

LAKE MILLS COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2010

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Independent Auditor's Report

To the Board of Education of
Lake Mills Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lake Mills Community School District, Lake Mills, Iowa, as of and for the year ended June 30, 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 Lake Mills 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.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2011, on our consideration of Lake Mills Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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 41 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lake Mills Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profits, 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

July 26, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lake Mills Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,343,289 in fiscal 2009 to \$6,401,424 in fiscal 2010, while General Fund expenditures decreased from \$6,194,891 in fiscal 2009 to \$6,161,398 in fiscal 2010. The District's General Fund balance increased from \$499,455 in fiscal 2009 to \$739,481 in fiscal 2010.
- The increase in General Fund revenues was attributable to an increase in federal revenue and property tax and continued significant open enrollment data from Minnesota.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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

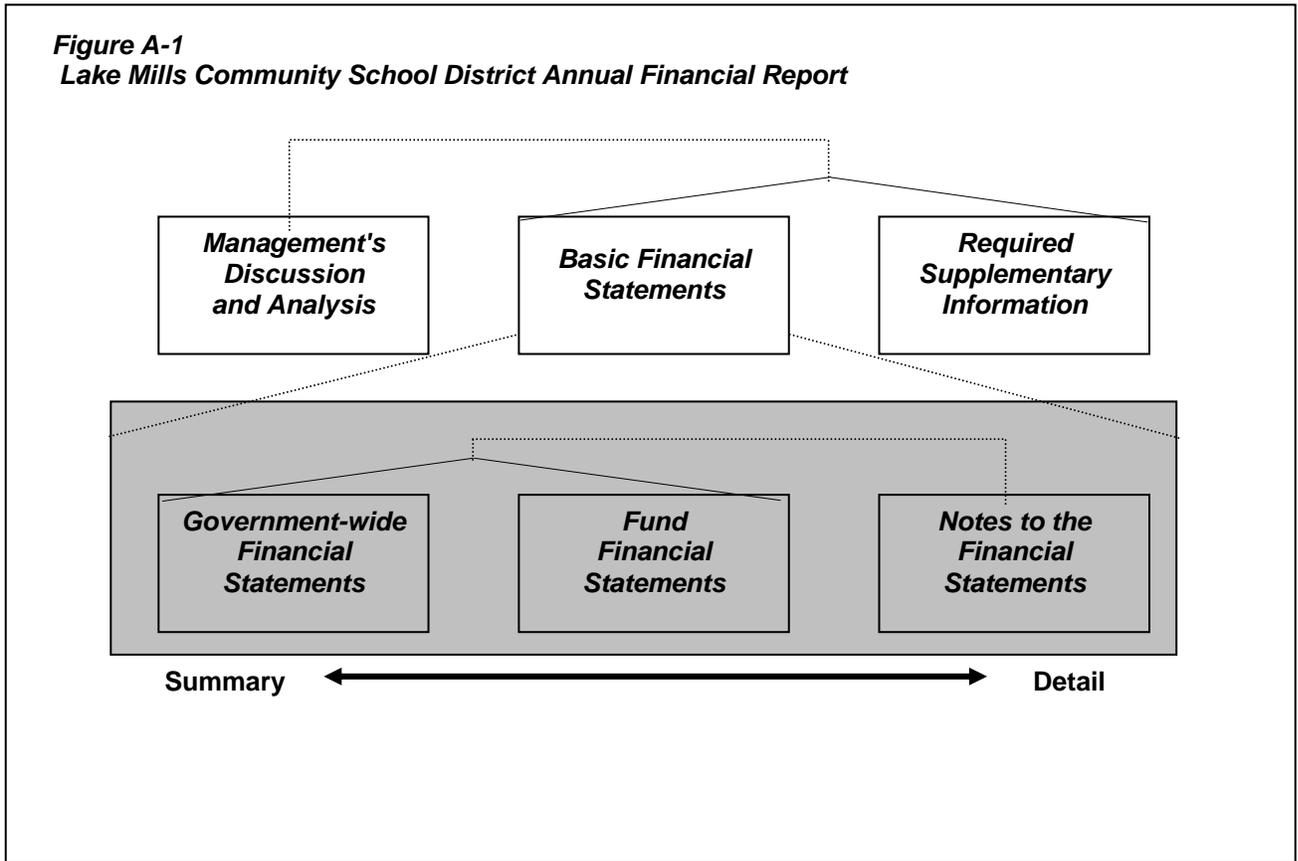


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 Funds.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 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	7,938,324	6,041,504	92,244	107,199	8,030,568	6,148,703	-23%
Capital assets	4,438,926	4,466,843	20,502	15,876	4,459,428	4,482,719	1%
Total assets	12,377,250	10,508,347	112,746	123,075	12,489,996	10,631,422	-15%
Long-term liabilities	3,658,496	3,368,742	-	2,083	3,658,496	3,370,825	-8%
Other liabilities	6,069,019	3,942,964	24,296	26,526	6,093,315	3,969,490	-35%
Total liabilities	9,727,515	7,311,706	24,296	28,609	9,751,811	7,340,315	-25%
Net Assets:							
Invested in capital assets, net of related debt	863,347	1,241,553	20,502	15,876	883,849	1,257,429	42%
Restricted	1,138,930	1,120,736	-	-	1,138,930	1,120,736	-2%
Unrestricted	647,458	834,352	67,948	78,590	715,406	912,942	28%
TOTAL NET ASSETS	2,649,735	3,196,641	88,450	94,466	2,738,185	3,291,107	20%

The District's combined net assets increased 20%, or approximately \$552,922, over the prior year.

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 decreased approximately \$18,194 or 2% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$197,536 or 28%.

