

IKM COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2010

Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-12
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
Statement of Net Assets	A 14
Statement of Activities	B 15-16
Governmental Fund Financial Statements:	
Balance Sheet	C 17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 18
Statement of Revenues, Expenditures and Changes in Fund Balances	E 19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 20
Proprietary Fund Financial Statements:	
Statement of Net Assets	G 21
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H 22
Statement of Cash Flows	I 23
Notes to Financial Statements	24-34
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	36
Notes to Required Supplementary Information - Budgetary Reporting	37
Schedule of Funding Progress for the Retiree Health Plan	38
	<u>Schedule</u>
Other Supplementary Information:	
Nonmajor Governmental Funds:	
Combining Balance Sheet	1 40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2 41
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3 42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4 43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5 44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	45-46
Schedule of Findings and Responses	47-49

IKM COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2009 Election)

Richard Wiig	President	2011
Dennis Kasparbauer	Vice President	2011
Lynn Berry	Board Member	2011
Judy Erb	Board Member	2009
David Heller	Board Member	2011
Kenny Juhl	Board Member	2009
Brian Miller	Board Member	2009

(After September 2009 Election)

Richard Wiig	President	2011
Dennis Kasparbauer	Vice President	2011
Lynn Berry	Board Member	2011
Judy Erb	Board Member	2013
David Heller	Board Member	2011
Kenny Juhl	Board Member	2013
James Rasmussen	Board Member	2013

School Officials

Jeff Kruse	Superintendent
Mary Heller	District Secretary/Treasurer

Independent Auditor's Report

To the Board of Education of
IKM 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 IKM Community School District, Manilla, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District at June 30, 2010, 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.

As explained in Note 12 to the Financial Statements, the IKM and Manning Community School Districts will merge on July 1, 2011.

In accordance with Government Auditing Standards, we have also issued our reports dated December 28, 2010, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 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 IKM 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 six years ended June 30, 2009, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 28, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

IKM 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, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,179,981 in fiscal 2009 to \$5,005,758 in fiscal 2010, while General Fund expenditures decreased from \$5,438,542 in fiscal 2009 to \$5,239,723 in fiscal 2010. The District's General Fund balance decreased from \$597,275 in fiscal 2009 to \$363,310 in fiscal 2010, a 39% decrease.
- The decrease in General Fund revenues was attributable to shared revenues through whole grade sharing in fiscal 2010 being less than fiscal 2009 and state aid cuts. The decrease in expenditures was due primarily to a decrease whole grade sharing expenses.

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 IKM 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 IKM 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 IKM 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.

