

LAWTON-BRONSON 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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Lawton-Bronson Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2009 Election)</b>		
Kevin Grieme	President	2011
Steve Olson	Vice President	2009
Amy Denney	Board Member	2011
Machele Dunning	Board Member	2009
Paul Roberts	Board Member	2011
<b>Board of Education (After September 2009 Election)</b>		
Kevin Grieme	President	2011
Steve Olson	Vice President	2013
Amy Denney	Board Member	2011
Machele Dunning	Board Member	2013
Paul Roberts	Board Member	2011
<b>School Officials</b>		
Jeffrey Thelander	Superintendent	2010
Kimberly Brouwer	Business Manager/ District Secretary	2010
James Hanks	Attorney	2010

**LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT**

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

**Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Lawton-Bronson Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Lawton-Bronson Community School District, Lawton, 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 the Lawton-Bronson Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 3, 2011 on our consideration of the Lawton-Bronson 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 and Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 48 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lawton-Bronson Community School District's basic financial statements. Another auditor 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 an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 9, 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-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 3, 2011

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

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

### **2010 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$5,513,940 in fiscal 2009 to \$5,065,611 in fiscal 2010, while General Fund expenditures increased from \$5,308,112 in fiscal 2009 to \$5,493,129 in fiscal 2010. The decrease in revenues coupled with the increase in expenditures resulted in a decrease in the District's General Fund balance from a positive balance \$265,657 in fiscal 2009 to a deficit balance of \$161,861 in fiscal 2010.
- The decrease in General Fund revenues was primarily attributable to the reduction of funding received from the state because of the September 25, 2009 ten percent across-the-board cut. The increase in expenditures was due to the increase in expenditures in the instructional function due to increases in salaries and benefits received by District employees.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased as compared to fiscal 2009. At June 30, 2009 the District's solvency ratio was a 3.3% as compared to negative 6.5% at June 30, 2010. The State School Budget Review Committee recommends a solvency ratio between 5% - 10%.

### **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 Lawton-Bronson 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 Lawton-Bronson 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 Lawton-Bronson Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

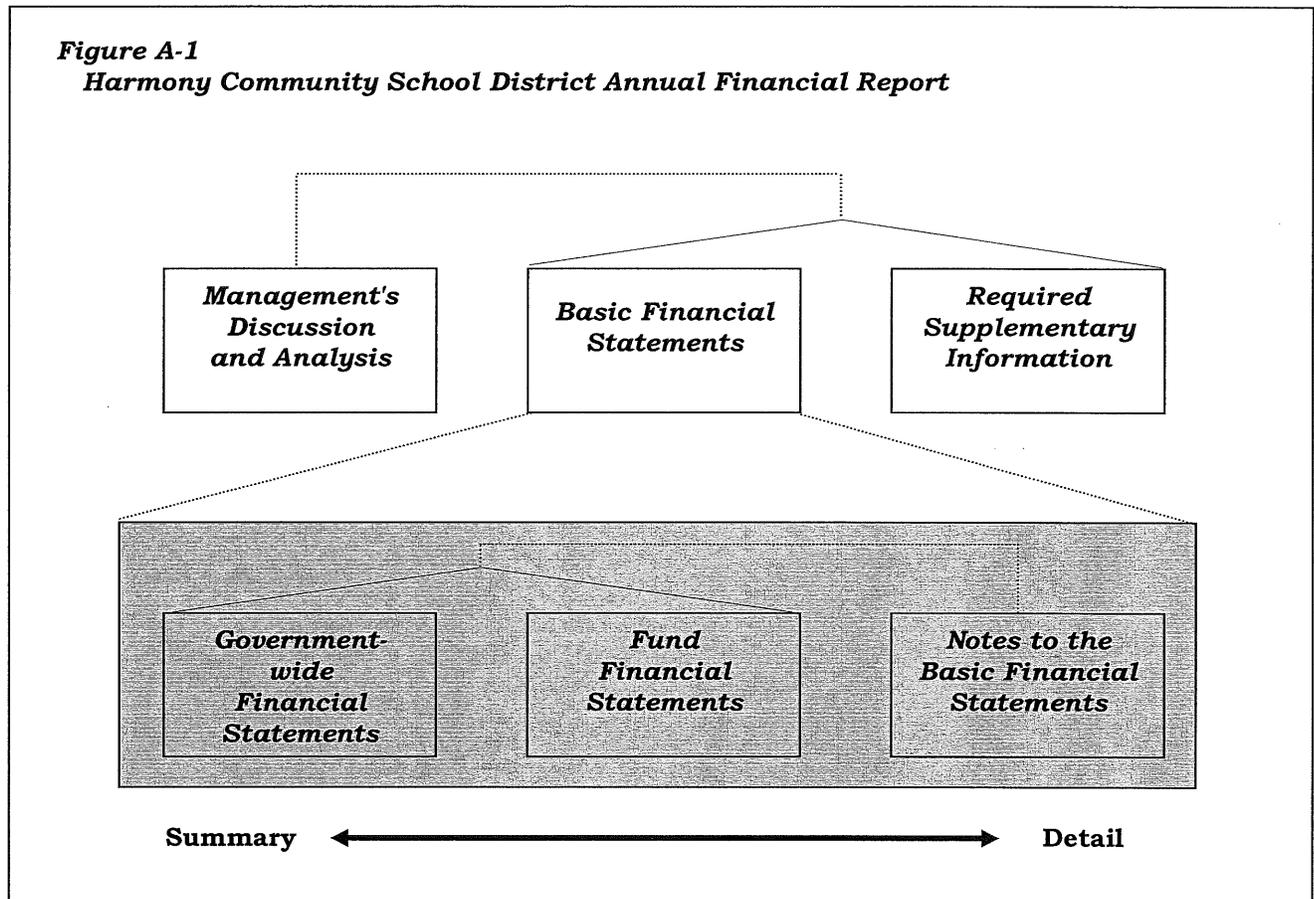


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private Purpose Trust fund.

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

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

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

Reconciliation 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.