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

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	878,598	846,645	192,544	181,246	1,071,142	1,027,891	-4%
Operating grants & contributions	1,093,629	1,543,724	123,856	138,279	1,217,485	1,682,003	38%
Capital grants & contributions and restricted interest	11,339	25,828	-	-	11,339	25,828	128%
General Revenues:							
Property taxes	2,553,671	2,793,819	-	-	2,553,671	2,793,819	9%
Income Surtax	338,880	312,750	-	-	338,880	312,750	-8%
Statewide sales & services tax	369,780	356,821	-	-	369,780	356,821	-4%
Unrestricted state grants	2,309,153	1,715,399	-	-	2,309,153	1,715,399	-26%
Unrestricted investment earnings	72,183	23,722	247	228	72,430	23,950	-67%
Other	-	28,188	-	-	-	28,188	100%
Total Revenues	7,627,233	7,646,896	316,647	319,753	7,943,880	7,966,649	<1%
Expenses:							
Instruction	3,932,217	4,101,823	-	-	3,932,217	4,101,823	4%
Support services	2,454,146	2,268,585	-	-	2,454,146	2,268,585	-8%
Non-instructional programs	-	-	292,264	313,737	292,264	313,737	7%
Other expenditures	734,411	729,582	-	-	734,411	729,582	-1%
Total expenses	7,120,774	7,099,990	292,264	313,737	7,413,038	7,413,727	<1%
CHANGE IN NET ASSETS	506,459	546,906	24,383	6,016	530,842	552,922	4%
Net assets beginning of year	2,143,276	2,649,735	64,067	88,450	2,207,343	2,738,185	24%
Net assets end of year	2,649,735	3,196,641	88,450	94,466	2,738,185	3,291,107	20%

In fiscal year 2010 property tax and unrestricted state grants account for 57% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,646,896 and expenses were \$7,099,990. The District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2009	Total Cost Of Services 2010	Net Cost of Services 2009	Net Cost of Services 2010
	\$	\$	\$	\$
Instruction	3,932,217	4,101,823	2,211,245	2,042,543
Support Services	2,454,146	2,268,585	2,427,500	2,192,316
Non-instructional Programs	-	-	-	-
Other Expenses	734,411	729,582	498,463	448,934
TOTAL	7,120,774	7,099,990	5,137,208	4,683,793

- The cost financed by users of the District’s programs was \$846,645. 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 \$1,543,724.
- The net cost of governmental activities was financed with \$3,463,390 in property and other taxes and \$1,715,399 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$319,753 and expenses were \$313,737. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,823,042 well above last year’s ending fund balances of \$1,611,449.

Governmental Fund Highlights

- The General Fund balance increased from \$499,455 to \$739,481.
- The District’s General Fund financial position is the result of many factors. The increase is from the negotiated salary & benefits settlement and existing expenditures of the district. The District looks at all funding to work hard to remain solvent at year’s end.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$88,450 at June 30, 2009 to \$94,466 at June 30, 2010. This fund stays consistently in good fiscal health.

BUDGETARY HIGHLIGHTS

Total District revenues were 301,484 less than budgeted revenues; a variance of 4%.

Total expenditures were less than budgeted. 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. Our certified budget should always be higher in actual expenditures for the fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$4.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the District's capital assets is presented in Note 7 to the financial statements. Depreciation expense for the year was \$300,451.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2008-2009
	Activities		Activities		School District		
	2009	2010	2009	2010	2009	2010	
	\$	\$	\$	\$	\$	\$	
Land	41,715	41,715	-	-	41,715	41,715	0%
Construction in Progress	20,213	-	-	-	20,213	-	-100%
Buildings	4,012,635	3,875,402	-	-	4,012,635	3,875,402	-3%
Improvements	204,344	342,115	-	-	204,344	342,115	67%
Equipment & Furniture	160,019	207,611	20,502	15,876	180,521	223,487	24%
TOTAL	4,438,926	4,466,843	20,502	15,876	4,459,428	4,482,719	1%

Long-Term Debt

At June 30, 2010, the District had \$3,370,825 in general obligation and other long-term debt outstanding. This represents an increase of approximately 6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Outstanding Long-Term Obligations

	Total School District		Percentage
	2009	2010	Change
	<u>\$</u>	<u>\$</u>	<u>2009-2010</u>
Governmental Activities:			
General Obligation Bonds	2,630,000	2,425,000	-8%
Revenue Bonds	935,000	795,000	-15%
Special Assessment	10,579	5,290	-50%
Termination Benefits	82,917	110,535	33%
Net OPEB Liability	<u>-</u>	<u>32,917</u>	<u>100%</u>
	<u>3,658,496</u>	<u>3,368,742</u>	<u>-8%</u>
Business Type Activities:			
Net OPEB Liability	<u>-</u>	<u>2,083</u>	<u>100%</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:

- We continue to receive more students from Minnesota through Open Enrollment. Currently we have approximately 80 students enrolling from Minnesota. We expect that number to remain steady or increase
- District continues to receive supplemental income on an annual basis from the Worth County Development Authority (WCDA). The money is to be used for specific purposes as outlined by WCDA which are profits from the casino.

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jennifer Fjelstad, Business Manager, Lake Mills Community School, 102 South 4th Avenue East, Lake Mills, IA 50450. Phone Number: 641-592-0881 ext. 2031.

BASIC FINANCIAL STATEMENTS

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,419,523	93,380	2,512,903
Receivables:			
Property tax:			
Delinquent	31,407	-	31,407
Succeeding year	3,108,317	-	3,108,317
Accounts	14,833	22	14,855
Due from other governments	467,424	-	467,424
Inventories	-	13,797	13,797
Capital assets, net of accumulated depreciation	4,466,843	15,876	4,482,719
	<u>10,508,347</u>	<u>123,075</u>	<u>10,631,422</u>
Total assets			
Liabilities			
Accounts payable	188,589	-	188,589
Salaries and benefits payable	589,223	21,173	610,396
Accrued interest payable	30,490	-	30,490
Deferred revenue:			
Succeeding year property tax	3,108,317	-	3,108,317
Other	26,345	5,353	31,698
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	215,000	-	215,000
Revenue bonds payable	145,000	-	145,000
Special assessment	5,290	-	5,290
Termination benefits	76,420	-	76,420
Portion due after one year:			
General obligation bonds payable	2,210,000	-	2,210,000
Revenue bonds payable	650,000	-	650,000
Termination benefits	34,115	-	34,115
Net OPEB liability	32,917	2,083	35,000
	<u>7,311,706</u>	<u>28,609</u>	<u>7,340,315</u>
Total liabilities			

