

VALLEY COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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VALLEY COMMUNITY SCHOOL DISTRICT
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2008 Election)		
Rick Klann	President	2009
Mick Olson	Vice President	2008
Dawn Daughton	Board Member	2008
Mark Howard	Board Member	2009
DeWayne Frazier	Board Member	2010
(After September 2009 Election)		
Rick Klann	President	2009
Mick Olson	Vice President	2011
Mark Howard	Board Member	2009*
DeWayne Frazier	Board Member	2011*
Dawn Daughton	Board Member	2011
Cathy Molumby	Superintendent	2009
Melissa Fettkether	Business Manager/District Treasurer	Indefinite
Carole Nading	District Secretary	Indefinite
Steven A. Weidner	Attorney	Indefinite

* Board Term extended per the District's transition plan for changing Board Terms from 3 to 4 years in accordance with Chapter 39.24 of the Code of Iowa.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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Independent Auditor's Report

To the Board of Education of
Valley 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 Valley Community School District, Elgin, Iowa, as of and for the year ended June 30, 2009, 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 Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Valley Community School District at June 30, 2009, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2009 on our consideration of Valley 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 7 through 16 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Valley Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa

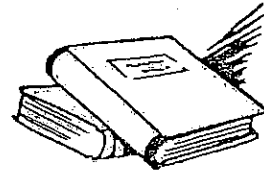
December 11, 2009


Dietz, Donald & Company, CPAs
FEIN 42-1172392

Valley Community School District

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Valley Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2009. The analysis focuses on the District's financial statements as a whole. Please read it in conjunction with the District's financial statements, which follow this section.

2009 FINANCIAL HIGHLIGHTS

General Fund revenues decreased overall by \$ 47,430 compared to FY08, while expenditures increased \$ 222,921. Total revenues of \$ 4,581,398 exceeded total expenditures of \$ 4,399,826 by \$ 181,572. This resulted in an increase in the District's General Fund balance from \$ 983,029 to \$ 1,164,601.

The decrease in revenues was mostly attributable to decreases in state aid and tuition, offset by increases in federal aid and local taxes.

Instructional costs and support services increased \$ 78,259 and \$ 144,787, respectively.

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 Valley Community School District as a whole and present an overall view of the District's finances.

Equal Opportunity Employer

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 Valley 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 Valley Community School District acts solely as custodian for the benefit of those outside the 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.

Other Supplementary Information provides detailed information about the non-major government funds.

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 and financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

Business type activities: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

Some funds are required by state laws 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 the management levy.

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 term to finance the District's programs.

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

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

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

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

3. Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others. The District currently has one Fiduciary Fund, an Agency Fund. Agency Funds are funds through which the District administers and accounts for assets that belong to the Northeast Iowa Health Occupation Consortium.

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

The required financial statements for fiduciary funds includes 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.

DISTRICT-WIDE FINANCIAL ANALYSIS

Condensed Statement of Net Assets (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30		June 30		June 30		June 30
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 5,427	4,356	24	59	5,451	4,415	19.0%
Capital assets	3,349	3,160	16	11	3,365	3,171	6.1
Total assets	8,776	7,516	40	70	8,816	7,586	16.2
Long-term liabilities	1,972	1,235	-	-	1,972	1,235	59.7
Other liabilities	2,158	1,969	6	14	2,164	1,983	9.1
Total liabilities	4,130	3,204	6	14	4,136	3,218	28.5
Net assets:							
Invested in capital assets, net of related debt	1,761	2,246	16	11	1,777	2,257	-21.3
Restricted	1,905	1,147	-	-	1,905	1,147	66.1
Unrestricted	980	919	18	45	998	964	3.5
Total net assets	\$ 4,646	4,312	34	56	4,680	4,368	7.1%

The District's combined net assets increased by over 7%, or approximately \$312,000 over the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g. land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$ 758,000 or 66%. The increase was primarily a result of \$ 439,000 of unspent QZAB proceeds and spending little of sales tax and PPEL revenues.

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 \$ 34,000 or over 7%. This increase in unrestricted net assets was a result of accumulating an additional \$ 182,000 in the general fund less restricted categorical fund of \$ 124,000.

Changes in Net Assets (Expressed in Thousands)							
Governmental Activities		Business Type Activities		Total District		Total Change	
June 30,		June 30,		June 30,		June 30,	
2009	2008	2009	2008	2009	2008	2008-09	
Revenues:							
Program revenues:							
Charges for service	\$ 312	297	118	108	430	405	6.2%
Operating grants and contributions	960	702	110	116	1,070	818	30.8
General revenues:							
Property tax	1,552	1,513	-	-	1,552	1,513	2.6
Statewide sales and services tax	244	313	-	-	244	313	-22.0
Income tax surtax	98	80	-	-	98	80	22.5
Unrestricted state grants	2,012	2,307	-	-	2,012	2,307	-12.8
Unrestricted investment earnings	57	53	1	4	58	57	1.8
Other	21	44	-	-	21	44	-52.3
<hr/>							
Total revenues	5,256	5,309	229	228	5,485	5,537	-0.9%
<hr/>							
Program expenses:							
Governmental activities:							
Instruction	3,023	2,929	-	-	3,023	2,929	3.2%
Support services	1,537	1,418	-	-	1,537	1,418	8.4
Non-instructional programs	1	1	250	255	251	256	-2.0
Other expenses	361	318	-	-	361	318	13.5
<hr/>							
Total expenses	4,922	4,666	250	255	5,172	4,921	5.1
<hr/>							
Change in net assets	\$ 334	643	-21	-27	313	616	-49.2%

Property taxes and unrestricted state grants account for 65% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

The District's total revenues were approximately \$ 5.49 million of which \$ 5.26 million was for governmental activities and over \$ 229,000 was for business type activities.

