147,479	148,228	3,092,132	2,853,461	8.36%
Program expenses:							
Governmental activities:							
Instruction	1,489,395	1,575,283	-	-	1,489,395	1,575,283	-5.45%
Support services	833,687	885,615	6,325	-	840,012	885,615	-5.15%
Non-instructional programs	-	-	165,535	165,513	165,535	165,513	0.01%
Other expenses	160,707	255,027	-	-	160,707	255,027	-36.98%
Total expenses	2,483,789	2,715,925	171,860	165,513	2,655,649	2,881,438	-7.84%
Change in net assets	460,864	(10,692)	(24,381)	(17,285)	436,483	(27,977)	1660.15%
Beginning net assets	2,505,415	2,516,107	(13,104)	4,181	2,492,311	2,520,288	-1.11%
Ending net assets	\$ 2,966,279	2,505,415	(37,485)	(13,104)	2,928,794	2,492,311	17.51%

In fiscal 2011, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 81.20% of the revenue from governmental activities while charges for services and operating grants and contributions account for 95.96% of the revenue from business type activities.

The District's total revenues were approximately \$3.09 million of which approximately \$2.94 million was for governmental activities and approximately \$0.15 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 8.36% increase in revenues and a 7.84% decrease in expenses. Property tax increased \$114,802 to help fund expenditures. The decrease in expenses is related to a decrease in support services expenses.

Governmental Activities

Revenues for governmental activities were \$2,944,653 and expenses were \$2,483,789.

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, for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 1,489,395	1,575,283	-5.45%	1,162,026	1,001,258	16.06%
Support services	833,687	885,615	-5.86%	831,438	857,929	-3.09%
Non-instructional programs	-	-	0.00%	-	(450)	-100.00%
Other expenses	160,707	255,027	-36.98%	72,802	167,711	-56.59%
Totals	\$ 2,483,789	2,715,925	-8.55%	2,066,266	2,026,448	1.96%

- The cost financed by users of the District's programs was \$125,444.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$292,079.
- The net cost of governmental activities was financed with \$1,332,572 in property tax, \$23,611 in income surtax, \$187,078 in statewide sales, services and use tax, \$847,813 in unrestricted state grants, \$67,743 in nonspecific program federal grants, \$3,073 in interest income and \$65,240 in other general revenues.

Business-Type Activities

Revenues of the District's business type activities were \$147,479 and expenses were \$171,860. The District's business type activities include the School Nutrition and Daycare Funds. Revenues of these activities were comprised of charges for service and federal and state reimbursements.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,755,165, which is more than last year's ending fund balances of \$1,518,538. The increase in combined fund balances is primarily a result of the increase in fund balances for the General Fund and Capital Projects: Statewide Sales, Services and Use Tax Fund.

Governmental Fund Highlights

- The General Fund balance increased from \$346,071 to \$448,815. The increase in General Fund balance is a result of increases in state and local source revenues along with a decrease in support services expenditures.

-
- The Capital Projects Account balance increased from a restated balance of \$845,094 at the beginning of the fiscal year 2011 to \$976,058 at the end of fiscal 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$10,866 at June 30, 2010 to a deficit \$1,521 at June 30, 2011, representing a decrease of 114.00%. Decreases in federal and local source revenues as compared to the previous year led to the decrease in fund balance for the School Nutrition Fund.
- Overall, net assets for the Daycare Fund decreased from a deficit \$23,970 at June 30, 2010 to a deficit \$35,964 at June 30, 2011, representing a decrease of 50.04%. As compared to the previous year, the increase in revenues was not enough to outpace the increase in expenditures thus causing the decrease in fund balance.

BUDGETARY HIGHLIGHTS

The District's revenues were \$14,250 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and other expenditures functional areas.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested approximately \$1.85 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.87% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$120,358.

The original cost of the District's capital assets was \$5.38 million. Governmental funds account for approximately \$5.30 million with the remainder of approximately \$0.08 million in the Proprietary, School Nutrition and Daycare Funds.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$188,091 at June 30, 2010, compared to \$127,802 reported at June 30, 2011. This significant decrease resulted from depreciation expense taken during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change 2010-11
	Activities		Activities		School District		
	2011	2010	2011	2010	2011	2010	
Land	\$ 40,125	40,125	-	-	40,125	40,125	0.00%
Buildings	1,526,814	1,569,681	26,300	28,432	1,553,114	1,598,113	-2.90%
Land improvements	124,340	71,925	-	-	124,340	71,925	42.15%
Machinery and equipment	126,978	186,902	824	1,189	127,802	188,091	-47.17%
Total	\$ 1,818,257	1,868,633	27,124	29,621	1,845,381	1,898,254	-2.87%

Long-Term Debt

At June 30, 2011, the District had \$629,618 in general obligation and other long-term debt outstanding. This represents a decrease of 29.85% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had total outstanding General Obligation Bond indebtedness at June 30, 2011 of \$615,000.

The District had outstanding Net OPEB liability at June 30, 2011 of \$14,618. Governmental activities account for \$14,093 while business type activities account for \$525.

Figure A-7
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total Change 2010-11
	Activities		Activities		School District		
	2011	2010	2011	2010	2011	2010	
General Obligation Bonds	\$ 615,000	775,000	-	-	615,000	775,000	-20.65%
Early Retirement	-	115,000	-	-	-	115,000	-100.00%
Net OPEB liability	14,093	6,970	525	516	14,618	7,486	95.27%
Totals	\$ 629,093	896,970	525	516	629,618	897,486	-29.85%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karli North, Board Secretary, Walnut Community School District, 415 Antique City Drive, Walnut, Iowa, 51577.

