

LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of  
Lake Mills 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 Lake Mills Community School District, Lake Mills, Iowa, as of and for the year ended June 30, 2006, 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 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 Lake Mills Community School District at June 30, 2006, 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 September 25, 2006, on our consideration of Lake Mills Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Mills 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 three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

September 25, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Lake Mills 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,473,144 in fiscal 2005 to \$5,568,441 in fiscal 2006, while General Fund expenditures increased from \$5,284,002 in fiscal 2005 to \$5,631,582 in fiscal 2006. The District's General Fund deficit balance increased from \$(3,599) in fiscal 2005 to \$(88,876) in fiscal 2006.
- The increase in General Fund revenues was attributable to an increase in other local revenue and federal grant revenue in fiscal 2006.

### 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 Lake Mills 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 Lake Mills 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 Lake Mills Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

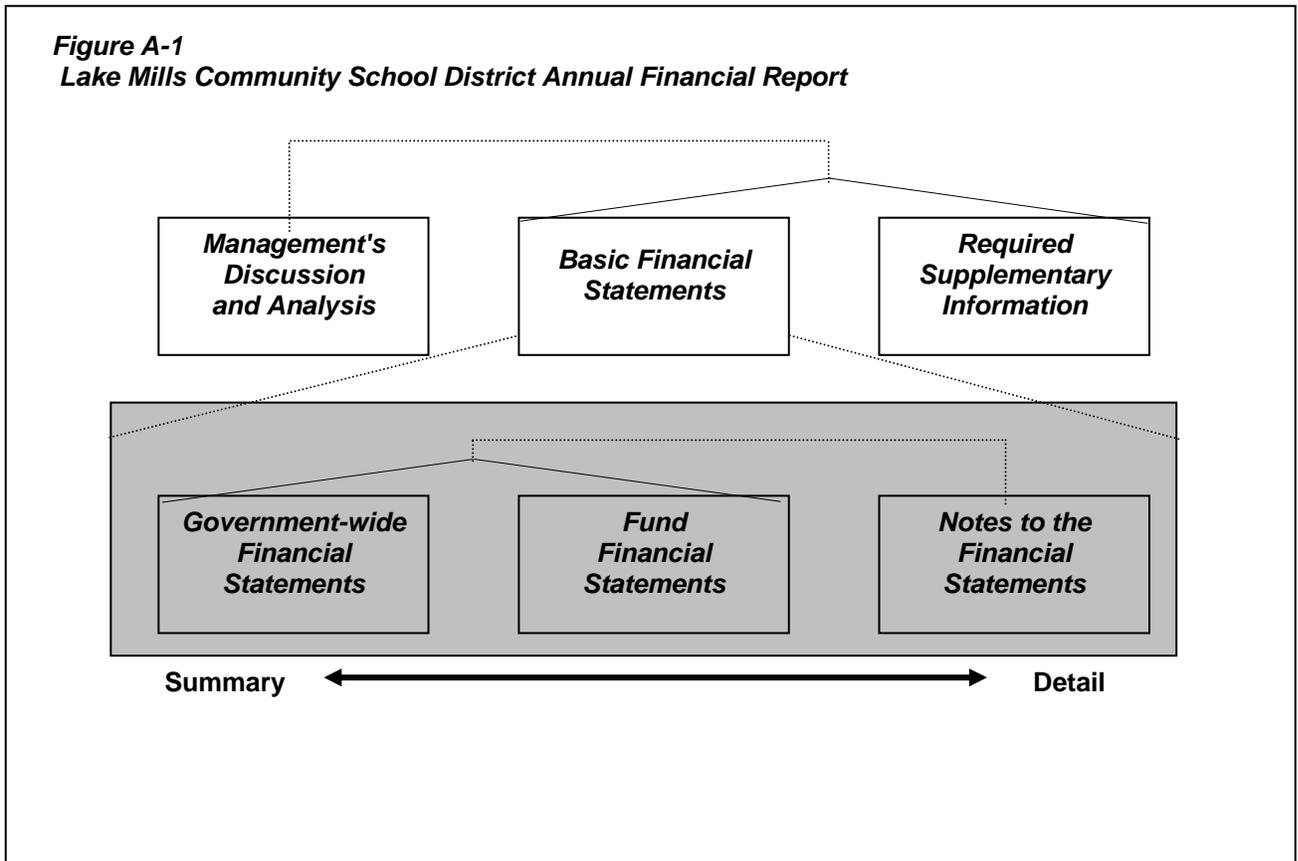


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

- 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 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. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	5,273,780	9,064,140	48,464	43,606	5,322,244	9,107,746	71%
Capital assets	1,418,795	1,273,920	34,321	31,954	1,453,116	1,305,874	-10%
<b>Total assets</b>	<b>6,692,575</b>	<b>10,338,060</b>	<b>82,785</b>	<b>75,560</b>	<b>6,775,360</b>	<b>10,413,620</b>	<b>54%</b>
Long-term liabilities	1,439,709	4,445,707	-	-	1,439,709	4,445,707	209%
Other liabilities	4,550,851	5,147,618	21,906	22,631	4,572,757	5,170,249	13%
<b>Total liabilities</b>	<b>5,990,560</b>	<b>9,593,325</b>	<b>21,906</b>	<b>22,631</b>	<b>6,012,466</b>	<b>9,615,956</b>	<b>60%</b>
Net Assets:							
Invested in capital assets, net of related debt	37,060	52,474	34,321	31,954	71,381	84,428	18%
Restricted	593,888	673,078	-	-	593,888	673,078	13%
Unrestricted	71,067	19,183	26,558	20,975	97,625	40,158	-59%
<b>TOTAL NET ASSETS</b>	<b>702,015</b>	<b>744,735</b>	<b>60,879</b>	<b>52,929</b>	<b>762,894</b>	<b>797,664</b>	<b>5%</b>

The District's combined net assets increased by nearly 5%, or approximately \$34,770, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$79,190 or 13% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$57,467, or 59%.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	729,633	876,184	151,292	154,309	880,925	1,030,493	17%
Operating grants & contributions	501,837	513,858	98,645	107,992	600,482	621,850	4%
Capital grants & contributions and restricted interest	-	57,098	-	-	-	57,098	0%
General Revenues:							
Property taxes	2,225,268	2,305,085	-	-	2,225,268	2,305,085	4%