As shown above, the District as a whole experienced a 0.9% decrease in revenues and a 5.1% increase in expenses. Property taxes increased approximately \$ 39,000, unrestricted state grants decreased approximately \$ 295,000, and operating grants and contributions increased approximately \$ 258,000.

Governmental Activities

Revenues for governmental activities were \$ 5,255,393 and expenses were \$ 4,921,568. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

	Total and Net Cost of Governmental Activities (Expressed in Thousands)	
	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,023	2,041
Support services	1,537	1,460
Non-instructional	1	1
Other expenses	361	148
Total	<u>\$ 4,922</u>	<u>3,650</u>

The cost financed by users of the District's programs was \$ 311,656.

Federal and state governments subsidized certain programs with grants and contributions totaling \$ 960,000.

The net cost of government activities was financed with \$ 1,894,030 in property and other taxes and \$ 2,012,011 in unrestricted state grants.

Business Type Activities

The District's only business-type activity is the School Nutrition Fund. The School Nutrition Fund balance is \$ 34,284, a decrease of \$ 21,496 compared to last year. Revenues of this fund are comprised of charges for service, federal and state reimbursements and investment income.

Expenses consist of employee wages, benefits, food, general supplies, repairs and depreciation. Also, continued from the previous year were programs offering breakfast bags for students to buy and salads for adults. The District has not increased lunch prices since 1997/98 to spend down excess fund balances.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Valley 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 fiscal year 2009, its governmental funds reported combined fund balances of \$ 3,278,625, about \$ 881,000 above last year's ending fund balances of \$ 2,397,284. The primary reason for the increase was nearly \$ 539,000 of unspent QZAB bond proceeds in the PPEL Fund, an increase of nearly \$ 182,000 in the General Fund and a \$ 127,000 increase in the Capital Projects Fund.

Governmental Fund Highlights

The General Fund balance increased from \$ 983,029 to \$ 1,164,601 due to a nearly \$ 56,000 increase in local taxes and a \$ 72,000 increase in federal grants.

The Physical Plant and Equipment Levy (PPEL) Fund balance increased by \$ 519,254 to \$ 835,136. Included in the ending balance is \$ 645,232 of QZAB loan funds.

The Capital Projects Fund balance increased by \$ 126,964 to \$ 993,507. Included in the ending balance is \$ 134,048 of unexpended QZAB loan funds.

Proprietary Fund Highlights

Revenues of the District's Nutrition Fund activities increased 0.1% to \$ 228,722 while expenses decreased 2.0% to \$ 250,218. Special programs begun during FY04 were continued.

BUDGETARY HIGHLIGHTS

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget." In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its agency fund. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on the GAAP basis. It is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

A schedule showing original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

The District's revenues were \$ 234,198 less than budgeted revenues.

Total expenditures were \$ 332,812 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to issuing QZAB bonds and spending nearly 40% of its proceeds.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash." It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2009, the District had invested \$ 3.35 million net of accumulated depreciation, in a broad range of capital assets in the governmental fund. This includes land, buildings, equipment and transportation equipment. **(See following chart.)** More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expenses for the year in the governmental funds was approximately \$ 146,000.

The District has a capitalization threshold of \$ 3,000 per asset for governmental funds. The threshold remains at \$ 500 for business-type funds.

The School Nutrition Fund owned \$ 16,143 in assets, net of depreciation. This is an increase from \$ 10,756 on June 30, 2008 due to the purchase of a dishwasher.

The largest capital acquisition for FY09 was the purchase of computers for \$ 277,197.

Capital Assets, net of Depreciation (Expressed in Thousands)							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2009	2008	2009	2008	2009	2008	2008-09
Land	\$ 33	33	-	-	33	33	0.0%
Construction in progress	5	-	-	-	5	-	-
Site improvements	102	89	-	-	102	89	14.6
Buildings	2,852	2,945	-	-	2,852	2,945	-3.2
Furniture and equipment	357	93	16	11	373	104	258.7
Total	\$ 3,349	3,160	16	11	3,365	3,171	6.1%

Long-Term Debt

At year-end, the District had long-term obligations of \$ 1,972,055 in compensated absences, revenue bonds, capital loan notes, and capital leases. This represents an increase of more than \$ 737,000 from last year. **(See following chart.)** More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District issued \$ 844,000 of QZAB capital loan notes in April, 2009.

A payment of \$ 80,000 was made on the 2004 revenue bonds (\$ 850,000 issue) lowering the balance to \$ 470,000. Also outstanding are QZAB revenue bonds of \$ 220,000 and QZAB capital loan notes of \$ 1,184,000. The QZAB obligations are not due until 2013 and 2019; however, deposits will be sent to an escrow agent annually to hold for final payment.

Outstanding Long-Term Obligations (Expressed in Thousands)			
	Total District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
Revenue bonds	\$ 695	775	10.3%
Capital loan notes	1,184	340	248.2
Capital leases	42	67	-37.3
Compensated absences	51	53	-3.8
Totals	\$ 1,972	1,235	59.7%

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Taxable valuation in the District increased over 5.0% from \$ 99,199,363 to \$ 104,199,813.
- Enrollment decreased 3.0% in September of 2008, which determines FY10 funding. Combined with 4% allowable growth, the District will receive \$ 422,370 more in state aid for 2009/10. Property tax receipts will decrease \$ 17,000 with a 5.8% decrease in tax rate.
- The ending fund balance is budgeted to decrease approximately \$ 767,000.
- In the fall, the State announced a 2% across the board cut in state foundation aid due to budget deficits, which would reduce the District funding by over \$ 54,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and 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 Melissa Fettkether, Business Manager/Board Treasurer, or Cathleen Molumby, Superintendent.