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 3,810,456	6,675,424	86,388	17,052	3,896,844	6,692,476	-41.77%
Capital assets	15,084,904	13,764,588	279,889	239,949	15,364,793	14,004,537	9.71%
Total assets	18,895,360	20,440,012	366,277	257,001	19,261,637	20,697,013	-6.94%
Long-term obligations	8,772,376	9,305,804	0	0	8,772,376	9,305,804	-5.73%
Other liabilities	3,256,782	4,215,259	171,220	136,785	3,428,002	4,352,044	-21.23%
Total liabilities	12,029,158	13,521,063	171,220	136,785	12,200,378	13,657,848	-10.67%
Net assets:							
Invested in capital assets, net of related debt	6,449,904	4,634,292	279,889	239,949	6,729,793	4,874,241	38.07%
Restricted	766,297	285,698	0	0	766,297	285,698	168.22%
Unrestricted	(349,999)	1,998,959	(84,832)	(119,733)	(434,831)	1,879,226	-123.14%
Total net assets	\$ 6,866,202	6,918,949	195,057	120,216	7,061,259	7,039,165	0.31%

The District's combined net assets increased by \$22,094 or 0.31% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$480,599 or 168.22% over the prior year. This increase is due primarily to the balance of the statewide sales, services and use tax fund being considered as a restricted fund balance where in previous years it had not been. The increase in fund balance of the Student Activity Fund was also a contributing factor to the increase in restricted net assets.

Unrestricted net assets - the part of net assets that can be used to finance day -to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$2,314,057 or 123.14%. The decrease in unrestricted net assets can be attributed to the decrease in General Fund and Capital Projects fund balances.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

	Figure A-4 Changes in Net Assets						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues & Transfers:							
Program revenues:							
Charges for services	\$ 660,284	721,086	294,687	238,575	954,971	959,661	-0.49%
Operating grants and contributions and restricted interest	1,102,191	855,801	114,013	98,674	1,216,204	954,475	27.42%
Capital grants and contributions and restricted interest	1,925	42,291	0	0	1,925	42,291	-95.45%
General revenues:							
Property tax	2,421,966	2,483,261	0	0	2,421,966	2,483,261	-2.47%
Income surtax	111,218	0	0	0	111,218	0	100.00%
Statewide sales, service and use tax	524,009	488,668	0	0	524,009	488,668	7.23%
Unrestricted state grants	1,861,267	2,355,644	0	0	1,861,267	2,355,644	-20.99%
Other	180,711	183,134	9,446	258	190,157	183,392	3.69%
Transfers	(84,913)	(13,824)	84,913	13,824	0	0	0.00%
Total revenues & transfers	<u>6,778,658</u>	<u>7,116,061</u>	<u>503,059</u>	<u>351,331</u>	<u>7,281,717</u>	<u>7,467,392</u>	<u>-2.49%</u>
Program expenses:							
Governmental activities:							
Instruction	3,919,842	3,890,622	80,285	0	4,000,127	3,890,622	2.81%
Support services	1,777,617	1,948,073	6,212	0	1,783,829	1,948,073	-8.43%
Non-instructional programs	0	0	341,721	352,027	341,721	352,027	-2.93%
Other expenses	1,133,946	628,084	0	0	1,133,946	628,084	80.54%
Total expenses	<u>6,831,405</u>	<u>6,466,779</u>	<u>428,218</u>	<u>352,027</u>	<u>7,259,623</u>	<u>6,818,806</u>	<u>6.46%</u>
Change in net assets	(52,747)	649,282	74,841	(696)	22,094	648,586	96.59%
Net assets beginning of year	<u>6,918,949</u>	<u>6,269,667</u>	<u>120,216</u>	<u>120,912</u>	<u>7,039,165</u>	<u>6,390,579</u>	<u>-10.15%</u>
Net assets end of year	<u>\$ 6,866,202</u>	<u>6,918,949</u>	<u>195,057</u>	<u>120,216</u>	<u>7,061,259</u>	<u>7,039,165</u>	<u>0.31%</u>

In fiscal 2010, operating grants and contributions and restricted interest, local tax and unrestricted state grants account for 88.82% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 81.25% of the revenue from business type activities.

The District's total revenues were \$7.28 million of which approximately \$6.78 million was for governmental activities and approximately \$0.50 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.49% decrease in revenues and a 6.46% increase in expenses. Local tax increased by \$85,264 to fund the increase in expenses.

**Governmental Activities**

Revenues for governmental activities were \$6,778,658 and expenses were \$6,831,405 for the year ended June 30, 2010.

The following table presents the total and net cost of the District’s major governmental activities: instruction, support services and other expenses for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5 Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 3,919,842	3,890,622	0.75%	2,406,226	2,537,008	-5.15%
Support services	1,777,617	1,948,073	-8.75%	1,768,114	1,944,823	-9.09%
Other expenses	1,133,946	628,084	80.54%	892,665	365,770	144.05%
Totals	\$ 6,831,405	6,466,779	5.64%	5,067,005	4,847,601	4.53%

- The cost financed by users of the District’s programs was \$660,284.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,104,116.
- The net cost of governmental activities was financed with \$2,421,966 in property tax, \$111,218 in income surtax, \$524,009 in statewide sales, services and use tax, \$1,861,267 in unrestricted state grants, \$10,154 in interest income and \$85,644 in other general revenues.

**Business Type Activities**

Revenues of the District’s business type activities were \$503,059 net of transfers and expenses were \$428,218. The District’s business type activities include the School Nutrition Fund, the Fitness Center, the Preschool and the Before and After the Bell programs. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$482,667 compared to last year’s ending fund balances of \$2,422,755. The primary reason for the decrease in combined fund balances was due to the decrease in fund balance of the Capital Projects Fund due to the completion of the baseball field project and the elementary addition project.

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## **Governmental Fund Highlights**

- The District's decrease in the General Fund financial position is the result of many factors. The General Fund balance decreased from a positive balance of \$265,657 in fiscal 2009 to a deficit balance of \$161,861 in fiscal 2010. General Fund revenues decreased as a result of the ten percent across-the-board cut enacted by the state during fiscal 2010. The increase in expenditures can be attributed to the increase in salaries and benefits received by District employees.
- The Capital Projects fund balance decreased during the current year, from \$1,832,800 in 2009 to an ending balance of \$513,912 in 2010. The main reason for the decline in Capital Projects Fund balance can be attributed to the completion of elementary building and the baseball field projects.
- The Debt Service Fund balance decreased during the year from a fund balance of \$8,222 in 2009 to a fund balance of \$7,396 in 2010. As compared to the previous year, property tax collections and interest earned decreased slightly.