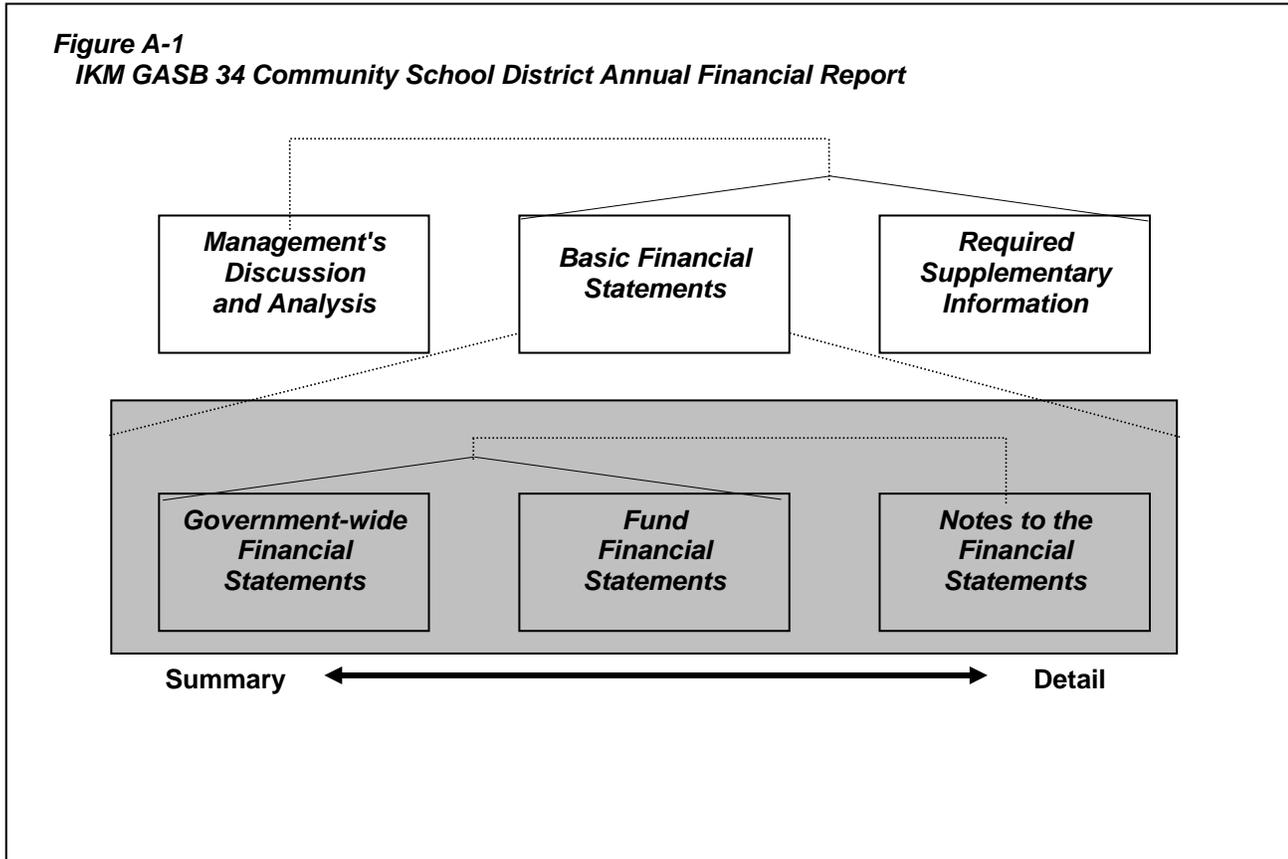


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

- Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

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, 2010 compared to June 30, 2009.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2009-2010 %
	Governmental Activities		Business-type Activities		Total School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,510,796	3,577,240	65,149	75,471	4,575,945	3,652,711	-20.2
Capital assets	2,365,965	2,217,655	7,167	16,546	2,373,132	2,234,201	-5.9
Total assets	6,876,761	5,794,895	72,316	92,017	6,949,077	5,886,912	-15.3
Long-term liabilities	977,165	927,313	0	1,569	977,165	928,880	-4.9
Other liabilities	2,961,075	2,140,060	3,032	2,017	2,964,107	2,142,077	-27.7
Total liabilities	3,938,240	3,067,373	3,032	3,586	3,941,272	3,070,957	-22.1
Net Assets:							
Invested in capital assets, net of related debt	1,495,965	1,482,655	7,167	16,546	1,503,132	1,499,201	-0.3
Restricted	665,860	728,130	0	0	665,860	728,130	9.4
Unrestricted	776,696	516,739	62,117	71,885	838,813	588,624	-29.8
TOTAL NET ASSETS	2,938,521	2,727,524	69,284	88,431	3,007,805	2,815,955	-6.4

The District's combined total net assets decreased by nearly 6.4%, or approximately \$190,000 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 \$60,000 or 9.4% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$250,000, or 29.8%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the years ended June 30, 2009 and 2010.

Figure A-4

	Change in Net Assets						Percentage Change 2009-2010 %
	Governmental Activities		Business-type Activities		Total School District		
	2009 \$	2010 \$	2009 \$	2010 \$	2009 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	1,365,721	1,156,133	94,754	95,991	1,460,475	1,252,124	-14.3
Operating grants & contributions	647,368	794,244	85,690	91,570	733,058	885,814	20.8
Capital grants & contributions	17,636	0	0	0	17,636	0	-100.0
General Revenues:							
Property taxes	1,637,388	1,740,237	0	0	1,637,388	1,740,237	6.3
Income Surtax	224,047	236,624	0	0	224,047	236,624	5.6
Local option sales tax	241,194	262,648	0	0	241,194	262,648	8.9
Unrestricted state grants	1,528,187	1,255,381	0	0	1,528,187	1,255,381	-17.9
Unrestricted investment earnings	22,072	14,892	1,032	386	23,104	15,278	-33.9
Other revenue	33,281	19,045	0	0	33,281	19,045	-42.8
Total Revenues	5,716,894	5,479,204	181,476	187,947	5,898,370	5,667,151	-3.9
Expenses:							
Instruction	4,067,159	3,817,981	0	0	4,067,159	3,817,981	-6.1
Support services	1,522,680	1,533,312	0	0	1,522,680	1,533,312	7.3
Non-instructional programs	165	123	170,711	168,800	170,876	168,923	-1.1
Other expenditures	319,111	338,785	0	0	319,111	338,785	6.2
Total expenses	5,909,115	5,690,201	170,711	168,800	6,079,826	5,859,001	-3.6
CHANGE IN NET ASSETS	(192,221)	(210,997)	10,765	19,147	(181,456)	(191,850)	-5.7
Net assets beginning of year	3,130,742	2,938,521	58,519	69,284	3,189,261	3,007,805	-5.7
Net assets end of year	2,938,521	2,727,524	69,284	88,431	3,007,805	2,815,955	-6.4

In fiscal year 2010 property tax and unrestricted state grants account for 53% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 3.9% decrease in revenues and a 3.6% decrease in expenses. Property tax increased \$100,000 to fund increases in expenses.