Basic Financial Statements

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2009

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,482,353	9,986	3,492,339
Receivables:			
Property tax:			
Delinquent	72,587	-	72,587
Succeeding year	1,539,359	-	1,539,359
Accounts	1,188	120	1,308
Due from other funds	15,609	-	15,609
Due from other governments	284,294	-	284,294
Prepaid expense	32,011	-	32,011
Inventories	-	13,554	13,554
Capital assets, net of accumulated depreciation	3,348,560	16,143	3,364,703
TOTAL ASSETS	8,775,961	39,803	8,815,764
LIABILITIES			
Accounts payable	44,959	-	44,959
Salaries and benefits payable	387,697	232	387,929
Due to other governments	6,898	-	6,898
Accrued interest payable	9,455	-	9,455
Deferred revenue:			
Succeeding year property tax	1,539,359	-	1,539,359
Other	169,863	5,287	175,150
Long-term liabilities:			
Portion due within one year:			
Revenue bonds	85,000	-	85,000
Capital leases	24,102	-	24,102
Compensated absences	50,688	-	50,688
Portion due after one year:			
Revenue bonds	610,000	-	610,000
Capital leases	18,265	-	18,265
Notes	1,184,000	-	1,184,000
TOTAL LIABILITIES	4,130,286	5,519	4,135,805
NET ASSETS			
Invested in capital assets, net of related debt	1,761,154	16,143	1,777,297
Restricted for:			
Categorical funding	124,188	-	124,188
Management levy	191,626	-	191,626
Physical plant and equipment levy	690,061	-	690,061
Statewide sales and services tax	814,627	-	814,627
Other special revenue purposes	83,749	-	83,749
Unrestricted	980,270	18,141	998,411
TOTAL NET ASSETS	\$ 4,645,675	34,284	4,679,959

See notes to financial statements.

Exhibit B

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

FUNCTIONS/PROGRAMS:	Program Revenues			Governmental Activities	Business Type Activities	Total
	Expenses	Charges for Service	Operating Grants and Contributions			
Governmental activities:						
Instruction:						
Regular	\$ 1,868,795	105,439	455,979	(1,307,377)	-	(1,307,377)
Special	874,493	82	227,770	(646,641)	-	(646,641)
Other	279,623	190,174	2,614	(86,835)	-	(86,835)
	3,022,911	295,695	686,363	(2,040,853)	-	(2,040,853)
Support services:						
Student	181,668	112	55,110	(126,446)	-	(126,446)
Instructional staff	164,082	-	-	(164,082)	-	(164,082)
Administration	519,870	179	3,000	(516,691)	-	(516,691)
Plant operation and maintenance	433,595	11,399	2,599	(419,597)	-	(419,597)
Transportation	237,657	4,271	-	(233,386)	-	(233,386)
	1,536,872	15,961	60,709	(1,460,202)	-	(1,460,202)
	793	-	-	(793)	-	(793)
Non-instructional programs						
Other expenditures:						
Facilities acquisition	52,945	-	26,000	(26,945)	-	(26,945)
Long-term debt interest	21,031	-	-	(21,031)	-	(21,031)
AEA flowthrough	186,928	-	186,928	-	-	-
Depreciation (unallocated)	100,088	-	-	(100,088)	-	(100,088)
	360,992	-	212,928	(148,064)	-	(148,064)
Total governmental activities	4,921,568	311,656	960,000	(3,649,912)	-	(3,649,912)
Business type activities:						
Non-instructional programs:						
Food service operations	250,218	118,298	109,640	-	(22,280)	(22,280)
Total	\$ 5,171,786	429,954	1,069,640	(3,649,912)	(22,280)	(3,672,192)
GENERAL REVENUES:						
Property tax levied for:						
General purposes				1,487,695	-	1,487,695
Capital outlay				63,849	-	63,849
Statewide sales and services tax				244,425	-	244,425
Income tax surtax				98,061	-	98,061
Unrestricted state grants				2,012,011	-	2,012,011
Unrestricted investment earnings				56,435	784	57,219
Other				21,261	-	21,261
Total general revenues				3,983,737	784	3,984,521
Change in net assets				333,825	(21,496)	259,900
Net assets beginning of year				4,311,850	55,780	4,367,630
Net assets end of year				\$ 4,645,675	34,284	4,627,530

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

Exhibit C

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 1,406,143	815,327	978,050	282,833	3,482,353
Receivables:					
Property Tax	66,821	3,146	-	2,620	72,587
Delinquent	1,297,094	67,265	-	175,000	1,539,359
Succeeding year	1,188	-	-	-	1,188
Accounts	-	32,011	-	-	32,011
Prepaid expense	95,957	50,480	-	-	146,437
Due from other funds	205,840	15,851	-	-	284,294
Due from other governments			62,603	-	62,603
TOTAL ASSETS	\$ 3,073,043	984,080	1,040,653	460,453	5,558,229
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 44,271	-	616	72	44,959
Salaries and benefits payable	387,697	-	-	-	387,697
Due to other governments	6,898	-	-	-	6,898
Due to other funds	18,469	65,829	46,530	-	130,828
Deferred revenues:					
Succeeding year property tax	1,297,094	67,265	-	175,000	1,539,359
Other	154,013	15,850	-	-	169,863
Total liabilities	1,908,442	148,944	47,146	175,072	2,279,604
Fund balances:					
Reserved for:					
Categorical funding	124,188	-	-	-	124,188
Debt service	-	145,075	178,880	10,006	333,961
Unreserved	1,040,413	690,061	814,627	275,375	2,820,476
Total fund balances	1,164,601	835,136	993,507	285,381	3,278,625
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,073,043	984,080	1,040,653	460,453	5,558,229

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2009

Total fund balances of governmental funds (page 20)	\$ 3,278,625
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,348,560
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.	(9,455)
Long-term liabilities, including bonds and notes payable, capital leases payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(1,972,055)</u>
Net assets of governmental activities (page 18)	<u>\$ 4,645,675</u>

See notes to financial statements.