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2010

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,241,553	15,876	1,257,429
Restricted for:			
Categorical funding	53,137	-	53,137
Management levy	31,087	-	31,087
Physical plant and equipment levy	235,624	-	235,624
Other special revenue purposes	174,550	-	174,550
Sales tax capital projects	373,361	-	373,361
Debt service	252,977	-	252,977
Unrestricted	<u>834,352</u>	<u>78,590</u>	<u>912,942</u>
Total net assets	<u><u>3,196,641</u></u>	<u><u>94,466</u></u>	<u><u>3,291,107</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,676,591	595,079	890,149	-
Special	702,439	30,281	254,528	-
Other	722,793	220,764	68,479	-
	<u>4,101,823</u>	<u>846,124</u>	<u>1,213,156</u>	<u>-</u>
Support services:				
Student	367,649	-	75,748	-
Instructional staff	361,102	-	-	-
Administration	680,042	-	-	-
Operation and maintenance of plant	556,781	521	-	-
Transportation	303,011	-	-	-
	<u>2,268,585</u>	<u>521</u>	<u>75,748</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	89,877	-	-	25,828
Long-term debt interest	140,676	-	26	-
AEA flowthrough	254,791	-	254,794	-
Depreciation (unallocated)*	244,238	-	-	-
	<u>729,582</u>	<u>-</u>	<u>254,820</u>	<u>25,828</u>
Total governmental activities	7,099,990	846,645	1,543,724	25,828
Business type activities:				
Non-instructional programs:				
Food service operations	313,737	181,246	138,279	-
Total	<u>7,413,727</u>	<u>1,027,891</u>	<u>1,682,003</u>	<u>25,828</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
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 expenses of the various programs.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,191,363)	-	(1,191,363)
(417,630)	-	(417,630)
(433,550)	-	(433,550)
<u>(2,042,543)</u>	<u>-</u>	<u>(2,042,543)</u>
(291,901)	-	(291,901)
(361,102)	-	(361,102)
(680,042)	-	(680,042)
(556,260)	-	(556,260)
(303,011)	-	(303,011)
<u>(2,192,316)</u>	<u>-</u>	<u>(2,192,316)</u>
(64,049)	-	(64,049)
(140,650)	-	(140,650)
3	-	3
<u>(244,238)</u>	<u>-</u>	<u>(244,238)</u>
<u>(448,934)</u>	<u>-</u>	<u>(448,934)</u>
(4,683,793)	-	(4,683,793)
<u>-</u>	<u>5,788</u>	<u>5,788</u>
<u>(4,683,793)</u>	<u>5,788</u>	<u>(4,678,005)</u>
2,480,045	-	2,480,045
214,668	-	214,668
99,106	-	99,106
312,750	-	312,750
356,821	-	356,821
1,715,399	-	1,715,399
23,722	228	23,950
28,188	-	28,188
<u>5,230,699</u>	<u>228</u>	<u>5,230,927</u>
546,906	6,016	552,922
<u>2,649,735</u>	<u>88,450</u>	<u>2,738,185</u>
<u>3,196,641</u>	<u>94,466</u>	<u>3,291,107</u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2010

Assets	<u>General Fund</u> \$	<u>Capital Projects</u> \$	<u>Nonmajor Governmental</u> \$	<u>Total</u> \$
Cash and pooled investments	1,448,010	525,254	446,259	2,419,523
Receivables:				
Property tax:				
Delinquent	26,480	-	4,927	31,407
Succeeding year	2,529,244	-	579,073	3,108,317
Accounts	6,584	-	-	6,584
Interfund receivable	8,249	2,861	-	11,110
Due from other governments	<u>216,738</u>	<u>125,623</u>	<u>125,063</u>	<u>467,424</u>
Total assets	<u><u>4,235,305</u></u>	<u><u>653,738</u></u>	<u><u>1,155,322</u></u>	<u><u>6,044,365</u></u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	167,226	-	21,363	188,589
Salaries and benefits payable	589,223	-	-	589,223
Interfund payable	2,861	-	-	2,861
Deferred revenue:				
Succeeding year property tax	2,529,244	-	579,073	3,108,317
Income surtax	156,329	-	125,063	281,392
Other	50,941	-	-	50,941
Total liabilities	<u>3,495,824</u>	<u>-</u>	<u>725,499</u>	<u>4,221,323</u>
Fund balances:				
Reserved for:				
Categorical funding	53,137	-	-	53,137
Debt service	-	280,377	3,090	283,467
Unreserved reported in:				
General fund	686,344	-	-	686,344
Special revenue funds	-	-	426,733	426,733
Capital projects funds	-	373,361	-	373,361
Total fund balances	<u>739,481</u>	<u>653,738</u>	<u>429,823</u>	<u>1,823,042</u>
Total liabilities and fund balances	<u><u>4,235,305</u></u>	<u><u>653,738</u></u>	<u><u>1,155,322</u></u>	<u><u>6,044,365</u></u>

LAKE MILLS 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)	1,823,042
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,466,843
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	305,988
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(30,490)
Long-term liabilities, including bonds payable, special termination benefits, special assessments, and other postemployment benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,368,742)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,196,641</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	General Fund	Capital Projects	Nonmajor Governmental	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,479,518	356,821	613,541	3,449,880
Tuition	540,551	-	-	540,551
Other	254,974	1,016	260,036	516,026
State sources	2,384,131	-	256	2,384,387
Federal sources	742,250	-	-	742,250
Total revenues	<u>6,401,424</u>	<u>357,837</u>	<u>873,833</u>	<u>7,633,094</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,534,003	-	100,386	2,634,389
Special	695,356	-	-	695,356
Other	555,650	-	163,464	719,114
	<u>3,785,009</u>	<u>-</u>	<u>263,850</u>	<u>4,048,859</u>
Support services:				
Student	334,269	-	32,130	366,399
Instructional staff	359,852	-	-	359,852
Administration	677,542	-	-	677,542
Operation and maintenance of plant	452,012	-	95,699	547,711
Transportation	297,923	-	59,179	357,102
	<u>2,121,598</u>	<u>-</u>	<u>187,008</u>	<u>2,308,606</u>
Other expenditures:				
Facilities acquisition	-	4,028	310,412	314,440
Long-term debt:				
Principal	-	-	350,289	350,289
Interest and fiscal charges	-	-	144,516	144,516
AEA flowthrough	254,791	-	-	254,791
	<u>254,791</u>	<u>4,028</u>	<u>805,217</u>	<u>1,064,036</u>
Total expenditures	<u>6,161,398</u>	<u>4,028</u>	<u>1,256,075</u>	<u>7,421,501</u>
Excess (deficiency) of revenues over (under) expenditures	<u>240,026</u>	<u>353,809</u>	<u>(382,242)</u>	<u>211,593</u>
Other financing sources (uses):				
Operating transfers in	-	-	273,220	273,220
Operating transfers out	-	(257,138)	(16,082)	(273,220)
Total other financing sources (uses)	<u>-</u>	<u>(257,138)</u>	<u>257,138</u>	<u>-</u>
Net change in fund balances	240,026	96,671	(125,104)	211,593
Fund balances beginning of year	499,455	557,067	554,927	1,611,449
Fund balances end of year	<u>739,481</u>	<u>653,738</u>	<u>429,823</u>	<u>1,823,042</u>