## **Proprietary Fund Highlights**

- The School Nutrition Fund net assets increased from a deficit balance of \$25,958 at June 30, 2009 to a positive balance of \$63,440 at June 30, 2010, representing an increase of 344.39%. The dramatic increase in fund balance can be attributed to the addition of the new kitchen equipment in the elementary building to the District's fixed asset listing. The School Nutrition Fund received a capital contribution from the Capital Projects Fund of \$84,913.
- The Fitness Center Fund net assets decreased from \$201,312 at June 30, 2009 to \$194,897 at June 30, 2010, representing a decrease of 3.19%. The decrease in fund balance is mainly attributable to depreciation expense taken on the fitness center building and equipment. Fund expenses continue to exceed fund revenues which also contribute to the decrease in fund balance.
- The Preschool Fund net assets decreased from a deficit \$38,242 at June 30, 2009 to a deficit \$46,868 at June 30, 2010, representing a decrease of 22.56%. The District is considering alternative ways for the fund to be self-sustaining.
- The Before and After the Bell Fund net assets increased from a deficit \$16,896 at June 30, 2009 to a deficit \$16,412 at June 30, 2010, representing an increase of 2.86%. The District is also considering alternative ways for the fund to be self-sustaining.

## **BUDGETARY HIGHLIGHTS**

The District's revenues were \$483,888 less than budgeted revenues, a variance of approximately 6.32%. Even though federal source revenue increased in fiscal 2010, a reduction in state resources caused the total amount received to be less than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and non-instruction functional areas due to the timing of expenditures at year end without sufficient time to amend the certified budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2010, the District had invested \$15,364,793, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$669,949.

The original cost of the District's capital assets was \$19,017,714. Governmental funds account for \$18,501,752 with the remainder of \$515,962 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$6,594,104 at June 30, 2009, compared to \$13,929,892 reported at June 30, 2010. The increase in buildings was due to the completion of the elementary building.

Figure A-6  
Capital Assets, net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 283,677	283,677	0	0	283,677	283,677	0.00%
Construction in progress	0	8,318,145	0	0	0	8,318,145	-100.00%
Buildings	13,929,892	4,670,469	0	0	13,929,892	4,670,469	198.25%
Land improvements	437,797	0	0	0	437,797	0	100.00%
Machinery and equipment	433,538	492,297	279,889	239,949	713,427	732,246	-2.57%
Total	\$ 15,084,904	13,764,588	279,889	239,949	15,364,793	14,004,537	9.71%

### Long-Term Debt

At June 30, 2010, the District had long-term debt outstanding of \$8,772,376 in general obligation bonds and other long-term debt outstanding. This represents a 4.96% decrease from the previous year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds payable of \$6,790,000 at June 30, 2010.

The District had outstanding revenue bonds payable of \$1,845,000 at June 30, 2010.

The District also had outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$137,376 at June 30, 2010.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General obligation bonds	\$ 6,790,000	7,040,000	-3.55%
Revenue bonds	1,845,000	2,015,000	-8.44%
Early retirement	137,376	175,508	-21.73%
<b>Total</b>	<b>\$ 8,772,376</b>	<b>9,230,508</b>	<b>-4.96%</b>

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The national recession that has adversely impacted the state of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid (allowable growth) to schools will be based on the condition of the state and national economies. Given the current financial status of the State of Iowa, there is a possibility that the state aid rate will be reduced for the fiscal 2011 year.

### **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 Kimberly Brouwer, District Board Secretary/Treasurer, Lawton-Bronson Community School District, 100 Tara Way, Lawton, Iowa, 51030.