Exhibit E

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 1,485,419	80,193	244,425	84,062	1,894,099
Tuition	91,017	-	-	-	91,017
Other	83,861	36,432	28,001	200,831	349,125
State sources	2,640,273	52	-	-	2,640,325
Federal sources	280,828	-	-	-	280,828
Total revenues	4,581,398	116,677	272,426	284,893	5,255,394
Expenditures:					
Current:					
Instruction:					
Regular	1,826,095	-	1,164	16,529	1,843,788
Special	874,493	-	-	168,981	874,493
Other	109,344	-	-	185,510	278,325
	2,809,932	-	1,164	185,510	2,996,606
Support services:					
Student	181,272	-	-	396	181,668
Instructional staff	162,282	-	-	743	163,025
Administration	506,175	-	-	16,461	522,636
Plant operation and maintenance	395,875	305,536	10,298	19,709	731,418
Transportation	157,362	61,565	-	7,730	226,657
	1,402,966	367,101	10,298	45,039	1,825,404
	-	-	-	793	793
Non-instructional programs					
Other expenditures:					
Facilities acquisition	-	74,314	6,941	-	81,255
Long-term debt:					
Principal	-	-	-	104,696	104,696
Interest and fiscal charges	-	8	8	22,355	22,371
AEA flowthrough	186,928	-	-	-	186,928
	186,928	74,322	6,949	127,051	395,250
	4,399,826	441,423	18,411	358,393	5,218,053
Total expenditures	181,572	(324,746)	254,015	(73,500)	37,341
Excess (deficiency) of revenues over (under) expenditures					

(continued)

Exhibit E
(continued)

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2009

	General	Special Revenue Property, Plant and Equipment Levy	Capital Projects	Nonmajor	Total
Other financing sources (uses):					
Revenue bonds issued	-	844,000	-	-	844,000
Operating transfers in	-	-	-	127,051	127,051
Operating transfers out	-	-	(127,051)	-	(127,051)
Total other financing sources (uses)	-	844,000	(127,051)	127,051	844,000
Net change in fund balances	181,572	519,254	126,964	53,551	881,341
Fund balances beginning of year	983,029	315,882	866,543	231,830	2,397,284
Fund balances end of year	\$ 1,164,601	835,136	993,507	285,381	3,278,625

See notes to financial statements.

VALLEY 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, 2009

Net change in fund balances-total governmental funds (page 23)	\$ 881,341
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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 Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:

Depreciation expense	\$ (145,699)	
Expenditures for capital assets	333,846	188,147

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

Issued	\$ (844,000)	
Repaid	104,696	(739,304)

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.

1,340

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

Compensated absences	2,301
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Change in net assets of governmental activities (page 19)	\$ 333,825
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\$ 333,825

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2009

	<u>School Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 9,986
Accounts receivable	120
Inventories	13,554
Capital assets, net of accumulated depreciation	<u>16,143</u>
TOTAL ASSETS	<u>39,803</u>
LIABILITIES	
Salaries and benefits payable	232
Deferred revenue	<u>5,287</u>
TOTAL LIABILITIES	<u>5,519</u>
NET ASSETS	
Invested in capital assets	16,143
Unrestricted	<u>18,141</u>
TOTAL NET ASSETS	<u>\$ 34,284</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
Year Ended June 30, 2009

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	<u>\$ 118,298</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	89,492
Benefits	34,860
Purchased services	1,281
Supplies	121,816
Depreciation	<u>2,769</u>
Total operating expenses	<u>250,218</u>
Operating loss	<u>(131,920)</u>
Non-operating revenues:	
State sources	2,834
Federal sources	106,806
Interest income	<u>784</u>
Total non-operating revenues	<u>110,424</u>
Net loss	(21,496)
Net assets beginning of year	<u>55,780</u>
Net assets end of year	<u>\$ 34,284</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
Year Ended June 30, 2009

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 119,482
Cash received from miscellaneous operating activities	2,592
Cash paid to employees for services	(136,359)
Cash paid to suppliers for goods or services	(103,444)
Net cash used by operating activities	<u>(117,729)</u>
Cash flows from non-capital financing activities:	
State grants received	2,834
Federal grants received	85,705
Net cash provided by non-capital financing activities	<u>88,539</u>
Cash flows from capital and related financing activities:	
Aquisition of capital assets	<u>(8,156)</u>
Cash flows from investing activities:	
Interest on investments	784
Net decrease in cash and cash equivalents	(36,562)
Cash and cash equivalents beginning of year	46,548
Cash and cash equivalents end of year	<u>\$ 9,986</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (131,920)
Adjstments to reconcile operating loss to net cash used by operating activities:	
Commodities used	21,101
Depreciation	2,769
Decrease in accounts receivable	120
Increase in inventories	(1,448)
Decrease in salaries and benefits payable	(12,007)
Increase in deferred revenue	3,656
Net cash used by operating activities	<u>\$ (117,729)</u>
Non-cash investing and financing activities:	
During the year ended June 30, 2009, the District received \$ 21,101 of federal commodities.	

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS
FIDUCIARY FUND
June 30, 2009

	<u>Agency</u>
ASSETS	
Due from other governments	\$ 15,609
LIABILITIES	
Due to other funds	<u>15,609</u>
NET ASSETS	<u>\$ -</u>

See notes to financial statements.