Income Surtax	218,428	255,897	-	-	218,428	255,897	17%
Local option sales tax	301,244	282,353	-	-	301,244	282,353	-6%
Unrestricted state grants	2,265,507	2,306,756	-	-	2,265,507	2,306,756	2%
Unrestricted investment earnings	32,366	5,967	122	193	32,488	6,160	-81%
Other revenue	77,404	104,617	-	-	77,404	104,617	35%
<b>Total Revenues</b>	<b>6,351,687</b>	<b>6,707,815</b>	<b>250,059</b>	<b>262,494</b>	<b>6,601,746</b>	<b>6,970,309</b>	<b>6%</b>
Expenses:							
Instruction	3,759,934	3,680,574	-	-	3,759,934	3,680,574	-2%
Support services	1,700,329	2,115,405	-	-	1,700,329	2,115,405	24%
Non-instructional programs	-	32,369	259,875	270,444	259,875	302,813	17%
Other expenditures	621,294	836,747	-	-	621,294	836,747	35%
<b>Total expenses</b>	<b>6,081,557</b>	<b>6,665,095</b>	<b>259,875</b>	<b>270,444</b>	<b>6,341,432</b>	<b>6,935,539</b>	<b>9%</b>
<b>Change in net assets before Transfers</b>	<b>270,130</b>	<b>42,720</b>	<b>(9,816)</b>	<b>(7,950)</b>	<b>260,314</b>	<b>34,770</b>	<b>-87%</b>
Transfers	-	-	-	-	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>270,130</b>	<b>42,720</b>	<b>(9,816)</b>	<b>(7,950)</b>	<b>260,314</b>	<b>34,770</b>	<b>-87%</b>
Net assets beginning of year	431,885	702,015	70,695	60,879	502,580	762,894	52%
Net assets end of year	702,015	744,735	60,879	52,929	762,894	797,664	5%

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 84% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$6,707,815 and expenses were \$6,665,095. The District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

#### Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost Of Services 2006 \$	Net Cost of Services 2005 \$	Net Cost of Services 2006 \$
Instruction	3,759,934	3,680,574	2,730,985	2,622,239
Support Services	1,700,329	2,115,405	1,697,353	1,959,912
Non-instructional Programs	-	32,369	-	32,369
Other Expenses	621,294	836,747	421,749	603,435
<b>TOTAL</b>	<b>6,081,557</b>	<b>6,665,095</b>	<b>4,850,087</b>	<b>5,217,955</b>

- The cost financed by users of the District's programs was \$876,184.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$513,858.
- The net cost of governmental activities was financed with \$2,843,335 in property and other taxes and \$2,306,756 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$262,494 and expenses were \$270,444. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$3,753,180 well above last year's ending fund balances of \$531,028

## **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues.
- The General Fund deficit balance increased from \$(3,599) to \$(88,876).
- A bond issue passed on 12-3-05 for \$3.3 million to add new science rooms/gymnasium and to renovate current facilities.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$60,879 at June 30, 2005 to \$52,929 at June 30, 2006

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$618,121 more than budgeted receipts. The most significant variance resulted from the District receiving more in local sources of revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to the timing of expenditures paid at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$1.30 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$209,938.