BASIC FINANCIAL STATEMENTS

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 705,745	75,352	781,097
Receivables:			
Property tax:			
Delinquent	33,716	0	33,716
Succeeding year	2,527,265	0	2,527,265
Income surtax	111,218	0	111,218
Interfund	154,180	0	154,180
Accounts	2,933	0	2,933
Due from other governments	250,851	0	250,851
Inventories	0	11,005	11,005
Bond issue costs and discounts	22,634	0	22,634
Capital assets, net of accumulated depreciation	15,084,904	279,889	15,364,793
Net OPEB asset	1,914	31	1,945
<b>TOTAL ASSETS</b>	<b>18,895,360</b>	<b>366,277</b>	<b>19,259,692</b>
<b>LIABILITIES</b>			
Interfund payable	0	150,180	150,180
Accounts payable	145,319	652	145,971
Salaries and benefits payable	519,439	18,207	537,646
Interest payable	64,759	0	64,759
Deferred revenue:			
Succeeding year property tax	2,527,265	0	2,527,265
Unearned revenue	0	2,181	2,181
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	260,000	0	260,000
Revenue bonds payable	175,000	0	175,000
Early retirement payable	31,011	0	31,011
Portion due after one year:			
General obligation bonds payable	6,530,000	0	6,530,000
Revenue bonds payable	1,670,000	0	1,670,000
Early retirement payable	106,365	0	106,365
<b>TOTAL LIABILITIES</b>	<b>12,029,158</b>	<b>171,220</b>	<b>12,200,378</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,449,904	279,889	6,729,793
Restricted for:			
Categorical funding	166,480	0	166,480
Capital projects	513,912	0	513,912
Physical plant & equipment levy	25,864	0	25,864
Debt service	7,396	0	7,396
Other special revenue purposes	52,645	0	52,645
Unrestricted	(349,999)	(84,832)	(434,831)
<b>TOTAL NET ASSETS</b>	<b>\$ 6,866,202</b>	<b>195,057</b>	<b>7,061,259</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 2,670,760	316,534	645,214	0	(1,709,012)	0	(1,709,012)
Special	470,689	36,561	131,685	0	(302,443)	0	(302,443)
Other	778,393	306,517	77,105	0	(394,771)	0	(394,771)
	<u>3,919,842</u>	<u>659,612</u>	<u>854,004</u>	<u>0</u>	<u>(2,406,226)</u>	<u>0</u>	<u>(2,406,226)</u>
Support services:							
Student	152,711	0	0	0	(152,711)	0	(152,711)
Instructional staff	251,054	0	0	0	(251,054)	0	(251,054)
Administration	568,211	0	0	0	(568,211)	0	(568,211)
Operation and maintenance							
of plant	426,189	0	0	0	(426,189)	0	(426,189)
Transportation	379,452	672	8,831	0	(369,949)	0	(369,949)
	<u>1,777,617</u>	<u>672</u>	<u>8,831</u>	<u>0</u>	<u>(1,768,114)</u>	<u>0</u>	<u>(1,768,114)</u>
Other expenditures:							
Facilities acquisitions	3,221	0	0	1,925	(1,296)	0	(1,296)
Long-term debt interest	366,051	0	0	0	(366,051)	0	(366,051)
AEA flowthrough	239,356	0	239,356	0	0	0	0
Depreciation(unallocated)*	525,318	0	0	0	(525,318)	0	(525,318)
	<u>1,133,946</u>	<u>0</u>	<u>239,356</u>	<u>1,925</u>	<u>(892,665)</u>	<u>0</u>	<u>(892,665)</u>
Total governmental activities	6,831,405	660,284	1,102,191	1,925	(5,067,005)	0	(5,067,005)
Business Type activities:							
Instruction:							
Regular	80,285	0	0	0	0	(80,285)	(80,285)
Support services:							
Student	108	0	0	0	0	(108)	(108)
Operation and maintenance							
of plant	6,104	0	0	0	0	(6,104)	(6,104)
Total support services	<u>6,212</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(86,497)</u>	<u>(86,497)</u>
Non-instructional programs:							
Nutrition services	336,759	219,523	112,313	0	0	(4,923)	(4,923)
Fitness Center	4,962	4,755	0	0	0	(207)	(207)
Preschool	0	15,572	0	0	0	15,572	15,572
Before and After the Bell	0	54,837	1,700	0	0	56,537	56,537
Total non-instructional programs:	<u>341,721</u>	<u>294,687</u>	<u>114,013</u>	<u>0</u>	<u>0</u>	<u>66,979</u>	<u>66,979</u>
Total business type activities	<u>428,218</u>	<u>294,687</u>	<u>114,013</u>	<u>0</u>	<u>0</u>	<u>(19,518)</u>	<u>(19,518)</u>
Total	\$ 7,259,623	954,971	1,216,204	1,925	(5,067,005)	(19,518)	(5,086,523)
<b>General Revenues &amp; Transfers:</b>							
General Revenues:							
Property tax levied for:							
General purposes				\$ 1,826,117	0	1,826,117	
Debt service				546,594	0	546,594	
Capital outlay				49,255	0	49,255	
Income surtax				111,218	0	111,218	
Statewide sales, services and use tax				524,009	0	524,009	
Unrestricted state grants				1,861,267	0	1,861,267	
Unrestricted investment earnings				10,154	98	10,252	
Other				170,557	9,348	179,905	
Transfers				(84,913)	84,913	0	
Total general revenues & transfers				<u>5,014,258</u>	<u>94,359</u>	<u>5,108,617</u>	
Changes in net assets				(52,747)	74,841	22,094	
Net assets beginning of year				6,918,949	120,216	7,039,165	
Net assets end of year				<u>\$ 6,866,202</u>	<u>195,057</u>	<u>7,061,259</u>	

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 BALANCE SHEET  
 GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 134,186	441,840	277	140,945	717,248
Receivables:					
Property tax:					
Delinquent	24,038	0	7,847	1,831	33,716
Succeeding year	1,829,996	0	521,949	175,320	2,527,265
Income surtax	111,218	0	0	0	111,218
Interfund	154,470	1,250	12,025	2	167,747
Accounts	2,933	0	0	0	2,933
Due from other governments	174,043	76,808	0	0	250,851
<b>TOTAL ASSETS</b>	<b>\$ 2,430,884</b>	<b>519,898</b>	<b>542,098</b>	<b>318,098</b>	<b>3,810,978</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Excess of warrants issued over bank balance	\$ 0	0	11,503	0	11,503
Interfund payable	11	155	1,250	12,151	13,567
Accounts payable	132,081	5,831	0	7,407	145,319
Salaries and benefits payable	519,439	0	0	0	519,439
Deferred revenue:					
Succeeding year property tax	1,829,996	0	521,949	175,320	2,527,265
Income surtax	111,218	0	0	0	111,218
<b>Total liabilities</b>	<b>2,592,745</b>	<b>5,986</b>	<b>534,702</b>	<b>194,878</b>	<b>3,328,311</b>
Fund balances:					
Reserved for:					
Debt service	0	0	7,396	0	7,396
Categorical funding	166,480	0	0	0	166,480
Unreserved	(328,341)	513,912	0	123,220	308,791
<b>Total fund balances</b>	<b>(161,861)</b>	<b>513,912</b>	<b>7,396</b>	<b>123,220</b>	<b>482,667</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,430,884</b>	<b>519,898</b>	<b>542,098</b>	<b>318,098</b>	<b>3,810,978</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2010

<b>Total fund balances of governmental funds(page 20)</b>	\$ 482,667
 <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.	15,084,904
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(64,759)
Bond issue costs and bond discounts are an expense when incurred in the governmental funds, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.	22,634
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	111,218
Other postemployment benefits are not yet available to finance expenditures of the current fiscal period.	1,914
Long-term liabilities, including bonds payable and early retirement payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,772,376)</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 6,866,202</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2010