WALNUT COMMUNITY SCHOOL DISTRICT

Basic Financial Statements

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,895,558	5,493	1,901,051
Receivables:			
Property tax:			
Delinquent	16,650	-	16,650
Succeeding year	1,611,556	-	1,611,556
Income surtax	23,534	-	23,534
Accounts	-	896	896
Due from other governments	55,276	357	55,633
Inventories	-	905	905
Capital assets, net of accumulated depreciation			
Buildings	1,526,814	26,300	1,553,114
Land and improvements	164,465	-	164,465
Machinery and equipment	126,978	824	127,802
TOTAL ASSETS	5,420,831	34,775	5,455,606
LIABILITIES			
Excess of warrants issued over bank balance	-	57,613	57,613
Accounts payable	41,797	-	41,797
Salaries and benefits payable	170,522	13,271	183,793
Accrued interest payable	1,584	-	1,584
Deferred revenue:			
Succeeding year property tax	1,611,556	-	1,611,556
Unearned revenue	-	851	851
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	160,000	-	160,000
Portion due after one year:			
Revenue bonds	455,000	-	455,000
Net OPEB liability	14,093	525	14,618
TOTAL LIABILITIES	2,454,552	72,260	2,526,812
NET ASSETS			
Invested in capital assets, net of related debt	1,203,257	27,124	1,230,381
Restricted for:			
Categorical funding	179,473	-	179,473
School infrastructure	804,099	-	804,099
Physical plant and equipment	171,959	-	171,959
Management levy purposes	229,700	-	229,700
Student activities	30,733	-	30,733
Debt service	69,859	-	69,859
Unrestricted	277,199	(64,609)	212,590
TOTAL NET ASSETS	\$ 2,966,279	(37,485)	2,928,794

SEE NOTES TO FINANCIAL STATEMENTS.

**WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business type Activities	
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,132,742	80,705	126,454	-	(925,583)	-	(925,583)
Special	155,079	-	11,390	-	(143,689)	-	(143,689)
Other	201,574	44,739	64,081	-	(92,754)	-	(92,754)
	<u>1,489,395</u>	<u>125,444</u>	<u>201,925</u>	<u>-</u>	<u>(1,162,026)</u>	<u>-</u>	<u>(1,162,026)</u>
Support services:							
Student	5,532	-	-	-	(5,532)	-	(5,532)
Instructional staff	206,837	-	353	-	(206,484)	-	(206,484)
Administration	303,157	-	1,146	-	(302,011)	-	(302,011)
Operation and maintenance of plant	215,479	-	-	750	(214,729)	-	(214,729)
Transportation	102,682	-	-	-	(102,682)	-	(102,682)
	<u>833,687</u>	<u>-</u>	<u>1,499</u>	<u>750</u>	<u>(831,438)</u>	<u>-</u>	<u>(831,438)</u>
Other expenses:							
Long-term debt interest	23,191	-	-	-	(23,191)	-	(23,191)
AEA flowthrough	87,905	-	87,905	-	-	-	-
Depreciation(unallocated)*	49,611	-	-	-	(49,611)	-	(49,611)
	<u>160,707</u>	<u>-</u>	<u>87,905</u>	<u>-</u>	<u>(72,802)</u>	<u>-</u>	<u>(72,802)</u>
Total governmental activities	<u>2,483,789</u>	<u>125,444</u>	<u>291,329</u>	<u>750</u>	<u>(2,066,266)</u>	<u>-</u>	<u>(2,066,266)</u>
Business type activities:							
Support services:							
Administration	4,862	-	-	-	-	(4,862)	(4,862)
Operation and maintenance of plant	1,463	-	-	-	-	(1,463)	(1,463)
Total support services	<u>6,325</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,325)</u>	<u>(6,325)</u>
Non-instructional programs:							
Food service operations	105,458	43,753	50,323	-	-	(11,382)	(11,382)
Other enterprise operations	60,077	45,126	2,315	-	-	(12,636)	(12,636)
Total business type activities	<u>171,860</u>	<u>88,879</u>	<u>52,638</u>	<u>-</u>	<u>-</u>	<u>(30,343)</u>	<u>(30,343)</u>
Total primary government	<u>\$ 2,655,649</u>	<u>214,323</u>	<u>343,967</u>	<u>750</u>	<u>(2,066,266)</u>	<u>(30,343)</u>	<u>(2,096,609)</u>
General Revenues:							
Property tax levied for:							
General purposes					\$ 1,070,310	-	1,070,310
Debt service					171,510	-	171,510
Capital outlay					90,752	-	90,752
Income surtax					23,611	-	23,611
Statewide sales, services and use tax					187,078	-	187,078
Unrestricted state grants					847,813	-	847,813
Nonspecific program federal grants					67,743	-	67,743
Unrestricted investment earnings					3,073	-	3,073
Other general revenues					65,240	5,962	71,202
Total general revenues					<u>2,527,130</u>	<u>5,962</u>	<u>2,533,092</u>
Changes in net assets					460,864	(24,381)	436,483
Net assets beginning of year					<u>2,505,415</u>	<u>(13,104)</u>	<u>2,492,311</u>
Net assets end of year					<u>\$ 2,966,279</u>	<u>(37,485)</u>	<u>2,928,794</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General	Capital Projects	Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 623,697	945,601	326,260	1,895,558
Receivables:				
Property tax				
Delinquent	11,363	1,190	4,097	16,650
Succeeding year	1,269,021	110,127	232,408	1,611,556
Income surtax	23,534	-	-	23,534
Due from other governments	26,009	29,267	-	55,276
TOTAL ASSETS	\$ 1,953,624	1,086,185	562,765	3,602,574
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 41,732	-	65	41,797
Salaries and benefits payable	170,522	-	-	170,522
Deferred revenue:				
Succeeding year property tax	1,269,021	110,127	232,408	1,611,556
Income surtax	23,534	-	-	23,534
Total liabilities	1,504,809	110,127	232,473	1,847,409
Fund balances:				
Restricted for:				
Categorical funding	179,473	-	-	179,473
School infrastructure	-	804,099	-	804,099
Physical plant and equipment	-	171,959	-	171,959
Management levy purposes	-	-	229,700	229,700
Student activities	-	-	30,733	30,733
Debt service	-	-	69,859	69,859
Unassigned	269,342	-	-	269,342
Total fund balances	448,815	976,058	330,292	1,755,165
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,953,624	1,086,185	562,765	3,602,574