The original cost of the District's capital assets was \$5.0 million. Governmental funds account for \$4.8 million, with the remainder of \$0.2 million accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	6,000	6,000	-	-	6,000	6,000	0%
Buildings	980,000	857,500	-	-	980,000	857,500	-13%
Improvements	203,437	207,973	-	-	203,437	207,973	2%
Equipment & Furniture	229,358	202,447	34,321	31,954	263,679	234,401	-11%
<b>TOTAL</b>	<b>1,418,795</b>	<b>1,273,920</b>	<b>34,321</b>	<b>31,954</b>	<b>1,453,116</b>	<b>1,305,874</b>	<b>-10%</b>

**Long-Term Debt**

At June 30, 2006, the District had \$4,445,708 in general obligation and other long-term debt outstanding. This represents an increase of approximately 209% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
General Obligation Bonds	1,350,000	3,180,000	136%
Revenue Bonds	-	1,200,000	0%
Special Assessment	31,735	26,446	-17%
Early Retirement	57,974	39,261	-32%
	<b>1,439,709</b>	<b>4,445,707</b>	<b>209%</b>

**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:

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 31 students. This drop in enrollment will decrease the District's funding for fiscal year 2008.
- Although the District has experienced declining enrollment for the past three years, the District expects a slight increase in future enrollment due to more businesses within the District.

- We continue to receive more students from Minnesota through Open Enrollment. Currently we have 79 students enrolling from Minnesota. We expect that number to continue to increase.
- District receives supplemental income on an annual basis from the Worth County Development Authority (WCDA). The first allocation begins 7-02-07 and totals approximately \$78,000 to be used for specific purposes as outlined by WCDA which are profits from the casino.

### **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 Chris Mathahs, Business Manager, Lake Mills Community School, 102 South 4<sup>th</sup> Avenue East, Lake Mills, IA 50450.

## BASIC FINANCIAL STATEMENTS

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	1,976,010	-	1,976,010
Other	4,049,092	33,375	4,082,467
Cash with fiscal agent	137,156	-	137,156
Receivables:			
Property tax:			
Delinquent	37,443	-	37,443
Succeeding year	2,451,209	-	2,451,209
Accounts	5,305	48	5,353
Accrued interest:			
ISCAP	19,673	-	19,673
Due from other governments	388,252	-	388,252
Inventories	-	10,183	10,183
Capital assets, net of accumulated depreciation	1,273,920	31,954	1,305,874
	<u>10,338,060</u>	<u>75,560</u>	<u>10,413,620</u>
<b>Liabilities</b>			
Accounts payable	95,750	321	96,071
Salaries and benefits payable	541,533	18,112	559,645
Accrued interest payable	52,574	-	52,574
Deferred revenue:			
Succeeding year property tax	2,451,209	-	2,451,209
Other	-	4,198	4,198
ISCAP warrants payable	1,974,000	-	1,974,000
ISCAP accrued interest payable	18,860	-	18,860
ISCAP premium	13,692	-	13,692
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	165,000	-	165,000
Special assessment	5,289	-	5,289
Termination benefits	18,999	-	18,999
Portion due after one year:			
General obligation bonds payable	3,015,000	-	3,015,000
Revenue bonds payable	1,200,000	-	1,200,000
Special assessment	21,157	-	21,157
Termination benefits	20,262	-	20,262
	<u>9,593,325</u>	<u>22,631</u>	<u>9,615,956</u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	52,474	31,954	84,428
Restricted for:			
Management levy	23,982	-	23,982
Physical plant and equipment levy	231,236	-	231,236
Other special revenue purposes	73,696	-	73,696
Local option sales tax capital projects	221,079	-	221,079
Debt service	123,085	-	123,085
Unrestricted	<u>19,183</u>	<u>20,975</u>	<u>40,158</u>
<b>Total net assets</b>	<u><u>744,735</u></u>	<u><u>52,929</u></u>	<u><u>797,664</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	2,355,564	600,817	129,982	-
Special instruction	720,367	13,494	45,869	-
Other instruction	604,643	260,190	7,983	-
	<u>3,680,574</u>	<u>874,501</u>	<u>183,834</u>	<u>-</u>
Support services:				
Student services	226,607	-	19,686	25,000
Instructional staff services	464,825	-	109,124	-
Administration services	567,807	-	-	-
Operation and maintenance of plant services	526,950	1,683	-	-
Transportation services	329,216	-	-	-
	<u>2,115,405</u>	<u>1,683</u>	<u>128,810</u>	<u>25,000</u>
Non-instructional programs	<u>32,369</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	387,636	-	-	32,098
Long-term debt interest	98,616	-	-	-
AEA flowthrough	201,214	-	201,214	-
Depreciation (unallocated)*	149,281	-	-	-
	<u>836,747</u>	<u>-</u>	<u>201,214</u>	<u>32,098</u>
Total governmental activities	<u>6,665,095</u>	<u>876,184</u>	<u>513,858</u>	<u>57,098</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>270,444</u>	<u>154,309</u>	<u>107,992</u>	<u>-</u>
Total	<u>6,935,539</u>	<u>1,030,493</u>	<u>621,850</u>	<u>57,098</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

