

LENOX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2009

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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education  
(Before September 2008 election)**

Beverly Kinker	President	2008
Brent Wise	Vice President (Resigned)	2009
Nicole Hogan	Board Member	2010
Cynda Notz	Board Member	2010
Todd Barker	Board Member	2008
Chris Christensen	Board Member (Appointed)	2008

**Board of Education  
(After September 2008 election)**

Chris Christensen	President	2009
Todd Barker	Vice President	2009
Nicole Hogan	Board Member	2011*
Kurtis Christensen	Board Member	2009
Rosa Cruz	Board Member (Appointed)	2009
Cynda Notz	Board Member (Resigned)	2011*

**School Officials**

David Henrichs	Superintendent	2009
Paula Horton	District Secretary/ Treasurer	2009
Richard Wilson	Attorney	2009

\*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.

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Lenox 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 Lenox Community School District, Lenox, 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 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 that our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 24, 2010 on our consideration of the Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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 12 and 34 through 35 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

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inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lenox 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 an unqualified opinion 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.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2010

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Lenox 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, 2009. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$3,587,776 in fiscal 2008 to \$4,120,628 in fiscal 2009, while General Fund expenditures increased from \$3,579,902 in fiscal 2008 to \$3,930,648 in fiscal 2009. This resulted in an increase in the District's General Fund balance from \$498,475 in fiscal 2008 to \$710,149 in fiscal 2009, a 42.46% increase over the prior year.
- The increase in General Fund revenues was attributable to an increase in local and state grant revenue in fiscal 2009. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

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

Notes to the 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-1**  
**Lenox Community School District Annual Financial Report**

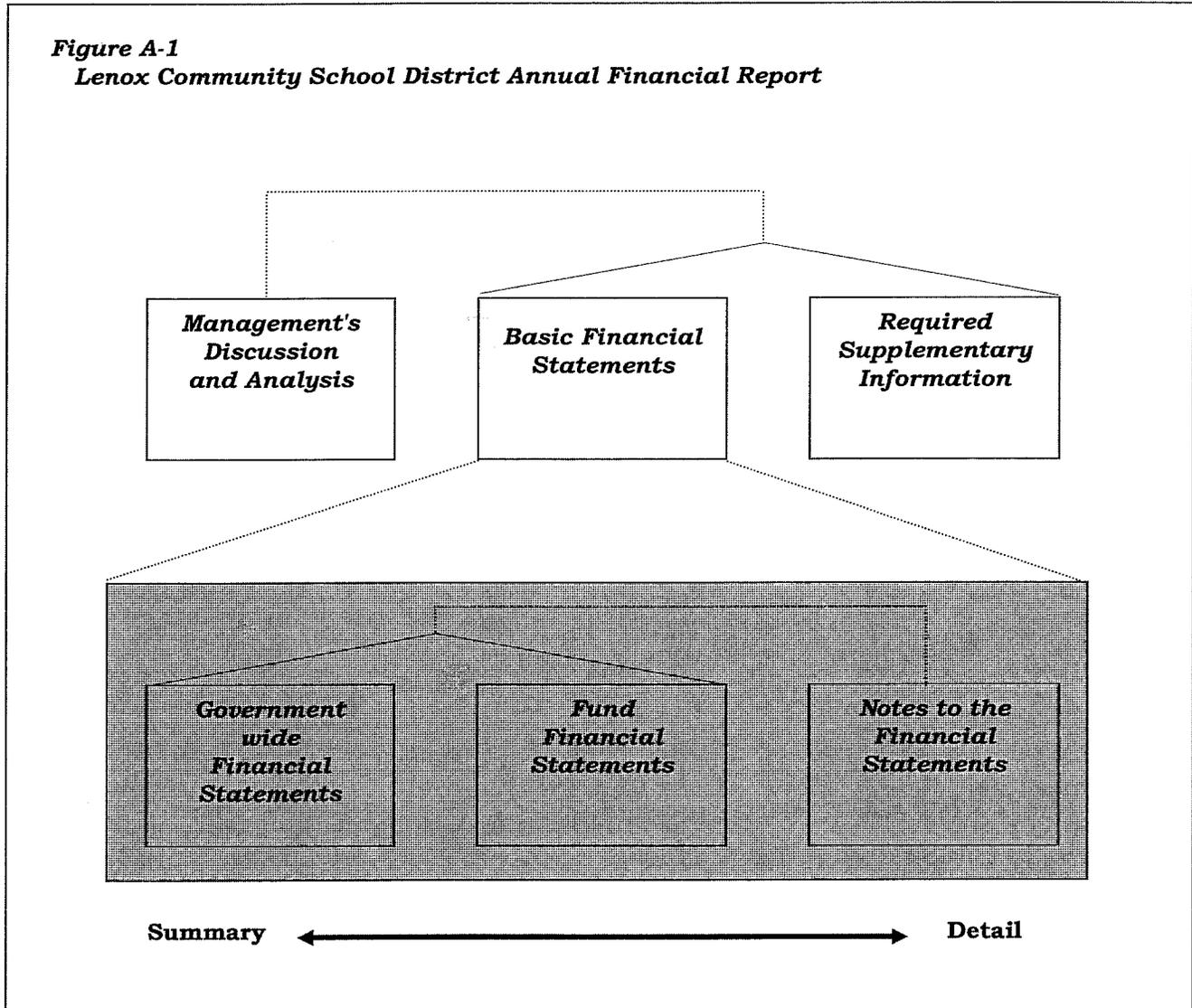


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <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 revenues, expenses and changes in 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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, 2009 compared to June 30, 2008.