Governmental Activities-

Revenues for governmental activities were \$5,479,204 and expenses were \$5,690,201. In a difficult budget year, the District overspent by approximately \$200,000.

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 Cost of Services			Net Cost of Services		
	2009	2010	Change 2009-2010	2009	2010	Change 2009-2010
	\$	\$	\$	\$	\$	\$
Instruction	4,067,159	3,817,981	-249,178	2,299,379	2,035,315	-264,064
Support Services	1,522,680	1,533,312	10,632	1,427,192	1,528,454	101,262
Non-instructional Programs	165	123	-42	165	123	-42
Other Expenses	319,111	338,785	19,674	151,654	175,932	24,278
TOTAL	5,909,115	5,690,201	-218,914	3,878,390	3,739,824	-138,566

For the year ended June 30, 2010

- The cost financed by users of the District's programs was \$1,156,133. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$794,244.
- The net cost of governmental activities was financed with \$2,239,509 in property and local other taxes and \$1,255,381 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$187,947 and expenses were \$168,800. 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.

During the year ended June 30, 2010, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund that the District to help with the replacement of equipment.

INDIVIDUAL FUND ANALYSIS

As previously noted, IKM 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 \$1,241,507, below last year's ending fund balances of \$1,357,888.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. During fiscal year 2010 the State Aid reductions of \$360,000 were only partially offset by Federal revenue increases of \$157,000. This \$203,000 difference required the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from \$597,275 to \$363,310, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from a \$133,703 in fiscal 2009 to \$186,196 in fiscal 2010. While revenues remained approximately the same, the District substantially decreased spending from the PEEL Fund. The fund balance will be used to pay for future equipment acquisitions and capital improvements.
- The Capital Projects Fund balance increased from a fund balance of \$263,197 in fiscal 2009 to \$300,683 in fiscal 2010. The fund balance will be used to pay for future equipment acquisitions and capital improvements.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$69,284 at June 30, 2009 to \$88,431 at June 30, 2010, representing an increase of approximately 28%. For fiscal 2010, the District increased meal prices, resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, IKM Community School District should have amended its annual budget to reflect increased costs in the support services category.

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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2010, the District had invested \$2,234,201, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See Figure A-6) This represents a net decrease of 5.9% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$180,087.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2009-2010 %
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	0	0	10,000	10,000	0
Construction in progress	0	0	0	0	0	0	0
Buildings	2,072,446	1,991,816	0	0	2,072,446	1,991,816	-3.9
Improvements	86,851	99,639	0	0	86,851	99,639	14.7
Equipment & furniture	196,668	116,200	7,167	16,546	203,835	132,746	-34.9
TOTAL	2,365,965	2,217,655	7,167	16,546	2,373,132	2,234,201	-5.9

Long-Term Debt

On June 30, 2010, the District had \$928,880 in general obligation and other long-term debt outstanding. This represents a decrease of 4.9% from last year. (See Figure A-7) Additional information is presented in the audit.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Percentage
	2009	2010	Change
			2009-2010
	\$	\$	
Termination Benefits	107,165	164,075	53.1
Revenue Bonds	870,000	735,000	-15.5
OPEB Liability	0	29,805	0
	<u>977,165</u>	<u>928,880</u>	<u>-4.9</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The across the board cuts had a bearing on the District's cash position.
- Because of auditing requirements to show all revenue and expenses associated with whole grade sharing, both revenue and expense numbers are inflated compared to previous years.
- School financing is highly dependent upon student enrollment. The District's October 2010 enrollment decreased by 24.3 students; this is largely attributable to higher open enrollment out numbers.
- The District has experienced declining enrollment for the past several years and expects this trend to continue.
- The District has approved a plan to begin consolidation with Manning on July 1, 2011.
- Annually the District negotiates a new Master Contract with the IKMEA. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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 Jeff Kruse, District Superintendent, IKM Community School District, 755 Main Street, Manilla, Iowa, 51454.

BASIC FINANCIAL STATEMENTS

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:	1,069,209	69,207	1,138,416
Receivables:			
Property tax:			
Delinquent	62,933	-	62,933
Succeeding year	2,045,556	-	2,045,556
Accounts	-	118	118
Due from other governments	399,542	-	399,542
Inventories	-	6,146	6,146
Capital assets, net of accumulated depreciation	2,217,655	16,546	2,234,201
Total assets	5,794,895	92,017	5,886,912
Liabilities			
Accounts payable	8,370	-	8,370
Due to other governments	65,944	-	65,944
Deferred revenue:			
Succeeding year property tax	2,045,556	-	2,045,556
Other	20,190	2,017	22,207
Portion due within one year:			
Termination benefits	33,918	-	33,918
Portion due after one year:			
Revenue bonds payable	735,000	-	735,000
Termination benefits	130,157	-	130,157
Net OPEB liability	28,236	1,569	29,805
Total liabilities	3,067,371	3,586	3,070,957
Net assets			
Invested in capital assets, net of related debt	1,482,655	16,546	1,499,201
Restricted for:			
Categorical funding	14,008	-	14,008
Management levy	170,766	-	170,766
Physical plant and equipment levy	186,196	-	186,196
Other special revenue purposes	55,143	-	55,143
Sales tax capital projects	300,683	-	300,683
Debt service	1,334	-	1,334
Unrestricted	516,739	71,885	588,624
Total net assets	2,727,524	88,431	2,815,955

See notes to financial statements.