Net (Expense) Revenue and Changes in Net

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,624,765)	-	(1,624,765)
(661,004)	-	(661,004)
(336,470)	-	(336,470)
<u>(2,622,239)</u>	<u>-</u>	<u>(2,622,239)</u>
(181,921)	-	(181,921)
(355,701)	-	(355,701)
(567,807)	-	(567,807)
(525,267)	-	(525,267)
(329,216)	-	(329,216)
<u>(1,959,912)</u>	<u>-</u>	<u>(1,959,912)</u>
<u>(32,369)</u>	<u>-</u>	<u>(32,369)</u>
(355,538)	-	(355,538)
(98,616)	-	(98,616)
-	-	-
(149,281)	-	(149,281)
<u>(603,435)</u>	<u>-</u>	<u>(603,435)</u>
(5,217,955)	-	(5,217,955)
<u>-</u>	<u>(8,143)</u>	<u>(8,143)</u>
<u>(5,217,955)</u>	<u>(8,143)</u>	<u>(5,226,098)</u>
2,019,344	-	2,019,344
187,988	-	187,988
97,753	-	97,753
255,897	-	255,897
282,353	-	282,353
2,306,756	-	2,306,756
5,967	193	6,160
104,617	-	104,617
<u>5,260,675</u>	<u>193</u>	<u>5,260,868</u>
42,720	(7,950)	34,770
<u>702,015</u>	<u>60,879</u>	<u>762,894</u>
<u>744,735</u>	<u>52,929</u>	<u>797,664</u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

<b>Assets</b>	General Fund \$	Capital Projects \$	Nonmajor Governmental Funds \$	Total \$
Cash and pooled investments:				
ISCAP	1,976,010	-	-	1,976,010
Other	492,199	3,262,656	294,237	4,049,092
Cash with fiscal agent	-	137,156	-	137,156
Receivables:				
Property tax:				
Delinquent	30,774	-	6,669	37,443
Succeeding year	1,999,544	-	451,665	2,451,209
Accounts	1,345	3,960	-	5,305
Accrued interest - ISCAP	19,673	-	-	19,673
Interfund receivable	-	27,861	-	27,861
Due from other governments	168,793	111,602	107,857	388,252
<b>Total assets</b>	<b>4,688,338</b>	<b>3,543,235</b>	<b>860,428</b>	<b>9,092,001</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	93,665	-	2,085	95,750
Salaries and benefits payable	541,533	-	-	541,533
Interfund payable	27,861	-	-	27,861
ISCAP warrants payable	1,974,000	-	-	1,974,000
ISCAP accrued interest payable	18,860	-	-	18,860
ISCAP premium	13,692	-	-	13,692
Deferred revenue:				
Succeeding year property tax	1,999,544	-	451,665	2,451,209
Other	108,059	-	107,857	215,916
Total liabilities	4,777,214	-	561,607	5,338,821
Fund balances:				
Reserved for:				
Debt service	-	137,156	38,503	175,659
Unreserved reported in:				
General fund	(88,876)	-	-	(88,876)
Special revenue funds	-	-	260,318	260,318
Capital projects funds	-	3,406,079	-	3,406,079
Total fund balances	(88,876)	3,543,235	298,821	3,753,180
<b>Total liabilities and fund balances</b>	<b>4,688,338</b>	<b>3,543,235</b>	<b>860,428</b>	<b>9,092,001</b>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	3,753,180
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,273,920
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	215,916
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.	(52,574)
Long-term liabilities, including bonds payable, special assessments and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(4,445,707)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>744,735</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund \$	Capital Projects \$	Nonmajor Governmental Funds \$	Total \$
Revenues:				
Local sources:				
Local tax	1,990,781	282,353	557,799	2,830,933
Tuition	480,957	-	-	480,957
Other	282,012	32,098	229,396	543,506
State sources	2,712,163	-	326	2,712,489
Federal sources	102,528	-	25,000	127,528
Total revenues	<u>5,568,441</u>	<u>314,451</u>	<u>812,521</u>	<u>6,695,413</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,245,075	-	129,202	2,374,277
Special instruction	720,367	-	-	720,367
Other instruction	432,702	-	171,941	604,643
	<u>3,398,144</u>	<u>-</u>	<u>301,143</u>	<u>3,699,287</u>
Support services:				
Student services	197,741	-	28,866	226,607
Instructional staff services	464,825	-	-	464,825
Administration services	567,807	-	-	567,807
Operation and maintenance of plant services	526,950	-	-	526,950
Transportation services	274,901	-	-	274,901
	<u>2,032,224</u>	<u>-</u>	<u>28,866</u>	<u>2,061,090</u>
Non-instructional programs	-	32,369	-	32,369
Other expenditures:				
Facilities acquisition	-	225,291	226,355	451,646
Long-term debt:				
Principal	-	-	155,000	155,000
Interest and fiscal charges	-	-	57,880	57,880
AEA flowthrough	201,214	-	-	201,214
	<u>201,214</u>	<u>225,291</u>	<u>439,235</u>	<u>865,740</u>
Total expenditures	<u>5,631,582</u>	<u>257,660</u>	<u>769,244</u>	<u>6,658,486</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(63,141)</u>	<u>56,791</u>	<u>43,277</u>	<u>36,927</u>
Other financing sources (uses):				
Bonds issued	-	3,185,000	225	3,185,225
Operating transfers in	-	-	22,136	22,136
Operating transfers out	(22,136)	-	-	(22,136)
Total other financing sources (uses)	<u>(22,136)</u>	<u>3,185,000</u>	<u>22,361</u>	<u>3,185,225</u>
Net change in fund balances	(85,277)	3,241,791	65,638	3,222,152
Fund balances beginning of year	<u>(3,599)</u>	<u>301,444</u>	<u>233,183</u>	<u>531,028</u>
Fund balances end of year	<u>(88,876)</u>	<u>3,543,235</u>	<u>298,821</u>	<u>3,753,180</u>