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	June 30,		June 30,		June 30,		
	2009	2008	2009	2008	2009	2008	2008-09
Current and other assets	\$ 3,229,780	3,106,559	36,979	17,602	3,266,759	3,124,161	4.56%
Capital assets	4,396,808	4,676,431	22,172	25,660	4,418,980	4,702,091	-6.02%
Total assets	<u>7,626,588</u>	<u>7,782,990</u>	<u>59,151</u>	<u>43,262</u>	<u>7,685,739</u>	<u>7,826,252</u>	<u>-1.80%</u>
Long-term obligations	3,434,678	3,672,906	0	0	3,434,678	3,672,906	-6.49%
Other liabilities	1,643,539	1,854,825	10,469	8,556	1,654,008	1,863,381	-11.24%
Total liabilities	<u>5,078,217</u>	<u>5,527,731</u>	<u>10,469</u>	<u>8,556</u>	<u>5,088,686</u>	<u>5,536,287</u>	<u>-8.08%</u>
Net assets:							
Invested in capital assets, net of related debt	986,808	1,031,431	22,172	25,660	1,008,980	1,057,091	-4.55%
Restricted	771,892	658,627	0	0	771,892	658,627	17.20%
Unrestricted	789,671	565,201	26,510	9,046	816,181	574,247	42.13%
Total net assets	<u>\$ 2,548,371</u>	<u>2,255,259</u>	<u>48,682</u>	<u>34,706</u>	<u>2,597,053</u>	<u>2,289,965</u>	<u>13.41%</u>

The District's combined net assets increased by 13.41%, or \$307,088, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested 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 \$113,265, or 17.20% over the prior year.

Unrestricted net assets - are 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 \$241,934, or 42.13%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2009 compared to June 30, 2008.

Figure A-4  
Changes of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		School District		Change
	June 30,	2008	June 30,	2008	June 30,	2008	2008-09
Revenues:							
Program revenues:							
Charges for services	\$ 486,812	372,488	92,770	78,748	579,582	451,236	28.44%
Operating grants and contributions and restricted interest	768,630	619,391	114,295	101,189	882,925	720,580	22.53%
General revenues:							
Local tax	1,675,431	1,592,855	0	0	1,675,431	1,592,855	5.18%
Statewide sales and services tax	136,813	119,222	0	0	136,813	119,222	14.75%
Unrestricted state grants	1,564,943	1,506,225	0	0	1,564,943	1,506,225	3.90%
Other	163,025	100,987	100	155	163,125	101,142	61.28%
Total revenues	4,795,654	4,311,168	207,165	180,092	5,002,819	4,491,260	11.39%
Program expenses:							
Governmental activities:							
Instructional	2,775,973	2,574,022	0	0	2,775,973	2,574,022	7.85%
Support services	1,160,237	1,045,382	12,410	10,407	1,172,647	1,055,789	11.07%
Non-instructional programs	0	0	180,779	172,916	180,779	172,916	4.55%
Other expenses	566,332	414,109	0	0	566,332	414,109	36.76%
Total expenses	4,502,542	4,033,513	193,189	183,323	4,695,731	4,216,836	11.36%
Changes in net assets	293,112	277,655	13,976	(3,231)	307,088	274,424	11.90%
Beginning net assets	2,255,259	1,977,604	34,706	37,937	2,289,965	2,015,541	13.62%
Ending net assets	\$ 2,548,371	2,255,259	48,682	34,706	2,597,053	2,289,965	13.41%

In fiscal 2009, local tax, statewide sales and services tax and unrestricted state grants account for 70.42% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.95% of the revenue from business type activities.

The District's total revenues were \$5,002,819 of which \$4,795,654 was for governmental activities and \$207,165 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 11.39% increase in revenues and a 11.36% increase in expenses. Increases in local tax and state revenues helped to fund increases in expenditures. The increases in expenses were related to increases in negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$4,795,654 and expenses were \$4,502,542.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
			Change			Change
	2009	2008	2008-09	2009	2008	2008-09
Instruction	\$ 2,775,973	2,574,022	7.85%	1,653,189	1,699,550	-2.73%
Support services	1,160,237	1,045,382	10.99%	1,159,543	1,043,783	11.09%
Other expenses	566,332	414,109	36.76%	434,368	298,301	45.61%
Totals	<u>\$ 4,502,542</u>	<u>4,033,513</u>	<u>11.63%</u>	<u>3,247,100</u>	<u>3,041,634</u>	<u>6.76%</u>

- The cost financed by users of the District's programs was \$486,812.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$768,630.
- The net cost of governmental activities was financed with \$1,675,431 in local tax, \$136,813 in statewide sales and services tax, \$1,564,943 in unrestricted state grants, \$12,794 in interest income and \$150,231 in other general revenues.

### **Business Type Activities**

Revenues of the District's business type activities were \$207,165 and expenses were \$193,189. 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, the Lenox Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,408,158, above last year's ending fund balances of \$1,077,776. However, the primary reason for the increase in combined fund balances in fiscal 2009 is due to the increase in the General Fund and Capital Projects Fund.

### **Governmental Fund Highlights**

The District's improving General Fund financial position from \$498,475 to \$710,149 is the product of many factors:

- Increases in state grants during the year resulted in an increase in revenues.
- The increase in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$34,706 at June 30, 2008 to \$48,682 at June 30, 2009, representing an increase of 40.27%.

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## BUDGETARY HIGHLIGHTS

The District's revenues were \$201,737 more than budgeted revenues, a variance of 4.22%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

Total expenditures were less than budgeted, 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.

During the year ended June 30, 2009, expenditures in the non-instruction function exceeded the amount budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2009, the District had invested \$4,418,980, 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 capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$364,176.