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

	Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular	2,592,843	1,086,105	499,330	-
Special	694,490	44,427	83,171	-
Other	530,648	21,926	47,707	-
	3,817,981	1,152,458	630,208	-
Support services:				
Student	46,975	-	-	-
Instructional staff	228,267	-	-	-
Administration	641,209	-	-	-
Operation and maintenance of plant	361,932	3,675	-	-
Transportation	254,929	-	1,183	-
	1,533,312	3,675	1,183	-
Non-instructional programs	123	-	-	-
Other expenditures:				
Facilities acquisition	3,323	-	-	-
Long-term debt interest	32,983	-	543	-
AEA flowthrough	162,310	-	162,310	-
Depreciation (unallocated)*	140,169	-	-	-
	338,785	-	162,853	-
Total governmental activities	5,690,201	1,156,133	794,244	-
Business type activities:				
Non-instructional programs:				
Food service operations	168,800	95,991	91,570	-
Total	5,859,001	1,252,124	885,814	-
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide 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 expense of the various programs.

<u>Net (Expense) Revenue and Changes in Net</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,007,408)	-	(1,007,408)
(566,892)	-	(566,892)
(461,015)	-	(461,015)
<u>(2,035,315)</u>	<u>-</u>	<u>(2,035,315)</u>
(46,975)	-	(46,975)
(228,267)	-	(228,267)
(641,209)	-	(641,209)
(358,257)	-	(358,257)
(253,746)	-	(253,746)
<u>(1,528,454)</u>	<u>-</u>	<u>(1,528,454)</u>
<u>(123)</u>	<u>-</u>	<u>(123)</u>
(3,323)	-	(3,323)
(32,440)	-	(32,440)
-	-	-
(140,169)	-	(140,169)
<u>(175,932)</u>	<u>-</u>	<u>(175,932)</u>
(3,739,824)	-	(3,739,824)
-	18,761	18,761
<u>(3,739,824)</u>	<u>18,761</u>	<u>(3,721,063)</u>
1,689,370	-	1,689,370
50,867	-	50,867
236,624	-	236,624
262,648	-	262,648
1,255,381	-	1,255,381
14,892	386	15,278
19,045	-	19,045
<u>3,528,827</u>	<u>386</u>	<u>3,529,213</u>
(210,997)	19,147	(191,850)
<u>2,938,521</u>	<u>69,284</u>	<u>3,007,805</u>
<u>2,727,524</u>	<u>88,431</u>	<u>2,815,955</u>

IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments	295,473	773,736	1,069,209
Receivables:			
Property tax:			
Delinquent	59,025	3,908	62,933
Succeeding year	1,976,234	69,322	2,045,556
Due from other governments	298,989	100,553	399,542
Total assets	2,629,721	947,519	3,577,240
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	8,370	-	8,370
Due to other governments	65,944	-	65,944
Deferred revenue:			
Succeeding year property tax	1,976,234	69,322	2,045,556
Income surtax	195,673	-	195,673
Other	20,190	-	20,190
Total liabilities	2,266,411	69,322	2,335,733
Fund balances:			
Reserved for:			
Categorical funding	14,008	-	14,008
Debt service	-	1,334	1,334
Unreserved, reported in:			
General fund	349,302	-	349,302
Special revenue funds	-	576,180	576,180
Capital project fund	-	300,683	300,683
Total fund balances	363,310	878,197	1,241,507
Total liabilities and fund balances	2,629,721	947,519	3,577,240