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balances of governmental funds(page 20)	\$	1,755,165
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		1,818,257
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(1,584)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		23,534
Long-term liabilities, including general obligation bonds payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(629,093)</u>
Net assets of governmental activities(page 18)	\$	<u><u>2,966,279</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 938,344	277,830	321,274	1,537,448
Tuition	77,225	-	-	77,225
Other	131,715	2,755	44,161	178,631
Intermediate sources	1,539	-	-	1,539
State sources	988,835	-	-	988,835
Federal sources	154,412	750	-	155,162
Total revenues	<u>2,292,070</u>	<u>281,335</u>	<u>365,435</u>	<u>2,938,840</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	1,130,556	-	70,000	1,200,556
Special	154,628	-	-	154,628
Other	145,789	-	49,461	195,250
	<u>1,430,973</u>	<u>-</u>	<u>119,461</u>	<u>1,550,434</u>
Support services:				
Student	5,532	-	-	5,532
Instructional staff	145,556	42,108	-	187,664
Administration	291,096	43,232	13,087	347,415
Operation and maintenance of plant	161,255	-	46,400	207,655
Transportation	67,009	-	-	67,009
	<u>670,448</u>	<u>85,340</u>	<u>59,487</u>	<u>815,275</u>
Other expenditures:				
Facilities acquisitions	-	65,031	-	65,031
Long-term debt:				
Principal	-	-	160,000	160,000
Interest and fiscal charges	-	-	23,568	23,568
AEA flowthrough	87,905	-	-	87,905
	<u>87,905</u>	<u>65,031</u>	<u>183,568</u>	<u>336,504</u>
Total expenditures	<u>2,189,326</u>	<u>150,371</u>	<u>362,516</u>	<u>2,702,213</u>
Net change in fund balances	102,744	130,964	2,919	236,627
Fund balances beginning of year, as restated	<u>346,071</u>	<u>845,094</u>	<u>327,373</u>	<u>1,518,538</u>
Fund balances end of year	<u>\$ 448,815</u>	<u>976,058</u>	<u>330,292</u>	<u>1,755,165</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 236,627

*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. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Capital outlays	\$ 67,485	
Depreciation expense	(117,861)	(50,376)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds 5,813

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 160,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 377

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 546

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

Early retirement	115,000	
Other postemployment benefits	(7,123)	107,877

Changes in net assets of governmental activities(page 19) \$ 460,864

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2011

	Business Type Activities: Enterprise Funds		
	School Nutrition	Daycare Fund	Total
<u>ASSETS</u>			
Current assets:			
Cash and pooled investments	\$ 5,493	-	5,493
Accounts receivable	896	-	896
Due from other governments	-	357	357
Inventories	905	-	905
Total current assets	<u>7,294</u>	<u>357</u>	<u>7,651</u>
Non-current assets:			
Capital assets being depreciated, net of: accumulated depreciation			
Building	-	26,300	26,300
Machinery and equipment	824	-	824
Total non-current assets	<u>824</u>	<u>26,300</u>	<u>27,124</u>
TOTAL ASSETS	<u>8,118</u>	<u>26,657</u>	<u>34,775</u>
<u>LIABILITIES</u>			
Current liabilities:			
Excess of warrants issued over bank balance	-	57,613	57,613
Salaries and benefits payable	8,263	5,008	13,271
Unearned revenue	851	-	851
Total current liabilities	<u>9,114</u>	<u>62,621</u>	<u>71,735</u>
Long-term liabilities:			
Net OPEB liability	525	-	525
TOTAL LIABILITIES	<u>9,639</u>	<u>62,621</u>	<u>72,260</u>
<u>NET ASSETS</u>			
Invested in capital assets	824	26,300	27,124
Unrestricted	(2,345)	(62,264)	(64,609)
Total net assets	<u>\$ (1,521)</u>	<u>(35,964)</u>	<u>(37,485)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2011