The original cost of the District's capital assets was \$6,081,897. Governmental funds account for \$6,019,548 with the remainder of \$62,349 in the Proprietary, School Nutrition Fund.

The largest percentage of change in capital asset activity during the year occurred in the land improvements category. The District's land improvements which totaled \$21,297 at June 30, 2009, compared to \$0 reported at June 30, 2008. This increase is the result of the walking trail addition.

Figure A-6

	Capital Assets, Net of Depreciation							
	Governmental		Business type		Total		Total	
	Activities		Activities		School District		Change	
	June 30,		June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008	2008-09	
Land	\$ 50,521	50,521	0	0	50,521	50,521	0.00%	
Land improvements	21,297	0	0	0	21,297	0	100.00%	
Buildings	4,246,849	4,547,312	0	0	4,246,849	4,547,312	-6.61%	
Machinery and equipment	78,141	78,598	22,172	25,660	100,313	104,258	-3.78%	
Total	\$ 4,396,808	4,676,431	22,172	25,660	4,418,980	4,702,091	-6.02%	

### Long-Term Debt

At June 30, 2009, the District had \$3,434,678 in general obligation and other long-term debt outstanding. This represents a decrease of 6.49% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,075,000 at June 30, 2009.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$335,000 at June 30, 2009.

The District had compensated absences payable from the General Fund of \$24,678 at June 30, 2009.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2009	2008	2008-09
General Obligation Bonds	\$ 3,075,000	3,235,000	-4.95%
Capital Loan Notes	335,000	410,000	-18.29%
Compensated absences	24,678	27,906	-11.57%
Totals	\$ 3,434,678	3,672,906	-6.49%

## 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:

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The FY 2010 state budget cut of 10% results in a significant decrease in General Fund revenue, shifting funding on property taxes and other revenue sources. As a result of these lost revenues, the District will explore all opportunities to reduce expenditures and/or increase revenues.
- On July 1, 2007 IPERS implemented an employers' contribution increase over a 4-year period. The employers' portion of IPERS increased from 5.75% to 6.05% on July 1, 2007, and will increase to 6.35% on July 1, 2008, to 6.65% on July 1, 2009 and finally to 6.95% on July 1, 2010. This will increase the Lenox Community Schools' employer benefit costs significantly over the next few years.

## 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 Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

	Governmental Activities	Business type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,511,927	28,335	1,540,262
Receivables:			
Property tax:			
Delinquent	19,793	0	19,793
Succeeding year	1,180,586	0	1,180,586
Income surtax	121,672	0	121,672
Interfund	1,313	(1,313)	0
Accounts	3,216	149	3,365
Due from other governments	391,273	0	391,273
Inventories	0	9,808	9,808
Capital assets, net of accumulated depreciation	4,396,808	22,172	4,418,980
<b>Total Assets</b>	<b>7,626,588</b>	<b>59,151</b>	<b>7,685,739</b>
<b>Liabilities</b>			
Accounts payable	84,137	9,480	93,617
Salaries and benefits payable	353,902	0	353,902
Due to other governments	14,958	0	14,958
Interest payable	9,956	0	9,956
Deferred revenue:			
Succeeding year property tax	1,180,586	0	1,180,586
Unearned revenue	0	989	989
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	170,000	0	170,000
Capital loan notes payable	80,000	0	80,000
Compensated absences payable	24,678	0	24,678
Portion due after one year:			
General obligation bonds payable	2,905,000	0	2,905,000
Capital loan notes payable	255,000	0	255,000
<b>Total Liabilities</b>	<b>5,078,217</b>	<b>10,469</b>	<b>5,088,686</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	986,808	22,172	1,008,980
Restricted for:			
Categorical funding	73,883	0	73,883
Management levy	148,722	0	148,722
Physical plant and equipment levy	218,170	0	218,170
Capital projects	278,951	0	278,951
Debt service	10,477	0	10,477
Other special revenue purposes	41,689	0	41,689
Unrestricted	789,671	26,510	816,181
<b>Total Net Assets</b>	<b>\$ 2,548,371</b>	<b>48,682</b>	<b>2,597,053</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Charges for Expenses	Operating Grants, Contributions and Restricted Services	Interest	Govern- mental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 1,548,488	289,892	616,389	(642,207)	0	(642,207)
Special	607,413	123,937	19,887	(463,589)	0	(463,589)
Other	620,072	72,679	0	(547,393)	0	(547,393)
	<u>2,775,973</u>	<u>486,508</u>	<u>636,276</u>	<u>(1,653,189)</u>	<u>0</u>	<u>(1,653,189)</u>
Support services:						
Student	78,757	0	0	(78,757)	0	(78,757)
Instructional staff	247,913	0	0	(247,913)	0	(247,913)
Administration	374,876	0	0	(374,876)	0	(374,876)
Operation and maintenance of plant	314,591	0	0	(314,591)	0	(314,591)
Transportation	144,100	304	390	(143,406)	0	(143,406)
	<u>1,160,237</u>	<u>304</u>	<u>390</u>	<u>(1,159,543)</u>	<u>0</u>	<u>(1,159,543)</u>
Other expenditures:						
Facilities acquisitions	3,722	0	0	(3,722)	0	(3,722)
Long-term debt interest	129,062	0	0	(129,062)	0	(129,062)
AEA flowthrough	131,964	0	131,964	0	0	0
Depreciation(unallocated)*	301,584	0	0	(301,584)	0	(301,584)
	<u>566,332</u>	<u>0</u>	<u>131,964</u>	<u>(434,368)</u>	<u>0</u>	<u>(434,368)</u>
Total governmental activities	<u>4,502,542</u>	<u>486,812</u>	<u>768,630</u>	<u>(3,247,100)</u>	<u>0</u>	<u>(3,247,100)</u>
Business Type activities:						
Support services:						
Administration	12,410	0	0	0	(12,410)	(12,410)
Non-instructional programs:						
Nutrition services	180,779	92,770	114,295	0	26,286	26,286
Total business type activities	<u>193,189</u>	<u>92,770</u>	<u>114,295</u>	<u>0</u>	<u>13,876</u>	<u>13,876</u>
Total	<u>\$ 4,695,731</u>	<u>579,582</u>	<u>882,925</u>	<u>(3,247,100)</u>	<u>13,876</u>	<u>(3,233,224)</u>
<b>General Revenues:</b>						
Local tax levied for:						
General purposes				\$ 1,236,866	0	1,236,866
Capital outlay				142,614	0	142,614
Debt service				68,928	0	68,928
Income surtax				227,023	0	227,023
Statewide sales and services tax				136,813	0	136,813
Unrestricted state grants				1,564,943	0	1,564,943
Unrestricted investment earnings				12,794	100	12,894
Other general revenues				150,231	0	150,231
Total general revenues				<u>3,540,212</u>	<u>100</u>	<u>3,540,312</u>
Changes in net assets				293,112	13,976	307,088
Net assets beginning of year				2,255,259	34,706	2,289,965
Net assets end of year				<u>\$ 2,548,371</u>	<u>48,682</u>	<u>2,597,053</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2009