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2010

\$

Total fund balances of governmental funds (Exhibit C)	1,241,507
<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.	2,217,655
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	195,673
Long-term liabilities, including bonds payable, special termination benefits and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(927,311)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,727,524</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,806,825	428,844	2,235,669
Tuition	163,166	-	163,166
Other	986,788	40,659	1,027,447
State sources	1,688,989	103	1,689,092
Federal sources	359,990	-	359,990
Total revenues	<u>5,005,758</u>	<u>469,606</u>	<u>5,475,364</u>
Expenditures:			
Current:			
Instruction:			
Regular	2,530,680	-	2,530,680
Special	688,738	-	688,738
Other	503,239	23,749	526,988
	<u>3,722,657</u>	<u>23,749</u>	<u>3,746,406</u>
Support services:			
Student	46,452	-	46,452
Instructional staff	194,251	32,970	227,221
Administration	603,136	34,936	638,072
Operation and maintenance of plant	301,410	54,710	356,120
Transportation	209,507	11,701	221,208
	<u>1,354,756</u>	<u>134,317</u>	<u>1,489,073</u>
Non-instructional programs	-	123	123
Other expenditures:			
Facilities acquisition	-	25,850	25,850
Long-term debt:			
Principal	-	135,000	135,000
Interest and fiscal charges	-	32,983	32,983
AEA flowthrough	162,310	-	162,310
	<u>162,310</u>	<u>193,833</u>	<u>356,143</u>
Total expenditures	<u>5,239,723</u>	<u>352,022</u>	<u>5,591,745</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(233,965)</u>	<u>117,584</u>	<u>(116,381)</u>
Other financing sources (uses):			
Operating transfers in	-	167,983	167,983
Operating transfers out	-	(167,983)	(167,983)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>(233,965)</u>	<u>117,584</u>	<u>(116,381)</u>
Fund balances beginning of year	<u>597,275</u>	<u>760,613</u>	<u>1,357,888</u>
Fund balances end of year	<u><u>363,310</u></u>	<u><u>878,197</u></u>	<u><u>1,241,507</u></u>

IKM 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, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(116,381)

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

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

Expenditures for capital assets	29,922	
Depreciation expense	<u>(178,232)</u>	(148,310)

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. 3,840

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. 135,000

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:

Termination benefits	(56,910)	
Other postemployment benefits	<u>(28,236)</u>	<u>(85,146)</u>

Changes in net assets of governmental activities (Exhibit B)		<u><u>(210,997)</u></u>
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IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	69,207
Accounts receivable	118
Inventories	6,146
Capital assets, net of accumulated depreciation	<u>16,546</u>
Total assets	<u>92,017</u>
Liabilities	
Deferred revenue	2,017
Net OPEB liability	<u>1,569</u>
Total liabilities	<u>3,586</u>
Net assets	
Invested in capital assets	16,546
Unrestricted	<u>71,885</u>
Total net assets	<u><u>88,431</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>95,991</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	57,428
Benefits	26,646
Purchased services	513
Supplies	82,286
Depreciation	1,855
Other	72
Total operating expenses	<u>168,800</u>
Operating gain (loss)	<u>(72,809)</u>
Non-operating revenues:	
State sources	1,945
Federal sources	89,625
Interest income	386
Total non-operating revenues	<u>91,956</u>
Change in net assets	19,147
Net assets beginning of year	<u>69,284</u>
Net assets end of year	<u><u>88,431</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	95,562
Cash payments to employees for services	(82,505)
Cash payments to suppliers for goods or services	(69,952)
Net cash used by operating activities	<u>(56,895)</u>
Cash flows from non-capital financing activities:	
State grants received	1,945
Federal grants received	76,695
Net cash provided by non-capital financing activities	<u>78,640</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(11,234)</u>
Cash flows from investing activities:	
Interest on investments	<u>386</u>
Net increase (decrease) in cash and cash equivalents	10,897
Cash and cash equivalents at beginning of year	<u>58,310</u>
Cash and cash equivalents at end of year	<u><u>69,207</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(72,809)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	12,930
Depreciation	1,855
Decrease (increase) in inventories	(11)
Decrease (increase) in accounts receivable	586
(Decrease) increase in deferred revenue	(1,015)
(Decrease) increase in other postemployment benefits	1,569
Net cash used by operating activities	<u><u>(56,895)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$12,930 of federal commodities.

IKM COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

1. Summary of Significant Accounting Policies

IKM 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 Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford and Shelby 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, IKM 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 IKM 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 attributable to the acquisition, construction, or improvement of those assets.

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

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

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

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 fund:

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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 becomes 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, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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 and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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	-
Buildings	2,000
Improvements other than buildings	2,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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	20 years
Intangibles	5-20 years
Furniture and equipment	5-20 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.

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 food service 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 not available for appropriation or legally restricted by outside parties for use for a specific purpose.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the support services area exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2010 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 Statement No. 40.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer To	Transfer From	Amount \$
Nonmajor Governmental Debt Service	Capital Projects Fund	167,983

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. 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. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. N.A. is the trustee for the program.

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. 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. The interest rate on the Series 2009-10A warrants was 2.50%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co., NA prime rate plus 50 basis points with a minimum interest rate of 4.50% A summary of the District's ISCAP activity for the year ended June 30, 2010, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year \$	Advances Received \$	Advances Repaid \$	Balance End of Year \$
2009-10A	6/25/09	6/23/10	-	-	-	-

During the year ended June 30, 2010, the District paid \$1,672 of interest on the ISCAP warrants.