	General	Capital Projects	Debt Service	Nonmajor Special Revenue Funds	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 1,749,083	524,009	546,594	126,289	2,945,975
Tuition	333,479	0	0	0	333,479
Other	53,083	137,766	139	351,945	542,933
Intermediate sources	4,229	0	0	0	4,229
State sources	2,468,163	0	0	0	2,468,163
Federal sources	457,574	0	0	0	457,574
Total revenues	<u>5,065,611</u>	<u>661,775</u>	<u>546,733</u>	<u>478,234</u>	<u>6,752,353</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	2,689,733	0	0	11,359	2,701,092
Special	470,689	0	0	0	470,689
Other	480,009	0	0	293,678	773,687
	<u>3,640,431</u>	<u>0</u>	<u>0</u>	<u>305,037</u>	<u>3,945,468</u>
Support services:					
Student	159,227	0	0	0	159,227
Instructional staff	249,372	0	0	0	249,372
Administration	499,537	0	36	72,111	571,684
Operation and maintenance of plant	386,393	0	0	36,105	422,498
Transportation	318,813	0	0	5,858	324,671
	<u>1,613,342</u>	<u>0</u>	<u>36</u>	<u>114,074</u>	<u>1,727,452</u>
Other expenditures:					
Facilities acquisitions	0	1,991,740	0	787	1,992,527
Long-term debt:					
Principal	0	0	420,000	0	420,000
Interest and fiscal charges	0	0	367,638	0	367,638
AEA flowthrough	239,356	0	0	0	239,356
	<u>239,356</u>	<u>1,991,740</u>	<u>787,638</u>	<u>787</u>	<u>3,019,521</u>
Total expenditures	<u>5,493,129</u>	<u>1,991,740</u>	<u>787,674</u>	<u>419,898</u>	<u>8,692,441</u>
Excess (deficiency) of revenues over (under) expenditures	(427,518)	(1,329,965)	(240,941)	58,336	(1,940,088)
Other financing sources (uses):					
Transfer in	0	761,876	240,115	0	1,001,991
Transfer out	0	(750,799)	0	(251,192)	(1,001,991)
Total other financing sources (uses)	<u>0</u>	<u>11,077</u>	<u>240,115</u>	<u>(251,192)</u>	<u>0</u>
Net change in fund balances	(427,518)	(1,318,888)	(826)	(192,856)	(1,940,088)
Fund balance beginning of year	265,657	1,832,800	8,222	316,076	2,422,755
Fund balance end of year	<u>\$ (161,861)</u>	<u>513,912</u>	<u>7,396</u>	<u>123,220</u>	<u>482,667</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON 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 (page 22) \$ (1,940,088)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts for capital outlays, depreciation expense and loss on disposal of assets are as follows:

Capital outlays	\$ 1,946,314	
Depreciation expense	(624,976)	
Loss on disposal of capital assets	<u>(1,022)</u>	1,320,316

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repayments	420,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

2,918

Bond issue costs and bond discounts are reported as expenses in the fund financial statements, but are capitalized and amortized over the life of the bonds for the government-wide financial statements.

(1,331)

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

111,218

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 fund.

Early retirement	\$ 32,306	
Other postemployment benefits	<u>1,914</u>	<u>34,220</u>

Changes in net assets of governmental activities (page 19) \$ (52,747)

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010

	School Nutrition	Fitness Center	Preschool	Before and After the Bell	Total
<b>ASSETS</b>					
Current assets:					
Cash and pooled investments	\$ 44,110	1,412	5,397	24,433	75,352
Inventories	11,005	0	0	0	11,005
Total current assets	55,115	1,412	5,397	24,433	86,357
Non-current assets:					
Capital assets:					
Machinery and equipment, net of accumulated depreciation	86,349	193,540	0	0	279,889
Net OPEB asset	31	0	0	0	31
Total non-current assets	86,380	193,540	0	0	279,920
<b>TOTAL ASSETS</b>	141,495	194,952	5,397	24,433	366,277
<b>LIABILITIES</b>					
Current liabilities:					
Interfund payable	57,567	0	52,265	40,348	150,180
Accounts payable	100	55	0	497	652
Salaries and benefits payable	18,207	0	0	0	18,207
Unearned revenue	2,181	0	0	0	2,181
Total current liabilities	78,055	55	52,265	40,845	171,220
<b>TOTAL LIABILITIES</b>	78,055	55	52,265	40,845	171,220
<b>NET ASSETS</b>					
Invested in capital assets	86,349	193,540	0	0	279,889
Unrestricted	(22,909)	1,357	(46,868)	(16,412)	(84,832)
<b>TOTAL NET ASSETS</b>	\$ 63,440	194,897	(46,868)	(16,412)	195,057

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	School Nutrition	Fitness Center	Preschool	Before and After the Bell	Total
<b>OPERATING REVENUE:</b>					
Local sources:					
Charges for services	\$ 219,523	4,755	15,572	54,837	294,687
Donations	0	0	0	1,700	1,700
Miscellaneous	9,348	0	0	0	9,348
<b>TOTAL OPERATING REVENUES</b>	<b>228,871</b>	<b>4,755</b>	<b>15,572</b>	<b>56,537</b>	<b>305,735</b>
<b>OPERATING EXPENSES:</b>					
Instruction:					
Regular:					
Salaries	0	0	18,689	47,802	66,491
Benefits	0	0	5,515	6,769	12,284
Supplies	0	0	0	1,139	1,139
Other	0	0	0	371	371
Total instruction	0	0	24,204	56,081	80,285
Support services:					
Student:					
Supplies	0	108	0	0	108
Operation and maintenance of plant:					
Services	0	1,591	0	0	1,591
Supplies	0	4,513	0	0	4,513
	0	6,104	0	0	6,104
Total support services	0	6,212	0	0	6,212
Non-instructional programs:					
Food service operations:					
Salaries	102,195	0	0	0	102,195
Benefits	21,452	0	0	0	21,452
Services	3,917	0	0	0	3,917
Supplies	167,471	0	0	0	167,471
Depreciation	40,011	4,962	0	0	44,973
Other	1,713	0	0	0	1,713
Total non-instructional programs	336,759	4,962	0	0	341,721
<b>TOTAL OPERATING EXPENSES</b>	<b>336,759</b>	<b>11,174</b>	<b>24,204</b>	<b>56,081</b>	<b>428,218</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(107,888)</b>	<b>(6,419)</b>	<b>(8,632)</b>	<b>456</b>	<b>(122,483)</b>
<b>NON-OPERATING REVENUES:</b>					
State sources	2,978	0	0	0	2,978
Federal sources	109,335	0	0	0	109,335
Interest income	60	4	6	28	98
<b>TOTAL NON-OPERATING REVENUES</b>	<b>112,373</b>	<b>4</b>	<b>6</b>	<b>28</b>	<b>112,411</b>
Change in net assets before other financing sources	4,485	(6,415)	(8,626)	484	(10,072)
<b>OTHER FINANCING SOURCES:</b>					
Capital contributions	84,913	0	0	0	84,913
Change in net assets	89,398	(6,415)	(8,626)	484	74,841
Net assets beginning of year	(25,958)	201,312	(38,242)	(16,896)	120,216
Net assets end of year	\$ 63,440	194,897	(46,868)	(16,412)	195,057