## LAKE MILLS 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, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		3,222,152
<b><i>Amounts reported for governmental activities in the Statement of Activities are different because:</i></b>		
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. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	58,721	
Depreciation expense	<u>(203,596)</u>	(144,875)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		12,402
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		160,289
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.		(40,961)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		18,713
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(3,185,000)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>42,720</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds  
June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	33,375
Accounts receivable	48
Inventories	10,183
Capital assets, net of accumulated depreciation	<u>31,954</u>
<b>Total assets</b>	<u>75,560</u>
<b>Liabilities</b>	
Accounts payable	321
Salaries and benefits payable	18,112
Deferred revenue	<u>4,198</u>
<b>Total liabilities</b>	<u>22,631</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	31,954
Unrestricted	<u>20,975</u>
<b>Total net assets</b>	<u><u>52,929</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>154,309</u>
Operating expenses:	
Non-instructional programs:	
Salaries	110,130
Benefits	37,130
Purchased services	2,027
Supplies	114,815
Depreciation	<u>6,342</u>
	<u>270,444</u>
Operating gain (loss)	<u>(116,135)</u>
Non-operating revenue:	
State sources	3,922
Federal sources	104,070
Interest income	<u>193</u>
Total non-operating revenue	<u>108,185</u>
Change in net assets	(7,950)
Net assets beginning of year	<u>60,879</u>
Net assets end of year	<u><u>52,929</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>          </u>
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	154,228
Cash payments to employees for services	(146,334)
Cash payments to suppliers for goods or services	(95,913)
Net cash used by operating activities	<u>(88,019)</u>
Cash flows from non-capital financing activities:	
State grants received	3,922
Federal grants received	80,099
Net cash provided by non-capital financing activities	<u>84,021</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(3,975)</u>
Cash flows from investing activities:	
Interest on investments	<u>193</u>
Net increase (decrease) in cash and cash equivalents	(7,780)
Cash and cash equivalents at beginning of year	<u>41,155</u>
Cash and cash equivalents at end of year	<u><u>33,375</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(116,135)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	23,971
Depreciation	6,342
Decrease (increase) in inventories	(2,919)
Decrease (increase) in accounts receivable	(3)
(Decrease) increase in accounts payable	(123)
(Decrease) increase in salaries and benefits payable	926
(Decrease) increase in deferred revenue	(78)
Net cash used in operating activities	<u>(88,019)</u>

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

During the year ended June 30, 2006, the District received \$23,971 of federal commodities.

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	257,792
Accrued interest receivable	<u>174</u>
<b>Total assets</b>	257,966
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>257,966</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	500
Interest	4,621
Total additions	<u>5,121</u>
Deductions:	
Support services:	
Scholarships awarded	<u>9,348</u>
Change in net assets	(4,227)
Net assets beginning of year	<u>262,193</u>
Net assets end of year	<u><u>257,966</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

**1. Summary of Significant Accounting Policies**

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed 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 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

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

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 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.

### 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 accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year

becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-15 years

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

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

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

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

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts 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 imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amounts budgeted.