	Other Nonmajor Governmental		Total
	General	Funds	
<b>Assets</b>			
Cash and pooled investments	\$ 895,283	616,644	1,511,927
Receivables:			
Property tax:			
Delinquent	16,696	3,097	19,793
Succeeding year	1,180,586	0	1,180,586
Income surtax	121,672	66,367	188,039
Interfund	14,444	0	14,444
Accounts	2,113	1,103	3,216
Due from other governments	231,867	93,039	324,906
<b>Total Assets</b>	<b>\$ 2,462,661</b>	<b>780,250</b>	<b>3,242,911</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Interfund payable	\$ 0	13,131	13,131
Accounts payable	81,394	2,743	84,137
Salaries and benefits payable	353,902	0	353,902
Due from other governments	14,958	0	14,958
Deferred revenue:			
Succeeding year property tax	1,180,586	0	1,180,586
Income surtax	121,672	66,367	188,039
Total liabilities	1,752,512	82,241	1,834,753
Fund balances:			
Reserved for:			
Debt service	0	10,477	10,477
Categorical funding	73,883	0	73,883
Unreserved	636,266	687,532	1,323,798
Total fund balances	710,149	698,009	1,408,158
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,462,661</b>	<b>780,250</b>	<b>3,242,911</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX 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 15)	\$ 1,408,158
<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.	4,396,808
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	188,039
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.	(9,956)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable and compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,434,678)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 2,548,371</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2009

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,314,827	494,092	1,808,919
Tuition	413,829	0	413,829
Other	128,664	85,650	214,314
State sources	2,011,388	70,265	2,081,653
Federal sources	251,920	0	251,920
<b>TOTAL REVENUES</b>	<b>4,120,628</b>	<b>650,007</b>	<b>4,770,635</b>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	1,522,722	25,572	1,548,294
Special	607,413	0	607,413
Other	538,877	79,982	618,859
	<b>2,669,012</b>	<b>105,554</b>	<b>2,774,566</b>
Support services:			
Student	78,757	0	78,757
Instructional staff	237,112	0	237,112
Administration	421,071	3,684	424,755
Operation and maintenance of plant	293,848	20,743	314,591
Transportation	98,884	10,316	109,200
	<b>1,129,672</b>	<b>34,743</b>	<b>1,164,415</b>
Other expenditures:			
Facilities acquisitions	0	26,140	26,140
Long-term debt:			
Principal	0	235,000	235,000
Interest and fiscal charges	0	129,862	129,862
AEA flowthrough	131,964	0	131,964
	<b>131,964</b>	<b>391,002</b>	<b>522,966</b>
<b>TOTAL EXPENDITURES</b>	<b>3,930,648</b>	<b>531,299</b>	<b>4,461,947</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>189,980</b>	<b>118,708</b>	<b>308,688</b>
<b>OTHER FINANCING SOURCES(USES):</b>			
Transfer in	0	146,818	146,818
Transfer out	0	(146,818)	(146,818)
Sale of equipment	21,694	0	21,694
<b>TOTAL OTHER FINANCING SOURCES(USES)</b>	<b>21,694</b>	<b>0</b>	<b>21,694</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>211,674</b>	<b>118,708</b>	<b>330,382</b>
<b>FUND BALANCE BEGINNING OF YEAR</b>	<b>498,475</b>	<b>579,301</b>	<b>1,077,776</b>
<b>FUND BALANCE END OF YEAR</b>	<b>\$ 710,149</b>	<b>698,009</b>	<b>1,408,158</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2009

Net change in fund balances - total governmental funds (page 17) \$ 330,382

*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 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 and depreciation expense in the current year are as follows:

Capital outlay expenditures	\$ 81,065	
Depreciation expense	<u>(360,688)</u>	(279,623)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 3,325

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. 235,000

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		3,228
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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.