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2010

	School Nutrition	Community Education	Preschool	Before and After the Bell	Total
Cash flows from operating activities:					
Cash received from charges for services	\$ 217,851	4,755	15,572	54,837	293,015
Cash received from miscellaneous operating activities	9,348	0	0	1,700	11,048
Cash payments to employees for services	(122,674)	0	(24,204)	(54,571)	(201,449)
Cash payments to suppliers for goods or services	(134,306)	(10,870)	0	(1,045)	(146,221)
Net cash provided by(used in) operating activities	(29,781)	(6,115)	(8,632)	921	(43,607)
Cash flows from non-capital financing activities:					
Borrowings/Repayments to other funds	(269)	3,238	13,772	23,933	40,674
State grants received	2,978	0	0	0	2,978
Federal grants received	67,919	0	0	0	67,919
Net cash provided by non-capital financing activities	70,628	3,238	13,772	23,933	111,571
Cash flows from investing activities:					
Interest on investment	60	4	6	28	98
Net increase(decrease) in cash and cash equivalents	40,907	(2,873)	5,146	24,882	68,062
Cash and cash equivalents at beginning of year	3,203	4,285	251	(449)	7,290
Cash and cash equivalents at end of year	\$ 44,110	1,412	5,397	24,433	75,352
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:					
Operating income(loss)	\$ (107,888)	(6,419)	(8,632)	456	(122,483)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:					
Commodities consumed	41,416	0	0	0	41,416
Depreciation	40,011	4,962	0	0	44,973
Increase in inventories	(2,280)	0	0	0	(2,280)
(Decrease)Increase in accounts payable	(341)	(4,658)	0	465	(4,534)
Increase in salaries and benefits payable	1,004	0	0	0	1,004
Decrease in unearned revenues	(1,672)	0	0	0	(1,672)
Decrease in other postemployment benefits	(31)	0	0	0	(31)
Net cash provided by(used in) operating activities	\$ (29,781)	(6,115)	(8,632)	921	(43,607)

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

During the year ended June 30, 2010, the District received Federal commodities valued at \$41,416.

During the year ended June 30, 2010, the Nutrition Fund received contributed capital from the Capital Projects Fund valued at \$84,913.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 JUNE 30, 2010

	Private Purpose Trust	Scholarship
ASSETS		
Cash and pooled investments	\$ 111,226	
LIABILITIES		
Interfund payable		4,000
NET ASSETS		
Reserved for scholarships	32,212	
Unreserved		75,014
TOTAL NET ASSETS	\$ 107,226	

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUND  
 YEAR ENDED JUNE 30, 2010

	Private Purpose Trust
	Scholarship
ADDITIONS:	
Interest income	\$ 1,283
Contributions	71,314
TOTAL ADDITIONS	<u>72,597</u>
DEDUCTIONS:	
Scholarships awarded	<u>4,000</u>
Change in net assets	68,597
Net assets beginning of year	<u>38,629</u>
Net assets end of year	<u>\$ 107,226</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2010

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

The Lawton-Bronson Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Lawton and Bronson, Iowa, and the predominate agricultural territory in Woodbury County. 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, Lawton-Bronson 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 Lawton-Bronson Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Woodbury 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 support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following major proprietary fund:

The District's major 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 the three following non-major proprietary funds:

The District's Fitness Center Fund is used to account for health services provided to employees by the District. The District's Preschool Fund is used to account for the preschool operations of the District. The Before and After the Bell Fund is used to account for the daycare operations of the District.

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net

assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Balances

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.

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

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

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

Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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, machinery and equipment and intangibles, are reported in the applicable business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 + years
Machinery and equipment	5-12 years

Salaries and benefits payable - Payroll and related expenditures for contracts corresponding to the current school year, which is 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 receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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 Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,510 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

**(3) Due From and Due to Other Funds**

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

Receivable Fund	Payable Fund	Amount
General	Nutrition	\$ 57,567
General	Student Activity	136
General	Statewide Sales, Services and Use Tax	155
General	Before and After the Bell	40,348
General	Preschool	52,265
General	Private-Purpose Trust	4,000
Statewide Sales, Services and Use Tax	Debt Service	1,250
Management Levy	General	1
Physical Plant & Equipment Levy	General	1
Debt Service	General	9
Debt Service	Management Levy	12,015
Total		<u>\$ 167,747</u>

The Nutrition Fund is repaying the General Fund for salaries and benefits paid in prior fiscal years.

The Student Activity Fund is repaying the General Fund for a Student Activity Fund invoice that was inadvertently paid from General Fund.

The Statewide Sales, Services and Use Tax Fund is repaying the General Fund for a prior year invoice that was inadvertently paid from the wrong fund.

The Before and After the Bell Fund is repaying the General Fund for salaries and benefits paid in prior fiscal years.

The Preschool Fund is repaying the General Fund for salaries and benefits paid in prior fiscal years.

The Private-Purpose Trust Fund is repaying the General Fund for scholarships paid by the General Fund at year end that should have been paid by the Private-Purpose Trust Fund.

The Debt Service Fund is repaying the Statewide Sales, Services and Use Tax Fund for the excess amount that was transferred and not needed to make the District's bond payments.

The General Fund is repaying the Management Levy Fund, the Physical Plant and Equipment Levy Fund and the Debt Service Fund for property tax monies that were not placed in the proper fund.

The Management Levy Fund is repaying the Debt Service Fund for property tax money that was not placed in the proper fund.

**(4) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Statewide Sales, Services and Use Tax	\$ 240,115
Statewide Sales, Service and Use Tax	Student Activity	31,192
Elementary Building	Statewide Sales, Services and Use Tax	510,684
Elementary Building	Physical Plant & Equipment Levy	220,000
Total		<u>\$ 1,001,991</u>

The transfer from the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed to make principal and interest payments on the District's revenue bond indebtedness.

The transfer from the Student Activity Fund to the Statewide Sales, Services and Use Tax Fund was needed to move money that was raised for playground equipment.

The transfer from the Statewide, Sales Services and Use Tax Fund and the Physical Plant and Equipment Levy Fund to the Elementary Building Fund was needed to pay for construction costs for the new elementary addition.

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA 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 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the 2009-10A warrants was 2.50% The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/2009	6/23/2010	\$ 0	258,000	258,000	0

During the year ended June 30, 2010, the District paid \$6,326 of interest on the ISCAP warrants.