## 2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by No. 40.

### 3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Capital Projects Fund	General Fund	27,861

### 4. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
		\$
Nonmajor Governmental: Physical Plant & Equipment Levy Fund	General Fund	22,136

### 5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	977,400	19,362	974,000	18,613
2006-07A	6/28/06	6/28/07	998,610	311	1,000,000	247
Total			<u>1,976,010</u>	<u>19,673</u>	<u>1,974,000</u>	<u>18,860</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	200,000	200,000	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2005-06B	4.50	4.772
2006-07A	4.50	5.676

## 6. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	6,000	-	-	6,000
Capital assets being depreciated:				
Buildings	3,390,307	-	-	3,390,307
Improvements other than buildings	313,092	19,990	-	333,082
Furniture and equipment	1,078,613	38,731	-	1,117,344
Total capital assets being deprec.	<u>4,782,012</u>	<u>58,721</u>	-	<u>4,840,733</u>
Less accumulated depreciation for:				
Buildings	2,410,307	122,500	-	2,532,807
Improvements other than buildings	109,655	15,454	-	125,109
Furniture and equipment	849,255	65,642	-	914,897
Total accumulated depreciation	<u>3,369,217</u>	<u>203,596</u>	-	<u>3,572,813</u>
Total capital assets being depreciated, net	<u>1,412,795</u>	<u>(144,875)</u>	-	<u>1,267,920</u>
Governmental activities capital assets, net	<u>1,418,795</u>	<u>(144,875)</u>	-	<u>1,273,920</u>
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	156,269	3,975	-	160,244
Less accumulated depreciation	<u>121,948</u>	<u>6,342</u>	-	<u>128,290</u>
Business type activities capital assets, net	<u>34,321</u>	<u>(2,367)</u>	-	<u>31,954</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Support Services:	
Transportation	54,315
Unallocated depreciation	<u>149,281</u>
Total depreciation expense – governmental activities	<u><u>203,596</u></u>
Business type activities:	
Food services	<u><u>6,342</u></u>

## 7. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,350,000	1,985,000	155,000	3,180,000	165,000
Revenue Bonds	-	1,200,000	-	1,200,000	-
Special assessment	31,735	-	5,289	26,446	5,289
Termination benefits	57,974	-	18,713	39,261	18,999
Total	<u>1,439,709</u>	<u>3,185,000</u>	<u>179,002</u>	<u>4,445,707</u>	<u>189,288</u>

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2006, the District has obligations to three participants with a total liability of \$39,261. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$18,713.

### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	4.10	165,000	51,025	216,025
2008	4.15	165,000	44,360	209,360
2009	4.25	175,000	37,413	212,413
2010	4.30	185,000	29,975	214,975
2011	4.35	195,000	22,020	217,020
2012-13	4.35-4.40	310,000	18,157	328,157
		<u>1,195,000</u>	<u>202,950</u>	<u>1,397,950</u>

### General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of March 2006</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007		-	94,357	94,357
2008	4.45	25,000	80,878	105,878
2009	4.35	20,000	79,766	99,766
2010	4.20	20,000	78,896	98,896
2011	4.10	20,000	78,056	98,056
2012-2016	4.05-4.0	815,000	337,000	1,152,000
2017-2021	3.9-4.15	<u>1,085,000</u>	<u>136,388</u>	<u>1,221,388</u>
		<u>1,985,000</u>	<u>885,341</u>	<u>2,870,341</u>

### Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Bond Issue of March 2006</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007		-	38,500	38,500
2008	3.85	130,000	43,698	173,698
2009	3.85	135,000	38,597	173,597
2010	3.85	140,000	33,303	173,303
2011	3.85	145,000	27,817	172,817
2012-2014	3.85	<u>650,000</u>	<u>51,591</u>	<u>701,591</u>
		<u>1,200,000</u>	<u>233,506</u>	<u>1,433,506</u>

The local option 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 local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- \$120,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the Capital Projects Fund.

### Special Assessment Payable

Details of the District's June 30, 2006 special assessment liability for a year 2000 street improvement is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007	7.5	5,289	2,053	7,342
2008	7.5	5,289	1,642	6,931
2009	7.5	5,289	1,232	6,521
2010	7.5	5,289	821	6,110
2011	7.5	5,290	410	5,700
		<u>26,446</u>	<u>6,158</u>	<u>32,604</u>

### **8. 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 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$189,246, \$191,482 and \$186,200 respectively, equal to the required contributions for each year.

### **9. Risk Management**

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

### **10. 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 \$201,214 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	3,855,396	154,502	4,009,898	3,394,006	3,394,006	615,892
Intermediate sources	-	-	-	5,940	5,940	(5,940)
State sources	2,712,489	3,922	2,716,411	2,720,808	2,720,808	(4,397)
Federal sources	127,528	104,070	231,598	219,032	219,032	12,566
Total revenues	<u>6,695,413</u>	<u>262,494</u>	<u>6,957,907</u>	<u>6,339,786</u>	<u>6,339,786</u>	<u>618,121</u>
Expenditures:						
Instruction	3,699,287	-	3,699,287	3,750,000	3,750,000	50,713
Support services	2,061,090	-	2,061,090	1,757,453	1,757,453	(303,637)
Non-instructional programs	32,369	270,444	302,813	334,340	334,340	31,527
Other expenditures	865,740	-	865,740	1,134,860	1,134,860	269,120
Total expenditures	<u>6,658,486</u>	<u>270,444</u>	<u>6,928,930</u>	<u>6,976,653</u>	<u>6,976,653</u>	<u>47,723</u>
Excess (deficiency) of revenues over (under) expenditures	36,927	(7,950)	28,977	(636,867)	(636,867)	665,844
Other financing sources (uses) net	<u>3,185,225</u>	<u>-</u>	<u>3,185,225</u>	<u>-</u>	<u>-</u>	<u>3,185,225</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	3,222,152	(7,950)	3,214,202	(636,867)	(636,867)	3,851,069
Balance beginning of year	<u>531,028</u>	<u>60,879</u>	<u>591,907</u>	<u>989,085</u>	<u>989,085</u>	<u>(397,178)</u>
Balance end of year	<u><u>3,753,180</u></u>	<u><u>52,929</u></u>	<u><u>3,806,109</u></u>	<u><u>352,218</u></u>	<u><u>352,218</u></u>	<u><u>3,453,891</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