5. Capital Assets

Capital assets activity for the year ended June 30, 2010 was as follows:

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	3,534,760	-	-	3,534,760
Improvements other than buildings	323,043	22,527	-	345,570
Furniture and equipment	869,094	7,395	4,861	871,628
Total capital assets being deprec.	<u>4,726,897</u>	<u>29,922</u>	<u>4,861</u>	<u>4,751,958</u>

Less accumulated depreciation for:				
Buildings	1,462,314	80,630	-	1,542,944
Improvements other than buildings	236,192	9,739	-	245,931
Furniture and equipment	<u>672,426</u>	<u>87,863</u>	<u>4,861</u>	<u>755,428</u>
Total accumulated depreciation	<u>2,370,932</u>	<u>178,232</u>	<u>4,861</u>	<u>2,544,303</u>
Total capital assets being depreciated, net	<u>2,355,965</u>	<u>(148,310)</u>	<u>-</u>	<u>2,207,655</u>
Governmental activities capital assets, net	<u>2,365,965</u>	<u>(148,310)</u>	<u>-</u>	<u>2,217,655</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Business type activities:				
Furniture and equipment	70,673	11,234	-	81,907
Less accumulated depreciation	<u>63,506</u>	<u>1,855</u>	<u>-</u>	<u>65,361</u>
Business type activities capital assets, net	<u>7,167</u>	<u>9,379</u>	<u>-</u>	<u>16,546</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	1,145
Support services:	
Operation and maintenance	3,720
Transportation	<u>33,198</u>
	38,063
Unallocated depreciation	<u>140,169</u>
Total depreciation expense – governmental activities	<u>178,232</u>
Business type activities:	
Food services	<u>1,855</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Governmental activities:					
Revenue bonds	870,000	-	135,000	735,000	-
Termination benefits	107,165	74,675	17,765	164,075	33,918
Net OPEB liability	<u>-</u>	<u>28,236</u>	<u>-</u>	<u>28,236</u>	<u>-</u>
Total	<u>977,165</u>	<u>102,911</u>	<u>152,765</u>	<u>927,311</u>	<u>33,918</u>

Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
\$	\$	\$	\$	\$

Business type activities:

Net OPEB liability	-	1,569	-	1,569	-
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Termination Benefits

The District offered a voluntary early retirement plan to its employees for fiscal years 2010 and 2009. Eligible employees must have completed at least twenty years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which the employee resigned. The application for early retirement is subject to approval by the Board of Education.

The District will pay up to \$6,840 per retiree, per year for single plan health insurance until the retiree reaches age 65.

At June 30, 2010, the District has obligations to six participants with a total liability of \$164,075. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$17,765.

Revenue Bonds

Details of the District's June 30, 2010 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	3.25	-	14,298	14,298
2012	3.45	140,000	26,181	166,181
2013	3.70	140,000	21,176	161,176
2014	3.80	135,000	16,021	151,021
2015	3.90	120,000	11,116	131,116
2016-2019	4.10-4.75	200,000	18,090	218,090
		<u>735,000</u>	<u>106,882</u>	<u>841,882</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,000,000 bonds issued in May 2008. The bonds were issued for the purpose of financing a portion of the costs of a HVAC system. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2019. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 65% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$841,882. For the current year, \$135,000 of principal and \$32,982 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$262,648.

The resolution providing for the issuance of statewide sales, services and use tax revenue bonds include the following provisions:

- Bonds maturing after July 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.

- Starting July 1, 2008 the District shall establish a sinking fund. Money in the sinking account shall be used to pay the interest and principal on the bonds. Monthly payments to the sinking fund shall not be less than the sum of 1/6 of the next interest payment and 1/12 of the next principal payment. The sinking fund is part of the Debt Service Fund.

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 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$175,023, \$185,992 and \$148,724 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 64 active and 4 retired members in the plan. Participants must be age 55 or older at retirement.

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	35,330
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>35,330</u>
Contributions made	5,525
Increase in net OPEB obligation	<u>29,805</u>
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>29,805</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the District contributed \$5,525 to the medical plan. Plan members eligible for benefits did not contribute to the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> \$	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u> \$
June 30, 2010	35,330	15.6%	29,805

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$325,482, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$325,482. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,319,000, and the ratio of the UAAL to covered payroll was 24.7%. As of June 30, 2010, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

Mortality rates are from the 94 Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

9. Risk Management

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

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 \$162,310 for the year ended June 30, 2010, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Categorical Funding

The District's reserved fund balance for categorical funding at June 30, 2010 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Market Factor	61
Educator quality, professional development	534
Mentoring	314
Core Curriculum	13,099
	<u>14,008</u>