See notes to financial statements.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds to the
Statement of Activities

Year ended June 30, 2010

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		211,593
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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. Capital outlay expenditures exceeded depreciation expense the current year, as follows:		
Expenditures for capital assets	323,742	
Depreciation expense	<u>(295,825)</u>	27,917
Income surtaxes and other receivables 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.		13,802
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.		350,289
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		3,840
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	(27,618)	
Other postemployment benefits	<u>(32,917)</u>	<u>(60,535)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>546,906</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	93,380
Accounts receivable	22
Inventories	13,797
Capital assets, net of accumulated depreciation	<u>15,876</u>
Total assets	<u>123,075</u>
Liabilities	
Salaries and benefits payable	21,173
Deferred revenue	5,353
Net OPEB liability	<u>2,083</u>
Total liabilities	<u>28,609</u>
Net assets	
Invested in capital assets	15,876
Unrestricted	<u>78,590</u>
Total net assets	<u><u>94,466</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>181,246</u>
Operating expenses:	
Non-instructional programs:	
Salaries	118,183
Benefits	46,145
Purchased services	4,622
Supplies	139,808
Depreciation	4,626
Other	353
Total operating expenses	<u>313,737</u>
Operating gain (loss)	<u>(132,491)</u>
Non-operating revenues:	
State sources	3,416
Federal sources	134,863
Interest income	228
Total non-operating revenues	<u>138,507</u>
Net income	6,016
Net assets beginning of year	<u>88,450</u>
Net assets end of year	<u><u>94,466</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2010

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	181,671
Cash payments to employees for services	(160,383)
Cash payments to suppliers for goods or services	(113,024)
Net cash used by operating activities	<u>(91,736)</u>
Cash flows from non-capital financing activities:	
State grants received	3,416
Federal grants received	104,215
Net cash provided by non-capital financing activities	<u>107,631</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>228</u>
Net increase (decrease) in cash and cash equivalents	16,123
Cash and cash equivalents at beginning of year	<u>77,257</u>
Cash and cash equivalents at end of year	<u><u>93,380</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(132,491)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	30,648
Depreciation	4,626
Decrease (increase) in inventories	1,111
Decrease (increase) in accounts receivable	57
(Decrease) increase in salaries and benefits payable	1,862
(Decrease) increase in deferred revenue	368
(Decrease) increase in other postemployment benefits	2,083
Net cash used by operating activities	<u><u>(91,736)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2010, the District received \$30,648 of federal commodities.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2010

	Private Purpose Trust Scholarship <u> </u> \$	<u>Agency</u> \$
Assets		
Cash and pooled investments	244,231	34,829
Liabilities		
Interfund payable	8,249	-
Other payables	<u> -</u>	<u>34,829</u>
Total liabilities	<u>8,249</u>	<u>34,829</u>
Net Assets		
Reserved for scholarships	<u>235,982</u>	<u> -</u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2010

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	4,304
Investment revenue	4,174
Total additions	<u>8,478</u>
Deductions:	
Support services:	
Scholarships awarded	<u>12,711</u>
Change in net assets	(4,233)
Net assets beginning of year	<u>240,215</u>
Net assets end of year	<u><u>235,982</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

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

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

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

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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 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	5,000
Buildings	5,000
Improvements other than buildings	5,000
Intangibles	30,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Intangibles	3-10 years
Furniture and equipment	3-15 years

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

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

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

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

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts 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.

2. Auditor of State of Iowa Special Investigation

On June 17, 2011 the Auditor of State of Iowa issued a report on its special investigation of the Lake Mills Community School District. The report covered the period July 1, 2005 through December 31, 2010. The report identified \$37,560 of improper disbursements for the 2010 fiscal year. \$36,400 of the fiscal year 2010 improper expenditures are included in the General Fund, administration function. The report also identified additional improper disbursements for the other periods covered by the report. A copy of the report is available for review on the State Auditor's web site.

3. 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.

At June 30, 2010, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	\$
Diversified Portfolio	280,377

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

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

4. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Capital Projects Fund	General Fund	2,861
General Fund	Private Purpose Trust Fund	8,961

The General Fund has loaned the private purpose trust fund money for cash flow.

5. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Debt Service	Capital Projects	257,138
Nonmajor Debt Service	Nonmajor Physical Plant and Equipment Levy	6,082
Nonmajor Physical Plant and Equipment Levy	Nonmajor District Support Trust	10,000

These transfers moved revenues from the funds statutorily required to collect the resources to the funds statutorily required to expend the resources.

6. 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 2.5%. The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. N.A. prime rate plus 50 basis points with a minimum interest rate of 4.5% 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	-	-	-	-
2009-10B	2/1/10	1/21/11	-	-	-	-
			-	-	-	-

During the year ended June 30, 2010, the District paid \$13,185 of interest on the ISCAP warrants.

7. 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:				
Construction in progress	20,213	-	20,213	-
Land	41,715	-	-	41,715
Total capital assets not being depr.	61,928	-	20,213	41,715
Capital assets being depreciated:				
Buildings	7,069,333	71,746	-	7,141,079
Improvements other than buildings	382,997	173,030	-	556,027
Furniture and equipment	1,227,675	99,179	86,450	1,240,404
Total capital assets being deprec.	8,680,005	343,955	86,450	8,937,510
Less accumulated depreciation for:				
Buildings	3,056,698	208,979	-	3,265,677
Improvements other than buildings	178,653	35,259	-	213,912
Furniture and equipment	1,067,656	51,587	86,450	1,032,793
Total accumulated depreciation	4,303,007	295,825	86,450	4,512,382
Total capital assets being depreciated, net	4,376,998	48,130	-	4,425,128
Governmental activities capital assets, net	4,438,926	48,130	20,213	4,466,843

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	162,978	-	-	162,978
Less accumulated depreciation	142,476	4,626	-	147,102
Business type activities capital assets, net	20,502	(4,626)	-	15,876

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Other instruction	1,596
Support services:	
Operation and maintenance	7,403
Transportation	42,588
Unallocated depreciation	244,238
Total depreciation expense – governmental activities	295,825
Business type activities:	
Food services	4,626

8. 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
	\$	\$	\$	\$	\$
Governmental activities:					
General obligation bonds	2,630,000	-	205,000	2,425,000	215,000
Revenue Bonds	935,000	-	140,000	795,000	145,000
Special assessment	10,579	-	5,289	5,290	5,290
Termination benefits	82,917	120,022	92,404	110,535	76,420
Net OPEB liability	-	32,917	-	32,917	-
Total	3,658,496	152,939	442,693	3,368,742	441,710
Business type activities:					
Net OPEB liability	-	2,083	-	2,086	-

Termination Benefits

The District offered a voluntary early retirement plan for employees in fiscal year 2009 and 2010. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education and was limited to four applicants per year.