	Business Type Activities: Enterprise Funds			Governmental Activities: Internal Service Fund
	School Nutrition	Daycare Fund	Total	
OPERATING REVENUE:				
Local sources:				
Charges for service	\$ 43,753	45,126	88,879	924
Miscellaneous	3,657	2,305	5,962	-
TOTAL OPERATING REVENUES	47,410	47,431	94,841	924
OPERATING EXPENSES:				
Support services:				
Administration:				
Salaries	4,069	-	4,069	-
Benefits	593	-	593	378
Services	-	200	200	-
	4,662	200	4,862	378
Operation and maintenance of plant:				
Services	-	422	422	-
Supplies	-	1,041	1,041	-
	-	1,463	1,463	-
Total support services	4,662	1,663	6,325	378
Non-instructional programs:				
Food service operations:				
Salaries	32,926	-	32,926	-
Benefits	13,260	-	13,260	-
Services	106	-	106	-
Supplies	58,801	-	58,801	-
Depreciation	365	-	365	-
	105,458	-	105,458	-
Other enterprise operations				
Salaries	-	46,961	46,961	-
Benefits	-	6,324	6,324	-
Supplies	-	4,660	4,660	-
Depreciation	-	2,132	2,132	-
	-	60,077	60,077	-
Total non-instructional programs	105,458	60,077	165,535	-
TOTAL OPERATING EXPENSES	110,120	61,740	171,860	378
OPERATING INCOME(LOSS)	(62,710)	(14,309)	(77,019)	546
NON-OPERATING REVENUES:				
State sources	880	-	880	-
Federal sources	49,443	2,315	51,758	-
TOTAL NON-OPERATING REVENUES	50,323	2,315	52,638	-
Change in net assets	(12,387)	(11,994)	(24,381)	546
Net assets beginning of year	10,866	(23,970)	(13,104)	(546)
Net assets end of year	\$ (1,521)	(35,964)	(37,485)	-

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2011

	Business Type Activities: Enterprise Fund			Governmental Activities: Internal Service Fund
	School Nutrition	Daycare Fund	Total	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 43,934	-	43,934	-
Cash received from fees for daycare services	-	45,126	45,126	-
Cash received from miscellaneous operating activities	3,657	2,305	5,962	924
Cash payments to employees for services	(42,576)	(48,277)	(90,853)	(2,294)
Cash payments to suppliers for goods or services	(52,311)	(6,346)	(58,657)	-
Net cash used in operating activities	(47,296)	(7,192)	(54,488)	(1,370)
Cash flows from non-capital financing activities:				
Repayments to the General Fund	-	(6,581)	(6,581)	-
State grants received	880	-	880	-
Federal grants received	42,078	1,958	44,036	-
Net cash provided by(used in) non-capital financing activities	42,958	(4,623)	38,335	-
Net decrease in cash and cash equivalents	(4,338)	(11,815)	(16,153)	(1,370)
Cash and cash equivalents at beginning of year	9,831	(45,798)	(35,967)	1,370
Cash and cash equivalents at end of year	\$ 5,493	(57,613)	(52,120)	-
Reconciliation of operating income(loss)to net cash used in operating activities:				
Operating income(loss)	\$ (62,710)	(14,309)	(77,019)	546
Adjustments to reconcile operating income(loss)to net cash used in operating activities:				
Commodities consumed	7,365	-	7,365	-
Depreciation	365	2,132	2,497	-
Increase in inventories	(427)	-	(427)	-
Decrease in accounts receivable	199	-	199	-
Decrease in accounts payable	(342)	(23)	(365)	(1,916)
Increase in salaries and benefits payable	8,263	5,008	13,271	-
Decrease in unearned revenue	(18)	-	(18)	-
Increase in other postemployment benefits	9	-	9	-
Net cash used in operating activities	\$ (47,305)	(7,192)	(54,497)	(1,370)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received Federal commodities valued at \$7,365.

SEE NOTES TO FINANCIAL STATEMENTS.

WALNUT COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2011

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 3,988	\$ 2,268
LIABILITIES		
Due to other groups	-	2,268
NET ASSETS		
Restricted for scholarships	1,500	-
Unrestricted	2,488	-
TOTAL NET ASSETS	<u>\$ 3,988</u>	<u>\$ -</u>

SEE NOTES TO FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT
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	\$ 2,525
Interest	35
Total additions	<u>2,560</u>
Deductions:	
Instructional:	
Scholarships awarded	<u>1,500</u>
Change in net assets	1,060
Net assets beginning of year	<u>2,928</u>
Net assets end of year	<u>\$ 3,988</u>

SEE NOTES TO FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

For financial reporting purposes, Walnut Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Walnut Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation/ammortization 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 asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The District also reports the following proprietary funds:

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

The Enterprise, Day Care Fund is used to account for the daycare operations of the District.

The Internal Service Fund is used to account for the flexible health benefits program offered by the District. The Internal Service Fund is charged back to the Governmental funds and shown combined in the Statement of Net Assets and the Statement of Activities.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

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

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 - restricted and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from the current year. 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes 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 the amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The Enterprise Fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

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

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	5-25 years
Intangibles	5-20 years
Machinery and equipment	3-20 years

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2011, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2011.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue 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 period. Deferred revenues consist of unspent federal 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.

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

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

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

Restricted - Amounts restricted to specific purposes when constraints placed 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.

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.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgeting and Budgetary Control - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011 expenditures in the non-instructional programs and other expenditures functions exceeded the budgeted amounts.

Note 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.