VALLEY COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

Valley Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Clermont, Elgin and Wadena, Iowa and the predominate agricultural territory of eastern Fayette and western Clayton Counties. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

A. Reporting Entity

For financial reporting purposes, Valley 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. Valley Community School District had no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The District participates in two jointly governed organizations that provide 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 Fayette County Assessor's Conference Board and the Clayton County Assessor's Conference Board.

B. Basis of Presentations

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions and interest 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 non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 operation expenditures, including instructional, support and other costs.

The Special Revenue Property Plant and Equipment Levy Fund is used to account for revenues derived from the property, plant and equipment levy which are required by law to be accounted for in a separate fund.

The Capital Projects Fund is used to account for revenues derived from the statewide sales and services tax which are required by law to be accounted for in a separate fund.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District reports the following fiduciary fund:

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 reported 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 District considers revenues to be

available if they are collected within 60 days after year end.

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

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

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

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 are charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

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

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1.5% per month penalty for delinquent payments; is based on January 1, 2007 assessed property valuations; is for the tax accrual period July 1, 2008 through June 30, 2009 and reflects the tax asking contained in the budget certified to the County Boards of Supervisors in April 2008.

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

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

received.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Year)</u>
Buildings	20-50
Improvements other than buildings	20
Furniture and equipment	2-12

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 revenue consists of unspent grant proceeds as well as property tax receivable, other receivables not

collected within sixty days after year end and lunch fees collected in advance.

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, lunch fees collected in advance and unspent federal grants.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2009. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, expenditures in the support services functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2009 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 evidence of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2009, the District had investments in the Iowa Schools Joint Investment Trust, as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 450,825</u>

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

Restricted Cash - Cash held in escrow by the Bank of America for retirement of QZAB bonds (see note 6) is as follows:

Special Revenue Property, Plant and Equipment	
Levy Fund	\$ 145,075
Capital Projects Fund	<u>93,880</u>
Total	<u>\$ 238,955</u>

Investment Rate Risk - The District's investment policy limit's the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the District.

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

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2009 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency	\$ 15,609
	Special Revenue:	
	Property, Plant and	
	Equipment Levy	65,829

	Capital Projects	<u>14,519</u>
		<u>95,957</u>
Special Revenue:		
Property, Plant and Equipment		
Levy	Capital Projects	32,011
	General	<u>18,469</u>
		<u>50,480</u>
Total		<u>\$ 146,437</u>

The Agency Fund is repaying the General Fund for items paid by the General Fund, while the Agency Fund was awaiting payment from other school districts.

The Special Revenue: Property, Plant and Equipment Levy Fund is reimbursing the General Fund for bus lease payments.

The Capital Projects Fund is reimbursing the General Fund for copier lease payments.

The Capital Projects Fund is reimbursing the Special Revenue: Property, Plant and Equipment Levy Fund for bus lease payments.

The General Fund is repaying the Special Revenue: Property, Plant and Equipment Levy Fund for property taxes that were incorrectly recorded during the current year.

(4) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 127,051</u>

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

(5) **Capital Assets**

Capital assets activity for the year ended June 30, 2009 was as follows:

	Balance Beginning of Year	Increases	Balance End of Year
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 32,907	0	32,907
Construction in progress	-	5,000	5,000
Total capital assets not being depreciated	<u>32,907</u>	<u>5,000</u>	<u>37,907</u>
Capital assets being depreciated:			
Buildings	4,332,406	0	4,332,406
Site improvements	124,297	19,942	144,239
Furniture and equipment	495,834	308,903	804,737
Total capital assets being depreciated	<u>4,952,537</u>	<u>328,845</u>	<u>5,281,382</u>
Less accumulated depreciation for:			
Buildings	1,387,074	92,876	1,479,950
Site improvements	35,527	7,212	42,739
Furniture and equipment	402,430	45,611	448,041
Total accumulated depreciation	<u>1,825,031</u>	<u>145,699</u>	<u>1,970,730</u>
Total capital assets being depreciated, net	<u>3,127,506</u>	<u>183,146</u>	<u>3,310,652</u>
Governmental activities			
Capital assets, net	<u>\$ 3,160,413</u>	<u>188,146</u>	<u>3,348,559</u>
Business type activities:			
Furniture and equipment	\$ 69,425	8,156	77,581
Less accumulated depreciation	<u>58,669</u>	<u>2,769</u>	<u>61,438</u>
Business type activities			
Capital assets, net	<u>\$ 10,756</u>	<u>5,387</u>	<u>16,143</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 25,007
Other	1,298
Support services:	
Instructional staff	1,057
Operation and maintenance of plant	7,249
Transportation	<u>11,000</u>
	45,611
Unallocated	<u>100,088</u>
Total depreciation expense - governmental activities	<u>\$ 145,699</u>

Business type activities:
Food service operations

\$ 2,769

(6) **Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30 2009 are summarized below:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Revenue Bonds	\$ 775,000	0	80,000	695,000	85,000
Notes Payable	340,000	844,000	0	1,184,000	0
Capital Leases	67,063	0	24,696	42,367	24,102
Compensated Absences	52,989	13,127	15,428	50,688	50,688
Total	<u>\$ 1,235,052</u>	<u>857,127</u>	<u>120,124</u>	<u>1,972,055</u>	<u>159,790</u>

Revenue Bonds Payable

Details of the District's June 30, 2009 statewide sales and services tax revenue bonded indebtedness are as follows:

Year	<u>Bond Issue Sep 1, 2003</u>			<u>Bond Issued Dec 28, 2003</u>			<u>Total</u>		
Ending	Interest			Interest					
June 30,	Rates	Principal	Interest	Rates	Principal	Principal	Interest	Total	
2010	3.50%	\$ 85,000	17,423	0%	0	85,000	17,423	102,423	
2011	3.80	90,000	14,225	0	0	90,000	14,225	104,225	
2012	4.00	95,000	10,615	0	0	95,000	10,615	105,615	
2013	4.20	100,000	6,615	0	0	100,000	6,615	106,615	
2014	4.30	105,000	2,257	0	220,000	325,000	2,257	327,257	
Total		<u>\$ 475,000</u>	<u>51,135</u>		<u>220,000</u>	<u>695,000</u>	<u>51,135</u>	<u>746,135</u>	

The statewide sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales and services tax revenues received by the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the September 1, 2003 statewide sales and services tax revenue bonds included the following:

A] \$ 85,000 of the proceeds from the issuance of the revenue bonds shall be deposited in the Reserve Account to be used solely for the purpose of paying

principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited in the Project Account.

- B] All proceeds from the statewide sales and services tax shall be place in a Revenue Account.
- C] Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- D] Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The resolution providing for the issuance of the District's December 28, 2003 statewide sales and services tax revenue bond included the following provision:

To provide for the payments of the bonds at maturity there is established with the Bank of America, N.A. of Des Moines, Iowa, an irrevocable trust fund for the benefit of bondholders known as the Escrow Account to be invested as per the Investment Agreement. Annually, on July 1 of each year commencing July 1, 2005, there shall be deposited from the Sinking Fund into the Escrow Fund \$ 22,545 to be invested in accordance with the terms of the Investment Agreement. Such amount has been determined to be sufficient together with invested earnings thereon to pay when due the principal of the bonds. The Escrow Fund is pledged to the payment of the bonds at maturity. At June 30, 2009 the escrow account balance was \$ 93,880.

Notes Payable

During the year ended June 30, 2004, the District issued Capital Loan Notes (Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On July 1 of each year commencing July 1, 2005, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 34,845 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity July 1, 2013. At June 30, 2009, the escrow account balances was \$ 145,075. In any year in which taxable valuations within the District are of an amount that the tax collections will be less than \$ 34,845, the District shall certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

During the year ended June 30, 2009, the District issued Capital Loan Notes

(Qualified Zone Academy Bonds) to provide funds for the equipping, rehabilitation and repair of the School. The notes bear no interest and are payable from the Special Revenue, Physical Plant and Equipment Levy Fund (PPEL Fund). On February 12 of each year commencing February 12, 2010, there shall be deposited from the PPEL Fund to the Escrow Fund \$ 84,400 to be invested in accordance with the Investment Agreement and held in trust for the benefit of the holders of the Note until final maturity February 12, 2019. In any year in which taxable valuations within the District are of amount that the tax collections will be less than \$ 84,400, the District will certify to each County Auditor an additional tax levy to the full extent of 45 cents per thousand dollars of assessed valuation.

Detail of the District's indebtedness under these agreements in effect at June 30, 2009 are as follows:

Year Ending June 30,	December 28, 2003 Capital Loan Notes		February 12, 2009 Capital Loan Notes		Total
	Principal	Interest	Principal	Interest	
2014	\$ 340,000	0	0	0	340,000
2019	0	0	844,000	0	844,000
Total	\$ 340,000	0	844,000	0	1,184,000

Capital Leases

During the year ended June 30, 2008, the District entered into two lease-purchase agreements in connection with the acquisition of computer equipment. Details of the District's indebtedness under these agreements in effect at June 30, 2009 are as follows:

Year Ending June 30,	Capital Leases						Total
	Dec 30, 2007 @ 10.01%		Apr 15, 2008 @ 4.49%				
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2010	\$ 6,622	694	17,480	1,605	24,102	2,299	26,401
2011	0	0	18,265	820	18,265	820	19,085
Total	\$ 6,622	694	35,745	2,425	42,367	3,119	45,486

(7) 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 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 50603-9117

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the year ended June 30, 2009. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$ 189,182, \$ 167,674 and \$ 159,807, respectively, equal to the required contributions for each year.

(8) Risk Management

Valley Community School District is exposed to various risks of loss related to torts; thefts; 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 for these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$ 186,928 for the year ended June 30, 2009 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Lease Commitments

The District has various leases for equipment which are classified as operating leases. Rent expenses for all operating leases for the year ended June 30, 2009 totaled \$ 84,808.

Future minimum lease payments under the non-cancelable operating leases with initial or remaining terms of one year or more are as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2010	\$ 84,723
2011	41,623
2012	36,822

(11) Construction Commitments

The District has entered into contracts totaling \$ 468,768 for improvements to the heating, ventilation and air conditioning system and repairs to the parking lot. These commitments will be paid as work on the projects progresses.

(12) Subsequent Events

On August 17, 2009, the District issued an additional \$ 156,000 of QZAB bonds.

Required Supplementary Information

VALLEY 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, 2009

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts	Budgeted to Actual Variance
Revenues:					
Local sources	\$ 2,334,241	119,082	2,453,323	2,663,633	(210,310)
State sources	2,640,325	2,834	2,643,159	2,538,382	104,777
Federal sources	280,828	106,806	387,634	546,299	(158,665)
Total revenues	5,255,394	228,722	5,484,116	5,748,314	(264,198)
Expenditures/Expenses:					
Instruction	2,996,606	-	2,996,606	3,248,334	251,728
Support services	1,825,404	-	1,825,404	1,545,369	(280,035)
Non-instructional programs	793	250,218	251,011	371,368	120,357
Other expenditures	395,250	-	395,250	636,012	240,762
Total expenditures/expenses	5,218,053	250,218	5,468,271	5,801,083	332,812
Excess (deficiency) of revenues over (under) expenditures/expenses	37,341	(21,496)	15,845	(52,769)	68,614
Other financing sources, net	844,000	-	844,000	11,700	832,300
Excess (deficiency) of revenues over (under) expenditures/expenses and other financing sources	881,341	(21,496)	859,845	(41,069)	900,914
Balances beginning of year	2,397,284	55,780	2,453,064	2,140,288	312,776
Balances end of year	\$ 3,278,625	34,284	3,312,909	2,099,219	1,213,690

See accompanying independent auditor's report and notes to required supplementary information-budgetary reporting.