Early retirement benefits are equal to \$1,500 plus 100% of the difference between the salary schedule base and the teacher's position on the current salary schedule.

At June 30, 2010, the District has obligations to six participants with a total liability of \$110,535. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$92,404.

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	4.35	195,000	22,020	217,020
2012	4.35	205,000	13,538	218,538
2013	4.40	105,000	4,620	109,620
		<u>505,000</u>	<u>40,178</u>	<u>545,178</u>

Year Ending June 30,	Bond Issue of March 2006			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	4.10	20,000	78,056	98,056
2012	4.05	20,000	77,236	97,236
2013	4.20	130,000	76,426	206,426
2014	4.20	240,000	70,966	310,966
2015	4.00	235,000	60,886	295,886
2016-2020	4.00-4.05	1,040,000	178,122	1,218,122
2021	4.15	235,000	9,752	244,752
		<u>1,920,000</u>	<u>551,444</u>	<u>2,471,444</u>

Revenue Bonds Payable

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 March 2006			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2011	3.85	145,000	27,817	172,817
2012	3.85	150,000	22,138	172,138
2013	3.85	160,000	16,170	176,170
2014	3.85	165,000	9,914	174,914
2015	3.85	175,000	3,369	178,369
		<u>795,000</u>	<u>79,408</u>	<u>874,408</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,200,000 bonds issued in March 2006. The bonds were issued for the purpose of financing a portion of the costs of a school addition and school renovations. 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 2015. 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 50 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$874,408. For the current year, \$140,000 of principal and \$33,303 of interest were paid on the bonds and total statewide sales, services and use tax revenues were \$356,821.

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

- \$120,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the Capital Projects Fund.
- Proceeds from the statewide sales, services and use tax shall be placed in a revenue account. The District will make monthly transfers from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining in the revenue fund at the end of a quarter may be used for any lawful purpose. The sinking fund is part of the Capital Projects Fund.

Special Assessment Payable

Details of the District’s June 30, 2010 special assessment liability for a year 2000 street improvement is as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	%	\$	\$	\$
2011	7.5	<u>5,290</u>	<u>410</u>	<u>5,700</u>

9. 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 \$247,124, \$241,930 and \$212,076 respectively, equal to the required contributions for each year.

10. 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 94 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through 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	43,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>43,000</u>
Contributions made	<u>8,000</u>
Increase in net OPEB obligation	35,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>35,000</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 \$8,000 to the medical plan. Plan members eligible for benefits contributed \$8,000, or 50% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 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	43,000	19%	35,000

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 \$355,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$355,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$3,040,000, and the ratio of the UAAL to covered payroll was 11.7%. 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 alternative measurement method was used. The actuarial assumptions includes a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, 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.

Projected claim costs of the medical plan are \$10,685 per year for retirees less than age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

11. Risk Management

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

12. 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 \$254,791 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.

13. Lease Commitment

The District entered into a five year contract to lease copiers in fiscal year 2007. The payments the District will make over the next two years are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
2011	\$ 24,060
2012	22,055

14. 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>
	\$
Returning dropout and dropout prevention program	27,172
Teacher salary supplement	7,969
Home school assistance program	3,595
Limited English proficiency	14,359
Other	42
	<u>53,137</u>

REQUIRED SUPPLEMENTARY INFORMATION

LAKE MILLS COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	4,506,457	181,474	4,687,931	4,857,947	4,857,947	(170,016)
State sources	2,384,387	3,416	2,387,803	3,106,642	3,106,642	(718,839)
Federal sources	742,250	134,863	877,113	289,742	289,742	587,371
Total revenues	<u>7,633,094</u>	<u>319,753</u>	<u>7,952,847</u>	<u>8,254,331</u>	<u>8,254,331</u>	<u>(301,484)</u>
Expenditures/Expenses:						
Instruction	4,048,859	-	4,048,859	4,303,000	4,303,000	254,141
Support services	2,308,606	-	2,308,606	2,455,080	2,455,080	146,474
Non-instructional programs	-	313,737	313,737	354,368	354,368	40,631
Other expenditures	1,064,036	-	1,064,036	1,122,845	1,122,845	58,809
Total expenditures/expenses	<u>7,421,501</u>	<u>313,737</u>	<u>7,735,238</u>	<u>8,235,293</u>	<u>8,235,293</u>	<u>500,055</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	211,593	6,016	217,609	19,038	19,038	198,571
Balance beginning of year	<u>1,611,449</u>	<u>88,450</u>	<u>1,699,899</u>	<u>1,574,198</u>	<u>1,574,198</u>	<u>125,701</u>
Balance end of year	<u><u>1,823,042</u></u>	<u><u>94,466</u></u>	<u><u>1,917,508</u></u>	<u><u>1,593,236</u></u>	<u><u>1,593,236</u></u>	<u><u>324,272</u></u>

LAKE MILLS 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. During the year, the District did not amend the budget.