Investments in common stock are stated at the approximate fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2011, the District's investment in common stock is the following:

Name of Stock	Number of Shares	Fair Value
Principal Financial Group	812	\$ 24,701

Concentration of credit risk - The District places no limit on the amount that may be invested in any one issuer.

Note 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	\$ 40,125	-	-	40,125
Total capital assets not being depreciated	40,125	-	-	40,125
Capital assets being depreciated:				
Buildings	4,233,457	-	-	4,233,457
Land improvements	82,616	59,159	-	141,775
Machinery and equipment	916,052	8,326	44,000	880,378
Total capital assets being depreciated	5,232,125	67,485	44,000	5,255,610
Less accumulated depreciation for:				
Buildings	2,663,776	42,867	-	2,706,643
Land improvements	10,691	6,744	-	17,435
Machinery and equipment	729,150	68,250	44,000	753,400
Total accumulated depreciation	3,403,617	117,861	44,000	3,477,478
Total capital assets being depreciated, net	1,828,508	(50,376)	-	1,778,132
Governmental activities capital assets, net	\$ 1,868,633	(50,376)	-	1,818,257
Business type activities:				
Capital assets being depreciated:				
Buildings	\$ 42,645	-	-	42,645
Machinery and equipment	37,913	-	-	37,913
Total capital assets being depreciated	80,558	-	-	80,558
Less accumulated depreciation for:				
Buildings	14,213	2,132	-	16,345
Machinery and equipment	36,724	365	-	37,089
Total accumulated depreciation	50,937	2,497	-	53,434
Total capital assets being depreciated, net	29,621	(2,497)	-	27,124
Business type activities capital assets, net	\$ 29,621	(2,497)	-	27,124

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 5,858
Other		6,073
Support services:		
Instructional staff		19,173
Operation and maintenance of plant services		1,532
Transportation		35,614
		<u>68,250</u>
Unallocated depreciation		<u>49,611</u>
		<u>\$ 117,861</u>
Business type activities:		
Food services		\$ 365
Day care operations		<u>2,132</u>
		<u>\$ 2,497</u>

Note 4. Long-Term Debt

A summary of changes in long-term debt for business type activities and governmental activities for the year ended June 30, 2011 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 775,000	-	160,000	615,000	160,000
Early Retirement	115,000	-	115,000	-	-
Net OPEB Liability	6,970	7,123	-	14,093	-
Total	<u>\$ 896,970</u>	<u>7,123</u>	<u>275,000</u>	<u>629,093</u>	<u>160,000</u>
<u>Business Type Activities:</u>					
Net OPEB Liability	\$ 516	9	-	525	-

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of April 3, 2008			
	Rate	Principal	Interest	Total
2012	2.90 %	\$ 160,000	19,132	179,132
2013	3.05	165,000	14,493	179,493
2014	3.20	170,000	9,460	179,460
2015	3.35	120,000	4,020	124,020
Total		<u>\$ 615,000</u>	<u>47,105</u>	<u>662,105</u>

Note 5. 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 24 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 15,684
Interest on net OPEB obligation	187
Adjustment to annual required contribution	(1,361)
Annual OPEB cost	<u>14,510</u>
Contributions made	<u>(7,378)</u>
Increase in net OPEB obligation	7,132
Net OPEB obligation beginning of year	7,486
Net OPEB obligation end of year	<u><u>\$ 14,618</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 \$7,378 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	14,479	48.30%	7,486
2011	14,510	50.85%	14,618

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 \$81,649 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$81,649. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,115,190, and the ratio of the UAAL to covered payroll was 7.3%. 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, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Post age 65 expected claims cost are assumed to equal retiree contributions. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 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 salary and the District is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$66,929, \$81,713, and \$77,786 respectively, equal to the required contributions for each year.

Note 7. Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa.

The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, disability and life insurance. District contributions to ISEBA for the year ended June 30, 2011 were \$149,440.

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.

Note 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 \$87,905 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.

Note 9. Deficit Unrestricted Net Assets

The District had deficit unrestricted net assets in the Enterprise, School Nutrition Fund of \$2,345 and deficit unrestricted net assets in the Enterprise, Daycare Fund of \$62,264.

Note 10. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2011, expenditures in the non-instructional and other expenditures programs functional areas exceeded the certified budget.

Note 11. Categorical Funding

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

Program	Amount
Home school assistance program	\$ 13,658
Four year old preschool state aid	31,258
Statewide voluntary preschool	6,613
Gifted and talented	31,608
Dropout and dropout prevention	85,077
Educator quality, basic salary	10,888
Professional development for model core curriculum	371
Total	<u>\$ 179,473</u>

Note 12. 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 reclassification is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010 as previously reported	\$ 636,058	\$ 209,036
Change in fund type classification per implementation of GASB Statement No. 54	<u>209,036</u>	<u>(209,036)</u>
Balance July 1, 2010 as restated	<u>\$ 845,094</u>	<u>\$ -</u>