Valley Community School District

Notes to Required Supplementary Information - Budgetary Reporting

Year Ended June 30, 2009

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

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

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

During the year ended June 30, 2009, expenditures in the support services function exceeded the amount budgeted.

Other Supplementary Information

VALLEY COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2009

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
ASSETS				
Cash and pooled investments	\$ 189,006	83,821	10,006	282,833
Receivables:				
Property tax:				
Delinquent	2,620	-	-	2,620
Succeeding year	175,000	-	-	175,000
TOTAL ASSETS	\$ 366,626	83,821	10,006	460,453
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	72	-	72
Deferred revenue:				
Succeeding year property tax	175,000	-	-	175,000
Total liabilities	175,000	72	-	175,072
Fund balances:				
Reserved for:				
Debt service	-	-	10,006	10,006
Unreserved	191,626	83,749	-	275,375
Total fund balances	191,626	83,749	10,006	285,381
TOTAL LIABILITIES AND FUND BALANCES	\$ 366,626	83,821	10,006	460,453

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2009

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
Revenues:				
Local sources:				
Local tax	\$ 84,062	-	-	84,062
Other	8,565	192,260	6	200,831
Total revenues	92,627	192,260	6	284,893
Expenditures:				
Current:				
Instruction:				
Regular	16,529	-	-	16,529
Other	-	168,981	-	168,981
Support services:				
Student	396	-	-	396
Instructional staff	743	-	-	743
Administration	16,461	-	-	16,461
Plant Operation and Maintenance	19,709	-	-	19,709
Transportation	7,730	-	-	7,730
Non-instructional programs	793	-	-	793
Other expenditures:				
Long-term debt:				
Principal	-	-	104,696	104,696
Interest and fiscal charges	-	-	22,355	22,355
Total expenditures	62,361	168,981	127,051	358,393
Excess (deficiency) of revenues over (under) expenditures	30,266	23,279	(127,045)	(73,500)
Other financing sources:				
Operating transfers in	-	-	127,051	127,051
Excess of revenues and other financing sources over expenditures	30,266	23,279	6	53,551
Fund balances beginning of year	161,360	60,470	10,000	231,830
Fund balances end of year	\$ 191,626	83,749	10,006	285,381

See accompanying independent auditor's report.

Schedule 3

VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNT
 Year Ended June 30, 2009

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
Interest	5,969	1,038	-	(6,928)	79
Drama	7,069	5,097	6,569	75	5,672
Junior High Drama	1,764	613	28	-	2,349
Speech	4,862	767	1,078	(4,551)	-
Vocal Music	1,550	2,024	2,502	6,051	7,123
Music Trip	-	-	-	12,000	12,000
Instrumental Music	(2,864)	3,520	5,344	2,615	(2,073)
Band Carnival	3,239	17,744	2,182	(10,449)	8,552
Band Uniforms	14,251	-	-	-	14,251
Music Fundraisers	13,299	27,783	25,478	(4,166)	11,438
Junior High Athletics	(12,339)	737	2,721	-	(14,323)
Football Cheerleaders	98	-	-	-	98
Drill Team	473	937	603	-	807
Wrestling Cheerleaders	(1,116)	2,178	768	1,116	1,410
Girls' Track Fundraiser	277	-	53	-	1,224
Boys' Track Fundraiser	1,604	3,406	2,791	-	2,219
Golf Fundraiser	469	-	1,245	776	-
Golf Fundraiser	884	1,426	-	-	2,310
Boys' Basketball Fundraiser	(238)	-	-	238	-
Football Fundraiser	901	245	-	-	1,146
Baseball Fundraiser	3,913	7,421	998	-	10,336
Wrestling Fundraiser	746	2,844	856	-	2,734
Girls' Basketball Fundraiser	932	-	-	-	932
Girls' State Basketball Tournament	4,146	2,494	3,010	-	3,630
Volleyball Fundraiser	891	-	-	-	891
Softball Fundraiser	2,117	359	-	-	2,476
General Athletics	(11,946)	2,060	-	-	1,549
Student O	(11,946)	40,754	51,301	3,036	(19,457)
Athletic Resale	2,629	3,999	5,257	-	1,371
FFA	5,730	2,133	-	-	7,863
National Honor Society	3,561	30,171	30,002	282	3,730
Student Council	(125)	4,928	6,991	1,933	62
Junior High Council	192	411	-	-	1,130
Yearbook	719	7,023	2,475	1,175	5,238
Previous Graduated Classes	(485)	-	-	(3,233)	-
Class of 2008	3,233	-	-	(360)	-
Class of 2009	360	-	-	191	-
Class of 2010	953	1,068	2,212	-	-
Class of 2011	1,502	17,726	14,326	-	4,902
Class of 2012	920	421	-	-	1,341
Class of 2013	630	245	34	-	841
Class of 2014	390	390	-	-	780
General Business	318	-	-	-	318
Total	(199)	-	-	199	-
	\$ 60,470	192,260	168,981	-	83,749

See accompanying independent auditor's report.