LAKE MILLS

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

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) %
July 1, 2009	-	355,000	355,000	0.0%	3,040,000	11.7%

See Note 10 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

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2010

Assets	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Cash and pooled investments	145,626	175,638	124,108	887	446,259
Receivables:					
Property tax:					
Delinquent	1,707	-	1,017	2,203	4,927
Succeeding year	175,000	-	88,997	315,076	579,073
Due from other governments	-	-	125,063	-	125,063
Total assets	322,333	175,638	339,185	318,166	1,155,322
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	5,711	1,088	14,564	-	21,363
Deferred revenue:					
Succeeding year property tax	175,000	-	88,997	315,076	579,073
Income surtax	-	-	125,063	-	125,063
Total liabilities	180,711	1,088	228,624	315,076	725,499
Fund balances:					
Reserved for debt service	-	-	-	3,090	3,090
Unreserved reported in:					
Special revenue funds	141,622	174,550	110,561	-	426,733
Total fund balances	141,622	174,550	110,561	3,090	429,823
Total liabilities and fund balances	322,333	175,638	339,185	318,166	1,155,322

LAKE MILLS 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	District	Debt	
	Levy	Activity	Plant and	Support	Service	
		Equipment	Trust			
	\$	Fund	Levy	Funds	\$	\$
Revenues:						
Local sources:						
Local tax	150,147	-	248,726	-	214,668	613,541
Other	12,838	221,148	26,024	-	26	260,036
State sources	87	-	53	-	116	256
Total revenues	<u>163,072</u>	<u>221,148</u>	<u>274,803</u>	<u>-</u>	<u>214,810</u>	<u>873,833</u>
Expenditures:						
Current:						
Instruction:						
Regular	100,386	-	-	-	-	100,386
Other	-	163,464	-	-	-	163,464
Support services:						
Student	-	-	-	32,130	-	32,130
Operation and maintenance of plant	95,699	-	-	-	-	95,699
Transportation services	-	-	59,179	-	-	59,179
Other expenditures:						
Facilities acquisition	-	-	310,412	-	-	310,412
Long-term debt:						
Principal	-	-	-	-	350,289	350,289
Interest and fiscal charges	-	-	-	-	144,516	144,516
Total expenditures	<u>196,085</u>	<u>163,464</u>	<u>369,591</u>	<u>32,130</u>	<u>494,805</u>	<u>1,256,075</u>
Excess (deficiency) of revenues over	<u>(33,013)</u>	<u>57,684</u>	<u>(94,788)</u>	<u>(32,130)</u>	<u>(279,995)</u>	<u>(382,242)</u>
Other financing sources (uses):						
Operating transfers in	-	-	10,000	-	263,220	273,220
Operating transfers out	-	-	(6,082)	(10,000)	-	(16,082)
Total other financing sources	<u>-</u>	<u>-</u>	<u>3,918</u>	<u>(10,000)</u>	<u>263,220</u>	<u>257,138</u>
Net changes in fund balances	(33,013)	57,684	(90,870)	(42,130)	(16,775)	(125,104)
Fund balances beginning of year	<u>174,635</u>	<u>116,866</u>	<u>201,431</u>	<u>42,130</u>	<u>19,865</u>	<u>554,927</u>
Fund balances end of year	<u><u>141,622</u></u>	<u><u>174,550</u></u>	<u><u>110,561</u></u>	<u><u>-</u></u>	<u><u>3,090</u></u>	<u><u>429,823</u></u>

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2010

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Boys basketball	(5,821)	-	3,412	-	(9,233)
Football	(15,453)	-	9,118	-	(24,571)
Wrestling	(10,076)	4,868	3,664	-	(8,872)
Baseball	(9,306)	-	4,604	-	(13,910)
Boys golf	(631)	-	210	-	(841)
Boys track	(5,350)	1,270	1,902	-	(5,982)
Girls basketball	(6,058)	-	3,965	-	(10,023)
Girls golf	(659)	760	917	-	(816)
Girls track	(3,345)	1,765	2,289	-	(3,869)
Volleyball	(6,830)	480	4,601	-	(10,951)
Softball	(12,098)	400	3,946	-	(15,644)
Athletics	79,681	87,854	46,110	1,213	122,638
Cross country	(2,025)	-	451	-	(2,476)
Bulldog store	4,930	2,215	2,535	-	4,610
Varsity cheerleaders	(470)	879	2,053	-	(1,644)
FFA	1,117	23,862	23,434	-	1,545
FCCLA	(545)	2,568	1,189	(415)	419
Speech club	1,148	4,443	3,621	(645)	1,325
Science club	479	765	-	-	1,244
Student council	645	2,848	2,081	(289)	1,123
Flag & rifle team	1,194	-	-	-	1,194
Concessions	-	18,332	12,365	(5,967)	-
MS student council	1,101	1,098	584	-	1,615
MS speech	701	765	-	-	1,466
Grade 7 quest	10,039	13,952	12,053	-	11,938
Grade 8-1 quest	207	-	-	-	207
Grade 8-3 quest	-	-	142	-	(142)
Class of 2010	5,027	1,280	2,059	(4,248)	-
Class of 2011	-	2,659	3,388	6,426	5,697
Band fundraising	21,002	13,575	6,945	547	28,179
Band	17,294	20,386	875	-	36,805
Pops concert fund	8,768	1,958	1,457	-	9,269
Musical/school play	4,594	-	35	-	4,559
Jazz band	1,347	194	-	-	1,541
High school annual	8,554	6,067	5,570	-	9,051
Activity fund projects	27,207	5,521	259	3,378	35,847
Interest	3,956	384	-	-	4,340
Beginning accruals	(3,458)	-	(3,458)	-	-
Ending accruals	-	-	1,088	-	(1,088)
Total	116,866	221,148	163,464	-	174,550

LAKE MILLS

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund

Year ended June 30, 2010

		<u>Balance Beginning</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of</u>
		\$	\$	\$	\$
	Assets				
Cash		-	34,829	-	34,829
	Liabilities				
Other payables		-	34,829	-	34,829

LAKE MILLS 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	3,449,880	3,236,331	3,192,046	3,086,085	2,830,933	2,747,426	2,625,919
Tuition	540,551	589,290	563,534	525,921	480,957	455,967	392,806
Other	516,026	587,772	628,369	479,492	543,506	380,958	296,232
Intermediate sources	-	-	-	-	-	-	5,799
State sources	2,384,387	2,961,657	2,922,728	2,884,346	2,712,489	2,646,415	2,672,575
Federal sources	742,250	226,313	97,124	114,999	127,528	120,929	113,951
Total revenues	<u>7,633,094</u>	<u>7,601,363</u>	<u>7,403,801</u>	<u>7,090,843</u>	<u>6,695,413</u>	<u>6,351,695</u>	<u>6,107,282</u>
Expenditures:							
Instruction:							
Regular	2,634,389	2,389,886	2,447,555	2,385,709	2,374,277	2,276,667	2,158,582
Special	695,356	715,387	751,780	689,303	720,367	830,145	826,940
Other	719,114	742,431	768,307	667,442	604,643	653,122	620,634
Support services:							
Student	366,399	274,906	151,390	135,592	226,607	166,909	266,257
Instructional staff	359,852	554,960	420,060	402,589	464,825	267,626	283,036
Administration	677,542	750,791	641,917	666,152	567,807	588,278	624,184
Operation and maintenance	547,711	604,200	640,498	579,160	526,950	386,148	480,169
Transportation	357,102	247,695	258,566	245,947	274,901	240,431	282,799
Central support	-	-	-	-	-	-	1,786
Non-instructional programs	-	-	-	-	32,369	-	3,391
Other expenditures:							
Facilities acquisition	314,440	357,575	504,967	3,248,819	451,646	224,361	129,564
Long-term debt:							
Principal	350,289	335,289	325,289	170,289	155,000	150,289	140,000
Interest and other charges	144,516	157,806	171,868	188,038	57,880	66,720	69,365
AEA flowthrough	254,791	224,556	212,115	209,111	201,214	199,545	204,823
Total expenditures	<u>7,421,501</u>	<u>7,355,482</u>	<u>7,294,312</u>	<u>9,588,151</u>	<u>6,658,486</u>	<u>6,050,241</u>	<u>6,091,530</u>