Required Supplementary Information

WALNUT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 1,793,304	94,841	1,888,145	1,720,690	1,720,690	167,455
Intermediate sources	1,539	-	1,539	8,255	8,255	(6,716)
State sources	988,835	880	989,715	1,185,124	1,185,124	(195,409)
Federal sources	155,162	51,758	206,920	158,000	158,000	48,920
Total revenues	2,938,840	147,479	3,086,319	3,072,069	3,072,069	14,250
Expenditures/Expenses:						
Instruction	1,550,434	-	1,550,434	2,204,963	2,204,963	654,529
Support services	815,275	6,325	821,600	1,773,989	1,773,989	952,389
Non-instructional programs	-	165,535	165,535	45,000	45,000	(120,535)
Other expenditures	336,504	-	336,504	265,826	265,826	(70,678)
Total expenditures/expenses	2,702,213	171,860	2,874,073	4,289,778	4,289,778	1,415,705
Excess(Deficiency) of revenues over(under) expenditures/expenses	236,627	(24,381)	212,246	(1,217,709)	(1,217,709)	1,429,955
Balance beginning of year	1,518,538	(13,104)	1,505,434	1,654,970	1,654,970	(149,536)
Balance end of year	\$ 1,755,165	(37,485)	1,717,680	437,261	437,261	1,280,419

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2011

This budgetary comparison is presented as Required Supplementary Information in accordance with Government 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. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2011, the expenditures in the non-instructional programs and other expenditures functional areas exceeded the certified budget.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial	Unfunded	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
			Accrued Liability (AAL) (b)	AAL (UAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 84,995	\$ 84,995	0.0 %	\$ 1,100,000	7.7 %
2011	July 1, 2009	-	81,649	81,649	0.0	1,115,190	7.3

See Note 5 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Other Supplementary Information

WALNUT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2011

	Special Revenue			Debt Service	Total Nonmajor Governmental Funds
	Management Levy	Student Activity	Total Special Revenue Funds		
ASSETS					
Cash and pooled investments	\$ 227,852	30,798	258,650	67,610	326,260
Receivables:					
Property tax:					
Delinquent	1,848	-	1,848	2,249	4,097
Succeeding year	50,000	-	50,000	182,408	232,408
TOTAL ASSETS	\$ 279,700	30,798	310,498	252,267	562,765
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	65	65	-	65
Deferred revenue:					
Succeeding year property tax	50,000	-	50,000	182,408	232,408
Total liabilities	50,000	65	50,065	182,408	232,473
Fund balances:					
Restricted for:					
Management levy purposes	229,700	-	229,700	-	229,700
Student activities	-	30,733	30,733	-	30,733
Debt service	-	-	-	69,859	69,859
Total fund balances	229,700	30,733	260,433	69,859	330,292
TOTAL LIABILITIES AND FUND BALANCES	\$ 279,700	30,798	310,498	252,267	562,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2011

	Special Revenue		Total Special Revenue Funds	Debt Service	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity			
REVENUES:					
Local sources:					
Local tax	\$ 149,764	-	149,764	171,510	321,274
Other	-	44,161	44,161	-	44,161
TOTAL REVENUES	149,764	44,161	193,925	171,510	365,435
EXPENDITURES:					
Current:					
Instruction					
Regular	70,000	-	70,000	-	70,000
Other	-	49,461	49,461	-	49,461
Support services:					
Administration	13,087	-	13,087	-	13,087
Operation and maintenance of plant	46,400	-	46,400	-	46,400
Long-term debt:					
Principal	-	-	-	160,000	160,000
Interest and fiscal charges	-	-	-	23,568	23,568
TOTAL EXPENDITURES	129,487	49,461	178,948	183,568	362,516
Net change in fund balances	20,277	(5,300)	14,977	(12,058)	2,919
Fund balances beginning of year, as restated	209,423	36,033	245,456	81,917	327,373
Fund balances end of year	\$ 229,700	30,733	260,433	69,859	330,292

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECT ACCOUNTS

JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
ASSETS			
Cash and pooled investments	\$ 774,832	170,769	\$ 945,601
Receivables:			
Property tax:			
Delinquent	-	1,190	1,190
Succeeding year	-	110,127	110,127
Due from other governments	29,267	-	29,267
TOTAL ASSETS	\$ 804,099	282,086	1,086,185
LIABILITIES AND FUND BALANCES			
Liabilities:			
Succeeding year property tax	\$ -	110,127	110,127
Fund balances:			
Restricted for:			
School infrastructure	804,099	-	804,099
Physical plant and equipment	-	171,959	171,959
	804,099	171,959	976,058
TOTAL LIABILITIES AND FUND BALANCES	\$ 804,099	282,086	1,086,185

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECT ACCOUNTS

YEAR ENDED JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 187,078	90,752	277,830
Other	420	2,335	2,755
Federal sources	-	750	750
TOTAL REVENUES	187,498	93,837	281,335
EXPENDITURES:			
Current:			
Support services:			
Instructional staff	18,588	23,520	42,108
Operation and maintenance of plant	869	42,363	43,232
Other expenditures:			
Facilities acquisition	-	65,031	65,031
TOTAL EXPENDITURES	19,457	130,914	150,371
Net change in fund balances	168,041	(37,077)	130,964
Fund balances beginning of year, as restated	636,058	209,036	845,094
Fund balances end of year	\$ 804,099	171,959	976,058