800

Changes in net assets of governmental activities (page 14) \$ 293,112

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2009

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 28,335
Accounts receivable	149
Inventories	9,808
Capital assets, net of accumulated depreciation	<u>22,172</u>
<b>Total Assets</b>	<u>60,464</u>
<b>Liabilities</b>	
Interfund payable	1,313
Accounts payable	9,480
Unearned revenue	<u>989</u>
<b>Total Liabilities</b>	<u>11,782</u>
<b>Net Assets</b>	
Invested in capital assets	22,172
Unrestricted	<u>26,510</u>
<b>Total Net Assets</b>	<u>\$ 48,682</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 90,041
Other miscellaneous revenue	2,729
TOTAL OPERATING REVENUES	92,770
OPERATING EXPENSES:	
Support services:	
Administration:	
Salaries	10,886
Benefits	1,524
Non-instructional programs:	
Food service operations:	
Salaries	61,154
Benefits	10,787
Services	1,911
Supplies	103,439
Depreciation	3,488
	180,779
TOTAL OPERATING EXPENSES	193,189
OPERATING LOSS	(100,419)
NON-OPERATING REVENUES:	
State sources	2,491
Federal sources	111,804
Interest income	100
TOTAL NON-OPERATING REVENUES	114,395
Change in net assets	13,976
Net assets beginning of year	34,706
Net assets end of year	\$ 48,682

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2009

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 90,728
Cash received from miscellaneous sources	2,729
Cash payments to employees for services	(84,351)
Cash payments to suppliers for goods or services	(90,375)
Net cash used in operating activities	(81,269)
Cash flows from non-capital financing activities:	
State grants received	2,491
Federal grants received	98,747
Net cash provided by non-capital financing activities	101,238
Cash flows from investing financing activities:	
Interest on investments	100
Net increase in cash and cash equivalents	20,069
Cash and cash equivalents at beginning of year	8,266
Cash and cash equivalents at end of year	\$ 28,335
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (100,419)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	13,232
Depreciation	3,488
Decrease in inventories	638
Increase in accounts receivable	(121)
Increase in accounts payable	1,105
Increase in unearned revenue	808
Net cash used in operating activities	\$ (81,269)

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2009, the District received federal commodities valued at \$13,232.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUND  
JUNE 30, 2009

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$       358
	<u>                  </u>
<b>Liabilities</b>	
Due to other groups	\$       358
	<u>                  </u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2009

(1) **Summary of Significant Accounting Policies**

The Lenox Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. 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 City of Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor and Union 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, Lenox 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 Lenox Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 Adams, Ringgold, Taylor and Union Counties Assessors' 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 support.

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 assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The District reports the following major governmental funds:

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

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition 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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in

nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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 Balances

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, they have a maturity date no longer than three months.

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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 Board 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, machinery 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 repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid 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 receivables and other receivables not collected within sixty days after year end.

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

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

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. 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 Balances - 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, 2009, expenditures in the non-instruction function exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

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

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

	Amortized Cost
Diversified Portfolio	\$ 1,254,375

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

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

**(3) Interfund Receivables/Payables**

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

Receivable Fund	Payable Fund	Amount
General Fund	Nutrition Fund	\$ 1,313
General Fund	Special Revenue, Physical Plant and Equipment Levy	<u>13,131</u>
Total		<u>\$ 14,444</u>

The Nutrition Fund owes the General Fund for expenses paid due to the shortfall in cash flow in the Nutrition Fund.

The Special Revenue Fund, Physical Plant and Equipment Levy owes the General Fund for income surtax.

**(4) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 89,543
Debt Service	Capital Projects	<u>57,275</u>
Total		<u>\$ 146,818</u>

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

The Special Revenue, Physical Plant and Equipment Levy Fund transferred funds to the Debt Service Fund for payment of Capital Loan Note indebtedness.

The Capital Projects Fund transferred funds to the Debt Service Fund for payment on General Obligation Bond indebtedness.

**(5) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,521	0	0	50,521
Total capital assets not being depreciated	50,521	0	0	50,521
Capital assets being depreciated:				
Buildings	5,343,966	0	94,578	5,249,388
Land improvements	0	22,418	0	22,418
Machinery and equipment	664,563	58,647	25,989	697,221
Total capital assets being depreciated	6,008,529	81,065	120,567	5,969,027
Less accumulated depreciation for:				
Buildings	796,654	300,463	94,578	1,002,539
Land improvements	0	1,121	0	1,121
Machinery and equipment	585,965	59,104	25,989	619,080
Total accumulated depreciation	1,382,619	360,688	120,567	1,622,740
Total capital assets being depreciated, net	4,625,910	(279,623)	0	4,346,287
Governmental activities capital assets, net	\$ 4,676,431	(279,623)	0	4,396,808
Business type activities:				
Machinery and equipment	\$ 63,088	0	739	62,349
Less accumulated depreciation	37,428	3,488	739	40,177
Business type activities capital assets, net	\$ 25,660	(3,488)	0	22,172

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 12,190
Other		1,213
Support services:		
Instructional staff		10,801
Transportation		34,900
Unallocated depreciation		<u>301,584</u>
Total governmental activities depreciation expense		<u>\$ 360,688</u>
Business type activities:		
Food services		<u>\$ 3,488</u>

**(6) Long-Term Liabilities**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,235,000	0	160,000	3,075,000	170,000
Capital Loan Notes	410,000	0	75,000	335,000	80,000
Compensated Absences	27,906	24,678	27,906	24,678	24,678
Total	<u>\$ 3,672,906</u>	<u>24,678</u>	<u>262,906</u>	<u>3,434,678</u>	<u>274,678</u>