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

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds					Total \$
	Management Levy \$	Student Activity Fund \$	Physical Plant and Equipment Levy \$	District Support Trust Funds \$	Debt Service \$	
	Cash and pooled investments	60,765	75,294	122,285	487	
Receivables:						
Property tax:						
Delinquent	2,478	-	1,094	-	3,097	6,669
Succeeding year	150,000	-	64,273	-	237,392	451,665
Due from other governments	-	-	107,857	-	-	107,857
<b>Total assets</b>	<b>213,243</b>	<b>75,294</b>	<b>295,509</b>	<b>487</b>	<b>275,895</b>	<b>860,428</b>
<b>Liabilities &amp; Fund Balances</b>						
Liabilities:						
Accounts payable	-	2,085	-	-	-	2,085
Deferred revenue:						
Succeeding year property tax	150,000	-	64,273	-	237,392	451,665
Other	-	-	107,857	-	-	107,857
Total liabilities	150,000	2,085	172,130	-	237,392	561,607
Fund balances:						
Reserved for debt service	-	-	-	-	38,503	38,503
Unreserved reported in:						
Special revenue funds	63,243	73,209	123,379	487	-	260,318
Total fund balances	63,243	73,209	123,379	487	38,503	298,821
<b>Total liabilities and fund balances</b>	<b>213,243</b>	<b>75,294</b>	<b>295,509</b>	<b>487</b>	<b>275,895</b>	<b>860,428</b>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds					Total \$
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	District Support Trust Funds	Debt Service	
	\$	\$	\$	\$	\$	
Revenues:						
Local sources:						
Local tax	150,311	-	219,500	-	187,988	557,799
Other	11,134	189,556	1,712	25,866	1,128	229,396
State sources	117	-	61	-	148	326
Federal sources	-	-	25,000	-	-	25,000
Total revenues	<u>161,562</u>	<u>189,556</u>	<u>246,273</u>	<u>25,866</u>	<u>189,264</u>	<u>812,521</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	129,202	-	-	-	-	129,202
Other instruction	-	171,941	-	-	-	171,941
Student services	-	-	-	28,866	-	28,866
Other expenditures:						
Facilities acquisition	-	-	226,355	-	-	226,355
Long-term debt:						
Principal	-	-	-	-	155,000	155,000
Interest and fiscal charges	-	-	-	-	57,880	57,880
Total expenditures	<u>129,202</u>	<u>171,941</u>	<u>226,355</u>	<u>28,866</u>	<u>212,880</u>	<u>769,244</u>
Excess (deficiency) of revenues over (under) expenditures	<u>32,360</u>	<u>17,615</u>	<u>19,918</u>	<u>(3,000)</u>	<u>(23,616)</u>	<u>43,277</u>
Other financing sources (uses):						
Bonds issued	-	-	-	-	225	225
Operating transfers in	-	-	22,136	-	-	22,136
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>22,136</u>	<u>-</u>	<u>225</u>	<u>22,361</u>
Net changes in fund balances	32,360	17,615	42,054	(3,000)	(23,391)	65,638
Fund balances beginning of year	<u>30,883</u>	<u>55,594</u>	<u>81,325</u>	<u>3,487</u>	<u>61,894</u>	<u>233,183</u>
Fund balances end of year	<u><u>63,243</u></u>	<u><u>73,209</u></u>	<u><u>123,379</u></u>	<u><u>487</u></u>	<u><u>38,503</u></u>	<u><u>298,821</u></u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Boys basketball	(6,421)	59	3,643	10,005	-
Football	(17,233)	-	9,415	26,648	-
Wrestling	(7,351)	1,101	4,633	10,883	-
Baseball	(7,744)	-	4,456	12,200	-
Boys golf	(387)	45	332	674	-
Boys track	(1,874)	1,208	2,681	3,347	-
Girls basketball	(3,673)	-	2,766	6,439	-
Girls golf	(593)	-	302	895	-
Girls track	(4,315)	1,042	2,962	6,235	-
Volleyball	(7,704)	-	6,708	14,412	-
Softball	(6,039)	490	4,692	10,241	-
Athletics	64,172	78,539	46,565	(103,237)	(7,091)
Cross country	(734)	30	556	1,260	-
Special olympics	588	-	-	-	588
Bulldog store	2,236	3,913	3,183	-	2,966
Varsity cheerleaders	221	8,213	8,477	(109)	(152)
FFA	300	17,969	16,122	(52)	2,095
FCCLA	593	144	106	-	631
Speech club	3,643	1,874	2,265	-	3,252
Science club	587	-	-	-	587
Student council	471	1,343	1,419	-	395
Flag & rifle team	1,198	75	412	-	861
Concessions	-	16,041	9,554	(6,487)	-
MS student council	526	528	301	-	753
MS speech	71	-	-	-	71
Grade 7 quest	3,448	11,133	12,328	3,540	5,793
Grade 8-1 quest	454	1,842	-	(2,296)	-
Grade 8-2 quest	651	533	-	(1,184)	-
Grade 8-3 quest	-	500	439	(61)	-
Sixth grade camp fund	268	-	268	-	-
Class of 2004	3,815	-	-	(3,815)	-
Class of 2005	2,206	-	-	(2,206)	-
Class of 2006	1,566	1,168	2,548	(186)	-
Class of 2007	-	3,077	2,591	6,746	7,232
Band fundraising	17,690	18,207	11,078	193	25,012
Band	6,282	1,068	308	(648)	6,394
Pops concert fund	5,928	4,096	2,068	(266)	7,690
Musical/school play	4,561	2,588	2,750	-	4,399
Jazz band	-	524	164	648	1,008