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Music	\$ (82)	82	-	-
Vocal	-	48	48	-
Drama/Class Play	638	2,441	1,621	1,458
Athletics	21,193	6,479	21,879	5,793
Cheerleaders	38	10	-	48
Basketball	-	4,929	3,450	1,479
Volleyball	-	2,941	2,714	227
Softball	-	2,345	2,137	208
Student Services	44	7,830	28	7,846
Middle School Leadership	(1)	1	-	-
Class of 2010	(462)	-	(462)	-
Class of 2011	4,125	550	4,675	-
Class of 2012	1,249	5,042	5,119	1,172
Class of 2013	246	10	-	256
Class of 2014	1,808	-	-	1,808
Class of 2015	189	296	59	426
Class of 2016	211	306	6	511
Class of 2017	-	2,462	-	2,462
Class of 2018	-	250	-	250
National Honor Society	126	-	-	126
Student Council	3,501	1,199	501	4,199
Annual	1	3,082	3,083	-
Speech	1	-	1	-
Academic Programs	1,040	1,116	2,147	9
DARE	571	-	-	571
PBS Program	1,404	-	-	1,404
K-2 Classroom	480	-	-	480
AR/Reading	2,455	-	2,455	-
June 30, 2010 accrual entries	(2,742)	2,742	-	-
TOTALS	\$ 36,033	44,161	49,461	30,733

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES
AGENCY FUND

YEAR ENDED JUNE 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 917	1,391	40	2,268
LIABILITIES				
Due to other groups	\$ 917	1,391	40	2,268

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

WALNUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS

FOR THE LAST EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 1,537,448	1,482,793	1,437,711	1,430,486	1,391,325	1,353,605	1,181,776	1,223,342
Tuition	77,225	36,229	84,835	89,027	110,488	101,699	103,592	102,756
Other	178,631	145,404	141,314	424,473	312,915	136,432	157,984	217,241
Intermediate sources	1,539	2,365	8,252	-	3,712	-	-	8,653
State sources	988,835	833,860	1,176,420	1,242,027	1,186,901	1,163,532	1,156,676	947,343
Federal sources	155,162	233,474	79,413	63,513	69,375	101,510	96,168	62,578
Total	\$ 2,938,840	2,734,125	2,927,945	3,249,526	3,074,716	2,856,778	2,696,196	2,561,913
Expenditures:								
Instruction:								
Regular	\$ 1,200,556	1,096,495	1,198,812	1,164,182	1,069,698	985,505	1,047,186	1,068,045
Special	154,628	108,949	156,365	283,397	259,215	283,536	214,994	186,190
Other	195,250	247,113	278,411	245,763	232,989	241,488	307,833	326,994
Support services:								
Student	5,532	73,830	54,112	51,170	42,422	41,132	7,010	6,922
Instructional staff	187,664	150,714	119,007	63,013	64,883	53,640	61,268	72,740
Administration	347,415	335,613	330,948	307,244	282,857	255,348	316,334	329,441
Operation and maintenance of plant	207,655	233,365	256,598	374,956	325,228	213,562	173,457	182,263
Transportation	67,009	67,524	63,398	105,085	81,249	90,836	57,201	56,063
Central support	-	-	-	-	-	-	-	33,251
Non-instructional programs	-	-	-	-	-	-	35	-
Other expenditures:								
Facilities acquisitions	65,031	65,480	26,562	75,589	177,857	62,000	41,530	67,185
Long-term debt:								
Principal	160,000	150,000	140,000	1,180,000	120,000	131,310	120,315	114,380
Interest and fiscal charges	23,568	27,768	36,887	78,349	63,303	71,108	78,552	84,194
AEA flow-through	87,905	87,316	81,788	79,750	77,505	73,640	74,175	71,495
Total	\$ 2,702,213	2,644,167	2,742,888	4,008,498	2,797,206	2,503,105	2,499,890	2,599,163

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

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

To the Board of Education of the
Walnut Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Walnut Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 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 Walnut Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Walnut Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Walnut Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Finding and Questioned Costs item I-A-11 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Finding and Questioned Costs items I-B-11 through I-F-11 to be significant deficiencies.

Compliance and Other Matters

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

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.

Walnut Community School District's responses 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 Walnut Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Walnut Community School District and other parties to whom Walnut Community School District may report, 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 Walnut Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

March 12, 2012

WALNUT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

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

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-11 Accurate Posting of Receipts - We noted during our audit that the District posted June 2010 property tax receipts for all funds in July of 2010, thus overstating property tax collected in fiscal 2011. October and November 2010 sales tax receipts were posted to the general ledger twice while sales tax receipts for December 2010 were not posted at all.

Recommendation - The District should review procedures in place to ensure that cash receipts are being posted accurately to the accounting system.

Response - Cash receipting is now being done on a daily basis by one person to ensure receipts are being posted to the proper fund.

Conclusion - Response accepted.

I-C-11 Bank Reconciliations - We noted during our audit that the District's bank reconciliation process does not reconcile the bank statement balance to balance sheet cash balances. The reconciliations are performed by reconciling the amount of checks clearing the bank to the checks written and bank deposits to the receipts posted to the system.

Recommendation - Bank reconciliations serve as a control to help ensure bank deposits and receipts and disbursements and checks written reconcile to the general ledger. Bank reconciliations, when done properly, also serve as a means to prevent errors of double posting and missing receipts (See Comment I-B-11). The District should review procedures in place and seek further training if needed to properly perform bank reconciliations.

Response - Bank reconciliations are now being done on a monthly basis - reconciling the bank statement balance to balance sheet cash balances.

Conclusion - Response accepted.

I-D-11 Monthly Statements to Sponsors - We noted that sponsors of Student Activity Fund accounts do not currently receive monthly statements of their individual accounts.

Recommendation - Monthly statements given to Student Activity Fund sponsors serve as a control procedure to ensure that all receipts and expenditures are posted to the correct individual student activity fund account. Sponsors reviewing the monthly statement of their accounts allows errors to be identified and corrected in a timely manner as well as allowing them to maintain a budget for the account to which they are responsible.