General Obligation Bonds Payable

Details of the District's June 30, 2009 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2010	4.00 %	\$ 170,000	129,895	299,895
2011	4.00	175,000	123,095	298,095
2012	3.75	180,000	116,095	296,095
2013	3.80	190,000	109,345	299,345
2014	3.90	195,000	102,125	297,125
2015-2019	3.90-4.30	1,100,000	386,400	1,486,400
2020-2023	4.40-4.60	1,065,000	123,820	1,188,820
Total		<u>\$ 3,075,000</u>	<u>1,090,775</u>	<u>4,165,775</u>

Capital Loan Notes Payable

Details of the District's June 30, 2009 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005			
	Interest Rates	Principal	Interest	Total
2010	3.35 %	\$ 80,000	11,742	91,742
2011	3.45	80,000	9,062	89,062
2012	3.55	85,000	6,302	91,302
2013	3.65	90,000	3,285	93,285
Total		\$ 335,000	30,391	365,391

**(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 State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 4.10% of their annual covered salary and the District is required to contribute 6.35% of annual covered payroll for the years ended June 30, 2009, 2008 and 2007. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2009, 2008 and 2007 were \$155,915, \$140,749, and \$124,988, respectively, equal to the required contributions for each year.

**(8) Risk Management**

Lenox 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.

**(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 \$131,964 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) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2009, expenditures in the non-instruction functional area exceeded the budgeted amount.

**(11) Categorical Funding**

The District's ending reserved balances for categorical funding as of June 30, 2009 are broken out by the following projects:

Project	Amount
LEP Weighting	\$ 3,129
Supplimental weighting	10,615
Gifted and talented	7,037
Dropout prevention	38,721
Professional development	5,727
Teacher mentoring	2,040
Core curriculum	6,614
Total reserved for categorical funding	<u>\$ 73,883</u>

**(12) Other Post-employment Benefits (OPEB)**

GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, issued June 2004, will be effective for the District beginning with its year ending June 30, 2010. This Statement establishes standards for the measurement, recognition and display of other post-employment benefits expenses and related liabilities or assets, note disclosures and, if applicable, required supplementary information in the financial reports. The District is in the process of obtaining an actuarial opinion to be in compliance with GASB No. 45.

REQUIRED SUPPLEMENTARY INFORMATION

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LENOX COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2009

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
<b>Revenues:</b>						
Local sources	\$ 2,437,062	92,870	2,529,932	2,295,113	2,295,113	234,819
State sources	2,081,653	2,491	2,084,144	2,183,950	2,183,950	(99,806)
Federal sources	251,920	111,804	363,724	297,000	297,000	66,724
Total revenues	4,770,635	207,165	4,977,800	4,776,063	4,776,063	201,737
<b>Expenditures:</b>						
Instruction	2,774,566	0	2,774,566	3,348,673	3,348,673	574,107
Support services	1,164,415	12,410	1,176,825	1,642,000	1,642,000	465,175
Non-instructional programs	0	180,779	180,779	180,000	180,000	(779)
Other expenditures	522,966	0	522,966	598,800	598,800	75,834
Total expenditures	4,461,947	193,189	4,655,136	5,769,473	5,769,473	1,114,337
Excess(deficiency) of revenues over(under) expenditures	308,688	13,976	322,664	(993,410)	(993,410)	1,316,074
Other financing sources, net	21,694	0	21,694	10,000	10,000	11,694
Excess(deficiency) of revenues and other financing sources over(under) expenditures	330,382	13,976	344,358	(983,410)	(983,410)	1,327,768
Balance beginning of year	1,077,776	34,706	1,112,482	983,410	983,410	129,072
Balance end of year	\$ 1,408,158	48,682	1,456,840	0	0	1,456,840

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX 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 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 Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

OTHER SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2009

	Special Revenue Funds						Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>							
Cash and pooled investments	\$ 147,569	42,240	230,935	420,744	187,367	8,533	616,644
Receivables:							
Property tax:							
Current year delinquent	1,153	0	0	1,153	0	1,944	3,097
Income surtax	0	0	66,367	66,367	0	0	66,367
Accounts	0	0	1,103	1,103	0	0	1,103
Due from other governments	0	0	0	0	93,039	0	93,039
<b>Total Assets</b>	<b>\$ 148,722</b>	<b>42,240</b>	<b>298,405</b>	<b>489,367</b>	<b>280,406</b>	<b>10,477</b>	<b>780,250</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Interfund payable	\$ 0	0	13,131	13,131	0	0	13,131
Accounts payable	0	551	737	1,288	1,455	0	2,743
Deferred revenue:							
Income surtax	0	0	66,367	66,367	0	0	66,367
Total liabilities	0	551	80,235	80,786	1,455	0	82,241
Fund balances:							
Reserved for debt service	0	0	0	0	0	10,477	10,477
Unreserved	148,722	41,689	218,170	408,581	278,951	0	687,532
Total fund balances	148,722	41,689	218,170	408,581	278,951	10,477	698,009
<b>Total Liabilities and Fund Balances</b>	<b>\$ 148,722</b>	<b>42,240</b>	<b>298,405</b>	<b>489,367</b>	<b>280,406</b>	<b>10,477</b>	<b>780,250</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2009