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
High school annual	3,413	11,811	9,233	-	5,991
Activity fund projects	-	-	-	6,207	6,207
Interest	246	395	3	(26)	612
Beginning accruals	(5,472)	-	(5,472)	-	-
Ending accruals	-	-	2,085	-	(2,085)
	<u>55,594</u>	<u>189,556</u>	<u>171,941</u>	<u>-</u>	<u>73,209</u>

## LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,830,933	2,747,426	2,625,919	2,653,458
Tuition	480,957	455,967	392,806	171,916
Other	543,506	380,958	296,232	329,284
Intermediate sources	-	-	5,799	826
State sources	2,712,489	2,646,415	2,672,575	2,640,383
Federal sources	127,528	120,929	113,951	102,063
Total revenues	<u>6,695,413</u>	<u>6,351,695</u>	<u>6,107,282</u>	<u>5,897,930</u>
Expenditures:				
Instruction:				
Regular instruction	2,374,277	2,276,667	2,158,582	2,194,776
Special instruction	720,367	830,145	826,940	778,787
Other instruction	604,643	653,122	620,634	765,763
Support services:				
Student services	226,607	166,909	266,257	113,515
Instructional staff services	464,825	267,626	283,036	254,968
Administration services	567,807	588,278	624,184	474,968
Operation and maintenance of plant services	526,950	386,148	480,169	441,868
Transportation services	274,901	240,431	282,799	250,532
Central support services	-	-	1,786	-
Non-instructional programs	32,369	-	3,391	-
Other expenditures:				
Facilities acquisition	451,646	224,361	129,564	183,083
Long-term debt:				
Principal	155,000	150,289	140,000	115,000
Interest and other charges	57,880	66,720	69,365	96,272
AEA flowthrough	201,214	199,545	204,823	211,269
Total expenditures	<u>6,658,486</u>	<u>6,050,241</u>	<u>6,091,530</u>	<u>5,880,801</u>

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  
Lake Mills 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 Lake Mills Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 25, 2006. 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 Lake Mills Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 06-I-A, 06-I-B, and 06-I-C are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lake Mills 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, 2006 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.

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

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

September 25, 2006

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

06-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The stamp is under the care, custody, and control of the Administrative office. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

06-I-C Supporting Documentation: We noted certain credit card payments and travel reimbursements that were not supported by invoices or receipts.

Recommendation: The District should receive sufficient documentation for all travel payments and credit card charges and then reconcile the documentation to the invoices each month.

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

Conclusion: Response accepted.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the support services functional area.

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

District Response: We will amend our budget before expenditures exceed the budget in the future.

Conclusion: Response accepted.

06-II-B Questionable Disbursements: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

06-II-D Business Transactions: We noted no transactions between the District and District officials or employees.

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

06-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

06-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

06-II-I Certified Annual Report (CAR): The audit field work was completed prior to the date the Certified Annual Report was certified to the Iowa Department of Education.

06-II-J Financial Condition: The District has an unreserved, undesignated deficit fund balance in the General Fund of \$88,876, and the Student Activity Fund has a few accounts with deficit balances at June 30, 2006.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-K Old Outstanding Checks: We noted that the District's bank reconciliations included old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

District Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.