12. School District Reorganization

The voters of the IKM and Manning Community School Districts have approved a merger effective July 1, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	3,426,282	96,377	3,522,659	3,657,522	3,657,522	(134,863)
State sources	1,689,092	1,945	1,691,037	2,225,001	2,225,001	(533,964)
Federal sources	359,990	89,625	449,615	375,000	375,000	74,615
Total revenues	<u>5,475,364</u>	<u>187,947</u>	<u>5,663,311</u>	<u>6,257,523</u>	<u>6,257,523</u>	<u>(594,212)</u>
Expenditures/Expenses:						
Instruction	3,746,406	-	3,746,406	4,712,236	4,712,236	965,830
Support services	1,489,073	-	1,489,073	1,481,000	1,481,000	(8,073)
Non-instructional programs	123	168,800	168,923	441,760	441,760	272,837
Other expenditures	356,143	-	356,143	654,078	654,078	297,935
Total expenditures/expenses	<u>5,591,745</u>	<u>168,800</u>	<u>5,760,545</u>	<u>7,289,074</u>	<u>7,289,074</u>	<u>1,528,529</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(116,381)	19,147	(97,234)	(1,031,551)	(1,031,551)	934,317
Balance beginning of year	<u>1,357,888</u>	<u>69,284</u>	<u>1,427,172</u>	<u>1,631,551</u>	<u>1,631,551</u>	<u>(204,379)</u>
Balance end of year	<u>1,241,507</u>	<u>88,431</u>	<u>1,329,938</u>	<u>600,000</u>	<u>600,000</u>	<u>729,938</u>

IKM COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2010

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 function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year ended June 30, 2010.

During the year ended June 30, 2010, expenditures in the support services function exceeded the amount budgeted.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	325,482	325,482	0.0%	1,319,000	24.7%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
	\$	Fund	Equipment	\$	\$	\$
	\$		Levy	\$	\$	\$
Cash and pooled investments	332,604	55,143	184,525	200,130	1,334	773,736
Receivables:						
Property tax:						
Delinquent	2,237	-	1,671	-	-	3,908
Succeeding year	15,000	-	54,322	-	-	69,322
Due from other governments	-	-	-	100,553	-	100,553
Total assets	349,841	55,143	240,518	300,683	1,334	947,519
Liabilities & Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	15,000	-	54,322	-	-	69,322
Fund balances:						
Reserved for debt service	-	-	-	-	1,334	1,334
Unreserved fund balances reported in:						
Special revenue funds	334,841	55,143	186,196	-	-	576,180
Capital project funds	-	-	-	300,683	-	300,683
Total fund balances	334,841	55,143	186,196	300,683	1,334	878,197
Total liabilities and fund balances	349,841	55,143	240,518	300,683	1,334	947,519

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Special Revenue Funds					Total
	Management	Student	Physical	Capital	Debt	
	Levy	Activity	Plant and	Projects	Service	
		Equipment	Sales Tax			
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	115,329	-	50,867	262,648	-	428,844
Other	17,635	19,244	1,596	1,641	543	40,659
State sources	73	-	30	-	-	103
Total revenues	<u>133,037</u>	<u>19,244</u>	<u>52,493</u>	<u>264,289</u>	<u>543</u>	<u>469,606</u>
Expenditures:						
Current:						
Instruction:						
Other instruction	-	23,749	-	-	-	23,749
Support services:						
Instructional staff services	-	-	-	32,970	-	32,970
Administration services	34,936	-	-	-	-	34,936
Operation and maintenance						
of plant services	54,710	-	-	-	-	54,710
Transportation services	11,701	-	-	-	-	11,701
Non-instructional programs	123	-	-	-	-	123
Other expenditures:						
Facilities acquisition	-	-	-	25,850	-	25,850
Long-term debt:						
Principal	-	-	-	-	135,000	135,000
Interest and fiscal charges	-	-	-	-	32,983	32,983
Total expenditures	<u>101,470</u>	<u>23,749</u>	<u>-</u>	<u>58,820</u>	<u>167,983</u>	<u>352,022</u>
Excess (deficiency) of revenues over (under) expenditures	<u>31,567</u>	<u>(4,505)</u>	<u>52,493</u>	<u>205,469</u>	<u>(167,440)</u>	<u>117,584</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	167,983	167,983
Operating transfers out	-	-	-	(167,983)	-	(167,983)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(167,983)</u>	<u>167,983</u>	<u>-</u>
Net change in fund balance	31,567	(4,505)	52,493	37,486	543	117,584
Fund balances beginning of year	<u>303,274</u>	<u>59,648</u>	<u>133,703</u>	<u>263,197</u>	<u>791</u>	<u>760,613</u>
Fund balances end of year	<u><u>334,841</u></u>	<u><u>55,143</u></u>	<u><u>186,196</u></u>	<u><u>300,683</u></u>	<u><u>1,334</u></u>	<u><u>878,197</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	2,624	-	-	-	2,624
Basketball	2,366	-	-	(2,366)	-
Basketball/junior high	-	-	930	930	-
Football/high school	-	-	100	100	-
Football/junior high	-	-	1,705	1,705	-
Track	-	-	100	100	-
Track/junior high	1	315	868	552	-
Volleyball	901	-	-	(901)	-
Volleyball/junior high	4	20	757	733	-
Softball	-	4,214	6,873	2,659	-
Activity tickets	9,782	3,970	258	-	13,494
Concessions	6,271	-	-	(3,877)	2,394
Concessions/junior high	55	3,779	3,218	-	616
Cheerleaders	(1)	-	-	1	-
Baseball	-	5,866	6,230	364	-
Annual	4,949	-	-	-	4,949
Interest	16,297	440	428	-	16,309
Student council-MS	414	634	826	-	222
Student council-HS	2,689	-	-	-	2,689
Student council-Elem.	3,929	6	1,456	-	2,479
Music - instrumental	9,367	-	-	-	9,367
Total	59,648	19,244	23,749	-	55,143