	Special Revenue Funds						Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 79,925	0	142,614	222,539	136,813	134,740	494,092
Other	7,875	73,532	2,350	83,757	1,353	540	85,650
State sources	75	0	72	147	69,991	127	70,265
TOTAL REVENUES	87,875	73,532	145,036	306,443	208,157	135,407	650,007
EXPENDITURES:							
Current:							
Instruction:							
Regular	25,572	0	0	25,572	0	0	25,572
Other	0	79,982	0	79,982	0	0	79,982
Support services:							
Administration	3,684	0	0	3,684	0	0	3,684
Operation and maintenance of plant	20,743	0	0	20,743	0	0	20,743
Student transportation	10,316	0	0	10,316	0	0	10,316
Other expenditures:							
Facilities acquisitions	0	0	24,685	24,685	1,455	0	26,140
Long-term debt:							
Principal	0	0	0	0	0	235,000	235,000
Interest and fiscal charges	0	0	0	0	0	129,862	129,862
TOTAL EXPENDITURES	60,315	79,982	24,685	164,982	1,455	364,862	531,299
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	27,560	(6,450)	120,351	141,461	206,702	(229,455)	118,708
OTHER FINANCING SOURCES (USES):							
Transfer in	0	0	0	0	0	146,818	146,818
Transfer out	0	0	(89,543)	(89,543)	(57,275)	0	(146,818)
TOTAL OTHER FINANCING SOURCES (USES)	0	0	(89,543)	(89,543)	(57,275)	146,818	0
NET CHANGE IN FUND BALANCES	27,560	(6,450)	30,808	51,918	149,427	(82,637)	118,708
FUND BALANCE BEGINNING OF YEAR	121,162	48,139	187,362	356,663	129,524	93,114	579,301
FUND BALANCE END OF YEAR	\$ 148,722	41,689	218,170	408,581	278,951	10,477	698,009

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2009

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<b>Athletics:</b>				
General athletics	\$ (1,619)	4,467	2,848	0
Football	1,295	7,007	8,302	0
Volleyball	0	1,715	1,715	0
Boys Basketball	3,024	2,504	4,370	1,158
Girls Basketball	3,092	2,542	4,293	1,341
Wrestling	1,503	1,279	2,332	450
Boys Track	720	0	684	36
Golf	0	10	10	0
HS Baseball	0	2,613	2,613	0
JH Baseball	75	198	273	0
HS Softball	765	2,392	3,157	0
JH Softball	365	198	563	0
Weight Room	319	430	0	749
Bowling	1,030	0	1,000	30
	<u>10,569</u>	<u>25,355</u>	<u>32,160</u>	<u>3,764</u>
<b>Band/Vocal:</b>				
HS Music	5,455	4,039	2,647	6,847
Uniform Fees	1,796	371	359	1,808
Music Supplies	0	147	147	0
	<u>7,251</u>	<u>4,557</u>	<u>3,153</u>	<u>8,655</u>
<b>Clubs/Organizations:</b>				
Art Club	42	0	0	42
Peer Helpers	74	0	0	74
Football Cheerleaders	237	1,800	1,530	507
Basketball Cheerleaders	890	113	39	964
Wrestling Cheerleaders	328	113	441	0
Student Council	952	2,757	2,187	1,522
National Honor Society	45	0	0	45
Annual Staff	13,540	7,132	7,638	13,034
Drama Club	0	1,012	1,012	0
Explorer's	31	0	0	31
Foreign Language	81	0	0	81
	<u>16,220</u>	<u>12,927</u>	<u>12,847</u>	<u>16,300</u>

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2009

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2006	1,164	0	1,164	0
Class of 2007	4,261	0	4,261	0
Class of 2008	572	0	572	0
Class of 2009	4,546	2,373	6,919	0
Class of 2010	373	17,600	15,207	2,766
Class of 2011	65	105	103	67
Class of 2012	30	41	9	62
Class of 2013	65	109	0	174
	<u>11,076</u>	<u>20,228</u>	<u>28,235</u>	<u>3,069</u>
Elementary Activities:				
Memory Book	505	1,206	1,344	367
Student Council	732	542	571	703
Activities	119	0	0	119
Music	448	276	90	634
	<u>1,804</u>	<u>2,024</u>	<u>2,005</u>	<u>1,823</u>
Miscellaneous:				
Student Pop	727	0	0	727
Misc school-wide	158	7,443	551	7,050
Interest	0	853	853	0
JH Stand	334	0	178	156
Immunizations	0	145	0	145
	<u>1,219</u>	<u>8,441</u>	<u>1,582</u>	<u>8,078</u>
Total	<u>\$ 48,139</u>	<u>73,532</u>	<u>79,982</u>	<u>41,689</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX 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
<b>Assets</b>				
Cash and pooled investments	\$ 1,854	33,174	34,670	358
<b>Liabilities</b>				
Due to other groups	\$ 1,854	33,174	34,670	358

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST SIX YEARS

	Modified Accrual Basis					
	Years Ended June 30,					
	2009	2008	2007	2006	2005	2004
Revenues:						
Local sources:						
Local tax	\$ 1,808,919	1,686,714	1,662,237	1,511,553	1,366,507	1,294,775
Tuition	413,829	280,851	232,997	266,652	281,335	263,624
Other	214,314	195,874	181,662	179,838	174,022	124,466
State sources	2,081,653	1,935,997	1,791,182	1,480,172	1,578,991	1,580,030
Federal sources	251,920	186,369	203,138	234,946	349,950	250,371
<b>Total</b>	<b>\$ 4,770,635</b>	<b>4,285,805</b>	<b>4,071,216</b>	<b>3,673,161</b>	<b>3,750,805</b>	<b>3,513,266</b>
Expenditures:						
Current:						
Instruction:						
Regular	\$ 1,548,294	1,416,919	1,350,985	1,391,226	1,366,276	1,251,328
Special	607,413	540,657	512,822	518,138	783,153	661,963
Other	618,859	607,099	585,730	563,521	265,014	303,544
Support services:						
Student	78,757	74,729	19,286	15,072	19,190	17,791
Instructional staff	237,112	122,746	91,206	92,947	45,215	39,274
Administration	424,755	397,302	372,026	350,216	318,370	316,205
Operation and maintenance of plant	314,591	309,951	279,666	253,494	267,729	232,156
Transportation	109,200	133,060	157,560	94,760	85,670	81,062
Non-instructional programs:						
Food service operations	0	0	0	0	81,063	0
Other expenditures:						
Facilities acquisitions	26,140	54,388	176,067	277,080	3,358,309	950,189
Long-term debt:						
Principal	235,000	225,000	220,000	140,000	100,000	145,715
Interest and fiscal charges	129,862	139,748	149,313	154,835	142,670	137,862
AEA flow-through	131,964	115,808	112,369	105,645	106,450	109,086
<b>Total</b>	<b>\$ 4,461,947</b>	<b>4,137,407</b>	<b>4,027,030</b>	<b>3,956,934</b>	<b>6,939,109</b>	<b>4,246,175</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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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 the  
Lenox 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 Lenox Community School District as of and for the year ended June 30, 2009, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 24, 2010. 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 Lenox 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 Lenox Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox 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 and other 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 Lenox 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 Lenox Community School District's financial statements that is more than inconsequential will not be prevented or detected by Lenox 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 Lenox 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 also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-09 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox 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, 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.