LAKE MILLS

Schedule of Expenditures of Federal Awards

Year ended June 30, 2010

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures \$</u>
Direct:			
U.S. Department of Education: Safe and Drug Free Schools - National Programs	84.184	FY10	<u>75,748</u>
Subtotal Direct			<u>75,748</u>
Indirect:			
U.S. Department of Agriculture: Iowa Department of Education: School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY10	15,481
National School Lunch Program (non-cash)	10.555	FY10	30,648
National School Lunch Program	10.555	FY10	<u>88,734</u>
			<u>134,863</u>
U.S. Department of Education: Iowa Department of Education: Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY10	47,752
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY10	<u>15,810</u>
			<u>63,562</u>
Improving Teacher Quality State Grants	84.367	FY10	24,596
Grants for State Assessments and Related Activities	84.369	FY10	4,641
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY10	318,347
Area Education Agency #267: Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY10	31,509
ARRA - Special Education Grants to States, Recovery Act	84.391	FY10	<u>86,155</u>
			<u>117,664</u>
Mason City Community School District: Career and Technical Education - Basic Grants to States	84.048	FY10	<u>1,120</u>
Subtotal Indirect			<u>664,793</u>
Total			<u><u>740,541</u></u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake Mills Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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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
Lake Mills Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lake Mills Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated July 26, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lake Mills Community School District's internal control over financial reporting 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 Lake Mills Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lake Mills Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting 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 II of the accompanying Schedule of Findings and Questioned Costs as items 10-II-A through 10-II-H to be material weaknesses.

Compliance and Other Matters

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

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.

Lake Mills Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Lake Mills 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 Lake Mills Community School District and other parties to whom Lake Mills Community School District may report, including federal awarding agencies 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 Lake Mills Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

July 26, 2011

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Independent Auditor's Report on Compliance with Requirements that Could have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Lake Mills Community School District:

Compliance

We have audited Lake Mills Community School District's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Lake Mills Community School District's major federal programs for the year ended June 30, 2010. Lake Mills Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lake Mills Community School District's management. Our responsibility is to express an opinion on Lake Mills Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lake Mills Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lake Mills Community School District's compliance with those requirements.

In our opinion, Lake Mills Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of Lake Mills Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lake Mills Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of

expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lake Mills Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified deficiencies in internal control over compliance we consider to be a material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 10-III-A, 10-III-B, and 10-III-C to be material weaknesses.

Lake Mills Community School District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Lake Mills Community School District's responses and, accordingly, we express no opinion on the responses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Lake Mills Community School District and other parties to whom Lake Mills Community School District may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

July 26, 2011

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Material weaknesses in internal control over the major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.394 – ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
 - Special Education Cluster (IDEA)
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.391 – ARRA - Special Education Grants to States, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lake Mills Community School District did not qualify as a low-risk auditee.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements:

Internal Control Deficiencies:

10-II-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, preparing bank reconciliations, preparing and posting general journal 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 investigate methods to increase monitoring activities 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-II-B Financial Reporting: During the audit, we identified material amounts of state revenues that were misclassified, revenues recorded in the incorrect fund, misstated reserved fund balances, and federal deferred revenues, federal revenues and federal expenditures that were misstated. We noted one PPEL Fund check written for \$5,200, but the invoice amount and the amount posted to the account records was \$1,200. Also bank reconciliations did not match the financial accounting records for the bank account shared by the General, Management, Trust and Agency funds. Adjustments were subsequently made by the District to correct these amounts in the financial statements.

Recommendation: The District should review the chart of accounts required by the Iowa Department of Revenue to ensure that the correct account numbers and funds are being used for all revenues. The District should also review its procedures for identifying state and federal grant expenditures and accounting for federal revenues that have not been spent. All federal and state grant expenditures should be classified to the correct expenditure accounts when incurred. Bank balances should be reconciled to the financial accounting records monthly and any variances should be identified and corrected.

District Response: We will review the required chart of accounts for the correct revenue account numbers. We will also review our procedures for identifying and accounting for state and federal grants. Bank balances will be reconciled monthly.

Conclusion: Response accepted.

10-I-C Bank Reconciliations: One of the main internal controls over the cash balances reported in the accounting records is the preparation of a monthly reconciliation of the bank statements to the cash balances in the financial records. The cash balances in the computer financial accounting records were not reconciled to the bank monthly.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements (continued):

Recommendation: Bank reconciliations should be prepared monthly. Any variances between the bank reconciliation and the cash balances in the financial statements should be investigated and resolved.

District Response: Monthly bank reconciliations will be prepared.

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

10-II-E 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.

10-II-F School Expenditure Supporting Documentation and Board Approval: During our testing of General Fund expenditures we noted a \$212 credit card payment for employee travel that did not have supporting documentation.

Recommendation: All District payments should be supported by detailed invoices, receipts, contracts or other documents prepared by or signed by entities outside of the District. These documents should specify exactly what the District is paying for and the amount to be paid.

District Response: We will obtain supporting documentation for all District expenditures.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part II: Findings Related to the Financial Statements (continued):

Conclusion: Response accepted.

10-II-G Payroll Tax Reporting: There are specific due dates for paying and filing payroll tax reports with the Internal Revenue Service, State of Iowa, IPERS and Iowa Workforce Development. We noted that the District incurred a \$7,220 IRS penalty for the third quarter 2009 Form 941. An additional fee of \$170 was incurred because the penalty was paid with the District's credit card.