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	-	13,086	13,086	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Other liabilities	-	13,086	13,086	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

IKM COMMUNITY SCHOOL DISTRICT

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

For the Last Seven Years

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$
Revenues:							
Local sources:							
Local tax	2,235,669	2,102,748	1,981,299	1,984,089	1,898,510	1,920,010	2,041,334
Tuition	163,166	256,330	126,279	145,497	110,313	91,920	87,904
Other	1,027,447	1,183,171	313,818	329,962	288,687	295,670	263,884
State sources	1,689,092	2,017,792	2,123,044	2,134,481	2,113,616	2,001,821	1,780,773
Federal sources	359,990	156,972	122,740	143,289	160,543	157,422	186,535
Total revenues	<u>5,475,364</u>	<u>5,717,013</u>	<u>4,667,180</u>	<u>4,737,318</u>	<u>4,571,669</u>	<u>4,466,843</u>	<u>4,360,430</u>
Expenditures:							
Instruction:							
Regular	2,530,680	2,729,454	1,861,318	1,705,167	1,592,528	1,572,871	1,547,521
Special	688,738	750,498	493,932	509,778	601,808	549,380	647,788
Other	526,988	493,096	547,041	528,635	520,292	522,559	331,569
Support services:							
Student	46,452	48,882	42,200	89,785	82,763	78,677	78,592
Instructional staff	227,221	257,301	195,044	203,247	138,029	121,378	99,857
Administration	638,072	569,664	446,782	486,407	514,386	502,319	500,465
Operation and maintenance	356,120	355,743	342,251	331,939	342,241	283,145	274,939
Transportation	221,208	327,703	259,629	284,273	279,743	193,675	186,662
Non-instructional programs	123	165	149	146	142	136	139
Other expenditures:							
Facilities acquisition	25,850	833,635	1,001,361	36,095	164,932	93,299	195,340
Long-term debt:							
Principal	135,000	130,000	2,941	5,881	5,881	5,881	5,881
Interest and other charges	32,983	43,257	-	-	-	-	-
AEA flowthrough	162,310	149,030	144,269	141,863	137,574	136,369	138,188
Total expenditures	<u>5,591,745</u>	<u>6,688,428</u>	<u>5,336,917</u>	<u>4,323,216</u>	<u>4,380,319</u>	<u>4,059,689</u>	<u>4,006,941</u>

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

To the Board of Education of
IKM 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 IKM Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 28, 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 IKM 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 an opinion on the effectiveness of IKM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IKM Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 10-I-A and 10-I-B to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IKM 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 and Responses.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2010 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.

IKM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit IKM 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 IKM Community School District and other parties to whom IKM Community School District may report, and pass-through entities, and 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 IKM 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

December 28, 2010

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-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, preparing and posting general journal adjusting entries, 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 consider methods to increase monitoring procedures to obtain the maximum internal control possible under the circumstances.

District Response: We will continue to review our procedures and implement additional controls where possible

Conclusion: Response accepted.

10-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- 10-II-A Certified Budget: Expenditures for the year ended June 30, 2010, exceeded the amount budgeted in the support services function.
- Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion: Response accepted.
- 10-II-B Questionable Expenditures: 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.
- 10-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.
- 10-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.
- 10-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.
- 10-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 10-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 10-II-H Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 10-II-I 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.
- 10-II-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 10-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2010

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

10-II-L Statewide Sales, Services and Use Tax: No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax revenue are as follows:

	\$	\$
Beginning balance		263,197
Statewide sales, services and use tax		262,648
Interest revenue		1,641
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	25,850	
Equipment	32,970	
Debt service for school infrastructure:		
Revenue debt	<u>167,983</u>	<u>226,803</u>
Ending balance		<u>300,683</u>

The statewide sales, services and use tax revenue received during the year ended June 30, 2010 is equivalent to a reduction in the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
	\$	\$
Debt service Levy	1.10925	167,983
Physical plant and equipment levy	.62511	94,665