Lenox 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 Lenox 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 Lenox Community School District and other parties to whom Lenox Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lenox Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 24, 2010

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

I-A-09 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District will review the duties of office employees and segregate duties where possible. However, it is unlikely that the District will be able to segregate duties without hiring additional staff.

Conclusion - Response accepted.

I-B-09 Student Activity Fund-Fundraisers- We noted during our audit that the District maintains fundraisers in the Student Activity Fund. All fundraisers are not being approved by the board.

Recommendation- The District should review procedures in place. The board should approve fundraisers.

Response - All fundraisers generating money to be deposited into the Student Activity Fund will be brought in front of the Board for approval. The fundraising request will include the purpose of the fundraiser, how much will be raised, and the time period in which the fundraiser will be conducted.

Conclusion - Response accepted.

I-C-09 Supporting Documents for Payments - We noted during our audit that some invoices for travel reimbursements lacked detailed supporting documentation.

Recommendation - The District must maintain supporting documentation for reimbursement or no reimbursement should be made to individuals. The District should review procedures in place to ensure the proper detailed documentation will be available when reimbursing individuals.

Response - The District will review travel reimbursement procedures and communicate said procedure with employees to ensure all detailed documentation is provided prior to reimbursement.

Conclusion - Response accepted.

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2009

Part II: Other Findings Related to Required Statutory Reporting

II-A-09 Certified Budget - District expenditures for the year ended June 30, 2009, exceeded the amount budgeted in the non-instruction function.

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.

Response - The District will closely monitor all major expenditure categories (including non-instruction function) and amend the budget before expenditures exceed the budget as necessary.

Conclusion - Response accepted.

II-B-09 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

II-D-09 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Barker, Board Member Part owner of Barker Implement Spouse	Supplies and Services Accompanist	\$330 \$910
Joyce Sweeney, Secretary Spouse owns Sweeney Repair	Repairs (per bid)	\$3,200
Paula Horton, Board Secretary Son part owner of Lenox Tire Center	Services (per bid)	\$788
Allen Dukes, Teacher Brother, Leroy Dukes	VB & FB Official	\$220
Erin Maguire, Teacher Owner, M & M Construction	Repairs	\$731
Mark Curtis, Technical Coordinator Owns Curtis Heating & Cooling	Supplies/Repairs	\$3,877

Name, Title and Business Connection	Transaction Description	Amount
Tom Christensen, Coach		
Owns Christensen Sanitation	Garbage Disposal	\$3,074
Brother, Gary Christensen	WR Official	\$120
Brother, Jim Christensen	FB & WR Official	\$200
Karl & Candace Peterson, Teacher		
Son, Alex Peterson	FB & BB Official	\$150
Son, Tyler Peterson	JH BB Official	\$23
Cody Adams, Coach		
Owns Adams Plumbing	Plumbing	\$4,259
Leah Siverly, Aide		
Owner of Siverly Graphix	Supplies and Services	\$469
Mitch Sorensen, Teacher		
Owns S&S Sound Spectrum	DJ Services	\$350

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the board member's spouse and employee's spouse, children and brothers, do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with Erin Maquire, Mike Curtis, Tom Christensen, Leah Siverly, Cody Adams, and Mitch Sorensen do not appear to represent a conflict of interest.

In accordance with Chapter 279.7A of the Code of the Iowa, the above transactions with Todd Barker, does not appear to represent a conflict of interest.

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 ensure that the coverage is adequate for current operations.

II-F-09 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted an instance where the Board minutes were not published timely.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District has, and will continue to submit board minutes for publication in a timely manner. However, the District cannot control when the publication company prints the board minutes.

Conclusion - Response accepted.

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 - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-09 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-09 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-K-09 Statewide Sales and Servicing Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Beginning Balance	\$	0
Statewide sales and service tax revenue		136,813
Expenditures/transfers out:		
School Infrastructure:		
Other improvements		1,455
Debt service for school infrastructure:		
General obligation debt		57,275
		<hr/>
Ending Balance	\$	<u>78,083</u>

Levies reduced as a result of statewide sales and services tax received:

	Per \$1000 of Taxable Valuation	Property Tax Dollars
	<hr/>	<hr/>
Debt service levy	\$ 0.70667	\$ 57,275

- II-L-09 Officials Contracts - We noted during our audit that the Board President was not signing athletic officials contracts for the District. According to Chapter 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts the District enters into to comply with Chapter 291.1 of the Code of Iowa.

Response - The District will have the Board President sign all officials' contract issued after August 2010.

Conclusion - Response accepted.