Response - Monthly statements are now being given to AD and Sponsors on a regular basis.

Conclusion - Response accepted.

I-E-11 IASB Insurance Dividend - It was noted that the property insurance dividend from IASB was received in the General Fund. The property insurance dividend is considered a return of insurance premium and since the property insurance premiums were paid from the Management Levy Fund, the most logical fund to receipt the dividend would be to the Management Levy Fund.

Recommendation - The District needs to make a corrective transfer from the General Fund to the Management Fund in the amount of \$5,235.03 to reclassify the IASB dividend to the proper fund.

Response - The District has performed the corrective transfer as requested and will receipt future dividends into the Management Levy Fund.

Conclusion - Response accepted.

I-F-11 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In an effort to comply with the Department of Labor requirements on wage per hour contracts, the District should keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - Time cards are now used for non-certified staff coaches.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-11 Certified Budget - District expenditures for the year ended June 30, 2011, exceeded the certified budget amounts in the non-instructional programs and other expenditures functional areas.

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

Response - We will monitor the certified budget and if needed, amend the budget in the future.

Conclusion - Response accepted.

- II-B-11 Questionable Disbursements - We noted no expenditures that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 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 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 should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Iowa Department of Education.
- 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 - The District's investment policy does appear to comply with Chapter 12B and Chapter 12C of the Code of Iowa, however, we noted during our audit that the District received dividends from stock owned in Principal. Ownership of Principal stock appears to be in non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa.
- Recommendation - The District should sell the stock, and reinvest the proceeds in an investment within compliance of the District policy number 704.3, Chapter 12B and Chapter 12C of the Code of Iowa.
- Response - The Principal stock was sold and proceeds were deposited into GF under miscellaneous income.
- Conclusion - Response accepted.
- II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, however we noted significant deficiencies in the amounts reported. A majority of the adjustments were due to the receipts referenced in item I-B-11 of the Findings Related to the Basic Financial Statements.
- Recommendation - The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to ensure that the Certified Annual Report is accurately filed in the future.
- Response - The District will have administrative personnel attend continuing education to ensure that the Certified Annual Report is accurately filed in the future.
- Conclusion - Response accepted.
- II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-11 Financial Condition - At June 30, 2011, the District had deficit unrestricted net assets in the Enterprise, School Nutrition Fund of \$2,345 and deficit unrestricted net assets in the Enterprise, Daycare Fund of \$62,264.

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

Response - Funds are being monitored and action is being taken to bring the Daycare Fund to a positive position. Adjustments made to nutritional staff to help overcome the School Nutrition Fund deficit.

Conclusion - Response accepted.

II-M-11 Statewide Sales, Services and Use Tax - We noted during our audit that the District purchased 50 software licenses with statewide sales, services and use tax revenues. These expenditures do not appear to be in compliance with the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa.

Recommendation - The District should review Chapter 423F.3 of the Code of Iowa for purchases that are allowable with statewide sales, services and use tax moneys. The District should make a corrective transfer from the General Fund to the Capital Projects: Statewide Sales, Services and Use Tax Fund of \$2,425.

Response - The General Fund reimbursed the Capital Projects: Statewide Sales, Services and Use Tax Fund via a corrective transfer of \$2,425.

Conclusion - Response accepted.

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 following information includes the amounts the District reported for the statewide sales, services and use tax revenue in the District's CAR including adjustments identified during the fiscal year 2011 audit.

Beginning Balance		\$	636,058
Revenues:			
Sales tax revenues	\$	187,078	
Other local revenues		<u>420</u>	<u>187,498</u>
			823,556
Expenditures:			
Equipment			<u>19,457</u>
Ending balance		\$	<u><u>804,099</u></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.

II-N-11 Capital Projects: Physical Plant and Equipment Levy Fund Expenditures(PPEL) - We noted during our audit that the District purchased furniture under the \$500 per unit threshold which does not appear to be in compliance with Chapter 298.3 of the Code of Iowa.

Recommendation - The District should review Chapter 298.3 of the Code of Iowa for allowability of purchases from PPEL. The District should make a corrective transfer of \$643.44 from the General Fund to the PPEL Fund.

Response - A corrective transfer was made to the PPEL Fund from the General Fund.

Conclusion - Response accepted.

- II-O-11 Field Trips - We noted during our audit that the District charged students fees for a class field trip to the Omaha Zoo that was counted in the 180 days of instruction. According to a declaratory order issued by the Iowa Department of Education to the Ames Community School District dated August 4, 2008 and Chapter 282.6 of the Code of Iowa, it would be inappropriate to charge students to participate in a field trip that is being counted in the 180 days of instruction for students.

Recommendation - The District should review the declaratory order and Chapter 282.6 of the Code of Iowa for the allowability of fees charged for field trips. Issues concerning the nature of the trip and required attendance should be considered when determining if fees may be charged. The District could use fundraising to subsidize such school field trips in the future. The District should not charge students to attend field trips being counted in the 180 days of instruction.

Response - District informed proper personnel that field trips could not be charged for and immediate action was taken.

Conclusion - Response accepted.

- II-P-11 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events and that those revenues were receipted into the Student Activity Fund..

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - Facility usage monies are all receipted into the General Fund as of July 1, 2011.

Conclusion - Response accepted.