VALLEY COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2009

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash	\$ -	59,265	59,265	-
Due from other governments	16,324	15,609	16,324	15,609
TOTAL ASSETS	<u>\$ 16,324</u>	<u>74,874</u>	<u>75,589</u>	<u>15,609</u>
LIABILITIES				
Accounts payable	\$ -	59,265	59,265	-
Due to other funds	16,324	15,609	16,324	15,609
TOTAL LIABILITIES	<u>\$ 16,324</u>	<u>74,874</u>	<u>75,589</u>	<u>15,609</u>

See accompanying independent auditor's report.

Schedule 5

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUNDS
For the Last Six Years

	Modified Accrual Basis					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 1,894,099	1,906,664	1,775,571	1,778,963	1,766,838	1,688,618
Tuition	91,017	113,533	106,734	85,134	80,288	113,882
Other	349,125	296,143	263,299	329,152	296,600	257,836
Intermediate sources	-	-	6,460	-	-	-
State sources	2,640,325	2,783,929	2,624,274	2,533,585	2,387,749	2,217,454
Federal sources	280,828	209,152	197,139	225,582	419,049	1,050,836
Total	\$ 5,255,394	5,309,421	4,973,477	4,952,416	4,950,524	5,328,626
Expenditures:						
Instruction:						
Regular	\$ 1,843,788	1,896,250	1,804,343	1,658,069	1,617,642	1,672,441
Special	874,493	851,606	885,510	889,263	764,552	651,501
Other	278,325	274,651	264,223	306,623	368,660	421,808
Support services:						
Student	181,668	152,853	108,143	106,469	109,244	97,044
Instructional staff	163,025	145,670	143,392	146,601	110,504	145,799
Administration	522,636	491,057	512,477	537,970	520,321	483,493
Plant operation and maintenance	731,418	387,980	363,446	458,363	367,752	377,824
Transportation	226,657	216,711	208,027	156,996	212,092	233,259
Central support	-	-	-	-	1,813	1,574
Non-instructional programs	793	1,458	1,318	2,712	750	564
Other expenditures:						
Facilities acquisition	81,255	35,575	112,109	43,597	591,851	1,334,186
Long-term debt:						
Principal	104,696	221,671	220,000	220,000	215,000	135,000
Interest and other charges	22,371	30,333	37,954	46,747	54,828	90,423
AVA flowthrough	186,928	186,469	177,469	172,207	169,150	169,534
Total	\$ 5,218,053	4,892,284	4,838,411	4,745,617	5,104,159	5,809,450

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Valley 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 the Valley Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 11, 2009. 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 Valley 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 Valley Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Valley 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Valley Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles

such that there is more than a remote likelihood a misstatement of Valley Community School District's financial statements that is more than inconsequential will not be prevented or detected by Valley Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Valley Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-09 and I-B-09 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Valley 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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, 2009 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.

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

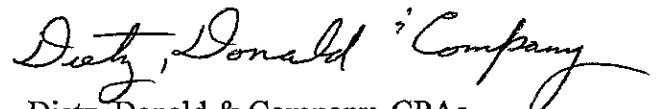
This report, a public record by law, is intended solely for the information and use of the

officials, employees and citizens of Valley Community School District and other parties to whom Valley Community School District may report. This report is not intended to be and should not be used by anyone other than those specified parties.

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

Elkader, Iowa

December 11, 2009


Dietz, Donald & Company, CPAs
FEIN 42-1172392

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

I-A-09 Financial Reporting - As is common in small organizations, the District does not prepare its financial statements, complete with notes, in accordance with U.S. generally accepted accounting principles. Accordingly, the District is unable to, and has not established internal controls over the preparation of financial statements.

Recommendation - As part of the audit, we have been requested to prepare a draft of the District's financial statements, including related notes. The District then performs a review of the financial statements. However, in order to provide improved oversight of the financial preparation services and implement controls over the financial reporting process, the District should establish review policies and procedures including the performance of some or all of the following:

- Review the adequacy of financial statement disclosures.
- Review and approve schedules and calculations supporting amounts included in the notes to the financial statements.
- Apply analytical procedures to the draft financial statements.
- Apply other procedures as considered necessary by the District.

Response - We hired a new business manager in October, 2006. At the time of hiring, the new business manager had no governmental experience. However, we hope to implement review procedures by the end of the current fiscal year.

Conclusion - Response accepted.

I-B-09 Financial Reporting - During the audit, we identified material amounts of receivables, payables and capital asset additions not recorded in the District's financial statements. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

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

Response - We will double check these in the future to avoid missing any receivables, payables or capital assets transactions.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

Part II: Other Findings Related to Statutory Reporting:

II-A-09 **Certified Budget** - Expenditures for the year ended June 30, 2009 exceeded the certified budget amounts in the support services function.

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 - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

II-B-09 **Questionable Disbursements** - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-C-09 **Travel Expenses** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-09 **Business Transactions** - No business transactions between the District and District officials or employees were noted.

II-E-09 **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 the coverage is adequate for current operations.

II-F-09 **Board Minutes** - We noted no transactions requiring Board approval which had not been approved by the Board.

II-G-09 **Certified Enrollment** - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-09 **Deposits and Investments** - No instances of non-compliance with the deposits and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

VALLEY COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
Year Ended June 30, 2009

- II-I-09 **Certified Annual Report** - The Certified Annual Report was certified timely to Iowa Department of Education.
- II-J-09 **Revenue Bonds** - No instances of non-compliance with the revenue bond resolution were noted.
- II-K-09 **Categorical Funding** - No instances were noted of categorical funding used to support rather than supplement other funds.
- II-L-09 **Statewide Sales and Services Tax** - No instances of noncompliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain elements related to the statewide sales and services tax. For the year ended June 30, 2009, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance	\$ 0
Statewide sales and service tax revenue	<u>244,425</u>
Ending Balance	<u>\$ 244,425</u>