Recommendation: The District should develop a time line with the due dates for all federal and state payroll tax payments and reports. The timeline should be reviewed daily to avoid missing due dates. The payroll reporting process should also be monitored by someone other than the person responsible for paying the taxes and preparing the reports.

District Response: We disagreed with the assessment of the penalty and have filed a claim for refund. We will review our procedures for paying the taxes, preparing the reports and monitoring the process.

Conclusion: Response accepted.

10-II-H Special Investigation by the Auditor State of Iowa: On June 17, 2011 the Auditor of State of Iowa issued a report on its special investigation of the Lake Mills Community School District. The report covered the period July 1, 2005 through December 31, 2010. The report identified \$37,560 of improper disbursements for the 2010 fiscal year. \$36,400 of the fiscal year 2010 improper disbursements are included in the General Fund as administration expenditures. The report also identified additional improper disbursements for the other periods covered by the report and included recommended control procedures. Copies of the State Auditor's report were filed with the Iowa Division of Criminal Investigation, the Winnebago County Attorney's Office and the Iowa Attorney General's Office. A copy of the report is available for review on the State Auditor's web site.

Recommendation: The State Auditor's report on its special investigation included recommended control procedures. The recommended controls should be implemented.

District Response: The person responsible for the problems is no longer employed by the District. We will be reviewing the District's control system and implementing new procedures to prevent future problems

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Internal Control Deficiencies:

CFDA Number 84.027: Special Education – Grants to States
CFDA Number 84.391: ARRA – Special Education Grants to States, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through Area Education Agency #267

CFDA Number 84.394: ARRA – State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

10-III-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, preparing bank reconciliations, preparing and posting general journal 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 investigate methods to increase monitoring activities 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-III-B Accounting for Expenditures: ARRA State Fiscal Stabilization and Special Education Cluster program expenditures were not charged directly to specific federal expenditure accounts as the expenditures were incurred. ARRA program expenditures were reclassified to ARRA expenditure accounts at year-end. Also there was no written administrative documentation of the expenditures charged to the ARRA State Fiscal Stabilization and Special Education Cluster programs.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards (continued):

Recommendation: The District should identify and record federal expenditures to specific federal expenditures accounts as the expenditures are incurred and the District should document administrative approval for the expenditures charged to federal programs.

District Response: We will revise our procedures for identifying, recording and documenting ARRA State Fiscal Stabilization and Special Education Cluster grant expenditures.

Conclusion: Response accepted.

10-III-C Reporting: Iowa schools must file quarterly financial reports for ARRA spending with the Iowa Department of Education. Each quarterly report is to show the cumulative ARRA program expenditures for fiscal years 2009, 2010 and 2011. Since the District did not classify ARRA expenditures in the accounting records appropriately, the quarterly reports did not match the quarterly financial accounting records.

Recommendation: All District federal grant financial reports should be prepared from the Districts accounting records. The federal grant financial reports and the related accounting records should have documented administrative approval prior to filing the report.

District Response: We will revise our procedures for filing federal grant financial reports and document administrative approval of federal financial reports.

Conclusion: Response accepted.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

- 10-IV-A Certified Budget: Expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted.
- 10-IV-B Questionable Expenditures: Except as explained in comment 10-II-H, 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-IV-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-IV-D Business Transactions: We noted no transactions between the District and District officials or employees.
- 10-IV-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-IV-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.
- 10-IV-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 10-IV-H Supplementary Weighting: No variances regarding supplementary weighting certified to the Department of Education were noted.
- 10-IV-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-IV-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 10-IV-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

According to administrative rules, "Categorical funding shall not be commingled with other funding. School districts shall use a project code and program code as defined by Uniform Financial Accounting." We noted that during the year some categorical funding expenditures were commingled with other General Fund expenditures, and then were reclassified as categorical spending at the end of the year.

Recommendation: All categorical funding expenditures should be posted to the correct expenditure accounts as the expenditures are incurred.

Response: We have revised our procedures for identifying categorical expenditures so that they will be coded to the correct expenditure.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (continued):

10-IV-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. For the year ended June 30, 2010, the District’s financial activity and other required information for the statewide sales, services and use tax are as follows:

	\$	\$
Beginning balance		557,067
Statewide sales, services and use tax revenue	356,821	
Other revenue	1,016	357,837
Expenditures/transfers out:		
School infrastructure:		
Buildings and building improvements	4,028	
Debt service for school infrastructure:		
General obligation debt	81,469	
Revenue debt	175,669	261,166
Ending balance		653,738

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	1.14772	257,138
Physical plant and equipment levy	.44493	99,683

10-IV-M Financial Condition: The Student Activity Fund has several accounts with deficit balances at June 30, 2010.

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

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

Conclusion: Response accepted.

LAKE MILLS COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting (continued):

10-IV-N Interfund loans: The Iowa Department of Education has issued a Declaratory Order covering interfund loans. The Order states that all loans between funds must be approved by the board of directors, interest must be paid on the interfund loan and the loan must be repaid before the October 1, after each year-end.

We noted that the General Fund owes the Capital Projects Fund \$2,861. This interfund loan has been in place for several years. The Private Purpose Trust Scholarship Fund has a deficit balance in a shared checking account. This deficit cash balance is an interfund loan.

Recommendation: The District should follow the above requirements for all interfund loans.

District Response: We will make the repayments and follow the declaratory order for any future interfund loans.

Conclusion: Response accepted.

0-IV-O Physical Plant and Equipment Levy Fund Expenditures (PPEL): The PPEL property tax levy may be spent to purchase and improve grounds; to construct buildings; to purchase or lease a single unit of equipment or technology exceeding \$500 in value per unit; to repair, remodel improve, or expand buildings; for energy conservation; and to purchase transportation equipment.

The Code of Iowa defines the improvement of grounds to include grading, landscaping, paving, seeding and planting of shrubs and trees; constructing sidewalks, roadways, retaining walls, sewers and storm drains, and installing hydrants; surfacing and soil treatment of athletic fields and tennis courts; exterior lighting, including athletic fields and tennis courts; furnishing and installing flagpoles, gateways, fences and underground storage tanks; demolition work; and special assessments against the school district for public improvements.

We noted that the District used the PPEL Fund to pay \$1,750 for lawn mowing. This does not appear to be allowable from the PPEL Fund.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund. And the General Fund should reimburse the PPEL Fund for this expenditure.

District Response: We will monitor expenditures from the PPEL Fund and make the reimbursement.

Conclusion: Response accepted.