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 283,677	0	0	283,677
Construction in progress	8,318,145	1,663,336	9,981,481	0
Total capital assets not being depreciated	8,601,822	1,663,336	9,981,481	283,677
Capital assets being depreciated:				
Buildings	6,594,104	9,644,243	0	16,238,347
Land improvements	0	578,295	0	578,295
Machinery and equipment	1,958,052	41,921	598,540	1,401,433
Total capital assets being depreciated	8,552,156	10,264,459	598,540	18,218,075
Less accumulated depreciation for:				
Buildings	1,923,635	384,820	0	2,308,455
Land improvements	0	140,498	0	140,498
Machinery and equipment	1,465,755	99,658	597,518	967,895
Total accumulated depreciation	3,389,390	624,976	597,518	3,416,848
Total capital assets being depreciated, net	5,162,766	9,639,483	1,022	14,801,227
Governmental activities capital assets, net	\$ 13,764,588	11,302,819	9,982,503	15,084,904

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type activities:				
Machinery and equipment	\$ 446,465	84,913	15,416	515,962
Less accumulated depreciation	206,516	44,973	15,416	236,073
Business Type activities capital assets, net	\$ 239,949	39,940	0	279,889

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 9,219
Other		5,967
Support services:		
Instructional staff		21,872
Administration		3,649
Operation and maintenance of plant		4,123
Transportation		54,828
		<u>99,658</u>
Unallocated depreciation		525,318
		<u>\$ 624,976</u>
Total governmental activities depreciation expense		
Business Type activities:		
Food services		\$ 44,973

#### (7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 7,040,000	0	250,000	6,790,000	260,000
Revenue bonds	2,015,000	0	170,000	1,845,000	175,000
Early retirement	175,508	0	38,132	137,376	31,011
Total	\$ 9,230,508	0	458,132	8,772,376	466,011

#### General Obligation Bonds Payable

Details of the District's June 30, 2010 General Obligation bonded debt is as follows:

Year Ending June 30,	Interest Rate	Bond issue May 1, 2008		
		Principal	Interest	Total
2011	4.15	% \$ 260,000	286,948	546,948
2012	4.15	270,000	276,158	546,158
2013	4.15	280,000	264,952	544,952
2014	4.15	295,000	253,332	548,332
2015	4.15	305,000	241,090	546,090
2016-2020	4.15	1,730,000	1,004,383	2,734,383
2021-2025	4.15-4.30	2,135,000	612,790	2,747,790
2026-2028	4.35-4.45	1,515,000	135,625	1,650,625
Total		\$ 6,790,000	3,075,278	9,865,278

Revenue Bonds Payable

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

Year Ending June 30,	Bond issue June 26, 2008				
	Interest Rate		Principal	Interest	Total
2011	3.000	% \$	175,000	65,110	240,110
2012	3.225		185,000	59,502	244,502
2013	3.400		190,000	53,289	243,289
2014	3.525		200,000	46,534	246,534
2015	3.700		200,000	39,309	239,309
2016-2019	3.825-4.125		895,000	73,633	968,633
Total			<u>\$ 1,845,000</u>	<u>337,377</u>	<u>2,182,377</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,015,000 bonds issued in June 2008. The bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2019. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payment on the bonds, along with the required transfers to the Reserve Account are expected to require 46 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$2,182,377. For the current year \$170,000 in principal and \$70,115 in interest was paid on the bonds and the total statewide sales, services and use tax revenues were \$524,009.

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

- a) All proceeds from the statewide sales, services and use tax shall be placed in a Revenue Account.
- b) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- c) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account should be transferred to the Reserve Account to build its balance to \$201,500. The \$201,500 shall be held in the Reserve Account solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account.
- d) Any monies in excess after the required transfers to the Sinking Account and Reserve Account may be transferred to the Project Account to be used for any lawful purpose.

## Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and have a total of fifteen years of service as a licensed full-time employee. Eligible employees are required to submit an application to the Superintendent before February 1<sup>st</sup> of the year the employee wishes to retire. The application is then submitted to the Board of Directors of the District for approval. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of \$137,376.

### **(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 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 contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$212,056, \$207,823 and \$186,054, respectively, equal to the required contributions for each year.

### **(9) 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/prescription drug and dental benefits for retirees and their spouses. There are 29 active and 3 retired members in the plan. Employees must be age 55 or older at retirement and have ten or more years of service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield. 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 of the District (ARC), 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 June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 34,932
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>34,932</u>
Contributions made	<u>(36,877)</u>
Increase in net OPEB obligation	(1,945)
Net OPEB obligation - beginning of year	<u>0</u>
 Net OPEB obligation - end of year	 <u><u>\$ (1,945)</u></u>

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

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:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 34,932	105.57%	\$ (1,945)

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 \$393,214, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$393,214. The covered payroll (annual payroll of active employees covered by the plan) was \$2.617 million, and the ratio of the UAAL to the covered payroll was 15%. 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 healthcare 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 the 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 that are 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 July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6% per year.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the assumption that employees retire at age 62 after 25 years of service.

**(10) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2010 were \$446,283.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior notice may withdraw.

Lawton-Bronson 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.

**(11) 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 \$239,356 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.

**(12) Deficit Fund Balance/Net Assets**

At June 30, 2010, the Nutrition Fund had deficit unrestricted net assets of \$22,909, the Preschool Fund had deficit unrestricted net assets of \$46,868 and the Before and After the Bell Fund had deficit unrestricted net assets of \$16,412. The District also had a deficit unrestricted net assets balance in the governmental activities of \$349,999.

**(13) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2010, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

**(14) Operating Leases**

The District is committed under seven non-cancellable operating leases for copiers used in the District. During the year ended June 30, 2010, expenditures for these operating leases was \$16,184. The schedule of payments for the operating lease is as follows:

Year	
Ending	
June 30,	Amount
2011	\$ 8,595
2012	5,847
2013	4,385
Total	<u>\$ 18,827</u>

**(15) Categorical Funding**

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

Project	Amount
Home school assistance program	\$ 4,624
Talented and gifted	75,052
Teacher salary supplement	34,974
Professional development	37,812
Professional development, model core curriculum	9,955
Beginning teacher mentoring	917
Market factor incentives	2,720
Market factor	426
Total	<u>\$ 166,480</u>

**LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT**

REQUIRED SUPPLEMENTARY INFORMATION

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 3,822,387	305,833	4,128,220	4,147,617	4,147,617	(19,397)
Intermediate sources	4,229	0	4,229	0	0	4,229
State sources	2,468,163	2,978	2,471,141	3,169,270	3,169,270	(698,129)
Federal sources	457,574	109,335	566,909	337,500	337,500	229,409
Total revenues	<u>6,752,353</u>	<u>418,146</u>	<u>7,170,499</u>	<u>7,654,387</u>	<u>7,654,387</u>	<u>(483,888)</u>
<b>Expenditures/Expenses:</b>						
Instruction	3,945,468	80,285	4,025,753	3,976,617	3,976,617	(49,136)
Support services	1,727,452	6,212	1,733,664	2,093,672	2,093,672	360,008
Non-instructional programs	0	341,721	341,721	300,186	300,186	(41,535)
Other expenditures	3,019,521	0	3,019,521	5,139,640	5,139,640	2,120,119
Total expenditures/expenses	<u>8,692,441</u>	<u>428,218</u>	<u>9,120,659</u>	<u>11,510,115</u>	<u>11,510,115</u>	<u>2,389,456</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	(1,940,088)	(10,072)	(1,950,160)	(3,855,728)	(3,855,728)	1,905,568
Other financing sources, net	0	84,913	84,913	0	0	0
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	(1,940,088)	74,841	(1,865,247)	(3,855,728)	(3,855,728)	1,905,568
Balance beginning of year	2,422,755	120,216	2,542,971	5,265,789	5,265,789	(2,722,818)
Balance end of year	<u>\$ 482,667</u>	<u>195,057</u>	<u>677,724</u>	<u>1,410,061</u>	<u>1,410,061</u>	<u>(817,250)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2010, expenditures in the instruction and non-instructional programs functions exceeded the amounts budgeted.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF FUNDING PROGRESS FOR THE  
 RETIREE HEALTH PLAN  
 (IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			
2010	July 1, 2009	\$ -	\$ 393	\$ 393	0.0%	\$ 2,617	15.0%

See Note 9 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

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2010

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 55,627	58,838	26,480	140,945
Receivables:				
Property tax:				
Delinquent	1,098	0	733	1,831
Succeeding year	122,000	0	53,320	175,320
Interfund	1	0	1	2
<b>TOTAL ASSETS</b>	<b>\$ 178,726</b>	<b>58,838</b>	<b>80,534</b>	<b>318,098</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Interfund payable	\$ 12,015	136	0	12,151
Accounts payable	0	6,057	1,350	7,407
Deferred revenue:				
Succeeding year property tax	122,000	0	53,320	175,320
<b>Total liabilities</b>	<b>134,015</b>	<b>6,193</b>	<b>54,670</b>	<b>194,878</b>
Unreserved fund balances	44,711	52,645	25,864	123,220
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 178,726</b>	<b>58,838</b>	<b>80,534</b>	<b>318,098</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2010

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total
REVENUES:				
Local sources:				
Local tax	\$ 77,034	0	49,255	126,289
Other	12,732	337,239	1,974	351,945
TOTAL REVENUES	89,766	337,239	51,229	478,234
EXPENDITURES:				
Current:				
Instruction:				
Regular	7,130	0	4,229	11,359
Other	0	293,678	0	293,678
Support services:				
Administration	72,111	0	0	72,111
Operation and maintenance of plant	36,105	0	0	36,105
Transportation	5,858	0	0	5,858
Other expenditures:				
Facilities acquisitions	0	0	787	787
TOTAL EXPENDITURES	121,204	293,678	5,016	419,898
Excess (deficiency) of revenues over (under) expenditures	(31,438)	43,561	46,213	58,336
Other financing uses:				
Transfer out	0	(31,192)	(220,000)	(251,192)
Net change in fund balances	(31,438)	12,369	(173,787)	(192,856)
Fund balance beginning of year	76,149	40,276	199,651	316,076
Fund balance end of year	\$ 44,711	52,645	25,864	123,220

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND,  
 STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund and Intrafund Transfers	Balance End of Year
Dollars for scholars	\$ 1,538	35,810	35,872	1,605	3,081
Elementary yearbook	3,627	2,035	1,823	(157)	3,682
Student council	1,007	4,334	4,526	(136)	679
Industrial technology	1,342	4,637	5,535	20	464
Family consumer science	0	831	826	0	5
Drama and speech	218	1,700	1,036	0	882
JEL	75	0	0	(75)	0
Elementary playground equipment	0	27,992	4,492	(13,500)	10,000
Vocal Music	0	26,848	22,711	(2,629)	1,508
Instrumental music	82	17,042	19,128	4,508	2,504
Drill team	(688)	37,789	35,818	1,459	2,742
Elementary music	1,196	805	1,507	0	494
Show choir	0	0	739	0	(739)
Yearbook	1,506	9,379	10,341	54	598
Cheerleaders	2,832	7,546	7,580	(45)	2,753
National honor society	1,070	361	353	0	1,078
Class of 2009	(1,243)	0	0	1,243	0
Class of 2010	983	663	1,094	(493)	59
Class of 2011	4,282	513	2,847	0	1,948
Class of 2012	1,057	2,696	2,056	0	1,697
Class of 2013	0	889	242	0	647
Classes graduated	1,529	0	0	(1,529)	0
Junior high	4,022	8,803	10,924	0	1,901
HS athletics	348	10,020	12,447	4,752	2,673
Wrestling	(707)	2,064	2,674	1,317	0
HS football	0	35,190	36,340	(45)	(1,195)
Girls basketball	2,092	24,001	22,357	(104)	3,632
Track	(1,090)	5,937	4,645	0	202
Girls volleyball	1,994	6,319	5,788	0	2,525
Boys basketball	1,079	6,475	4,838	(127)	2,589
Boys baseball	(1,387)	10,081	8,661	0	33
Girls softball	(3,927)	8,095	3,403	(198)	567
Concessions	200	0	0	(200)	0
Miscellaneous	0	4,861	0	(4,219)	642
Activity tickets	325	9,158	13	(9,350)	120
Elementary building	16,149	24,177	23,030	(13,343)	3,953
Contingency	765	152	32	0	885
Library	0	36	0	0	36
<b>Total</b>	<b>\$ 40,276</b>	<b>337,239</b>	<b>293,678</b>	<b>(31,192)</b>	<b>52,645</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET FOR CAPITAL PROJECTS FUND  
 JUNE 30, 2010

	Capital Projects Fund			
	Elementary Building	Baseball Field Project	Statewide Sales, Services and Use Tax	Total
<b>ASSETS</b>				
Cash and pooled investments	\$ 24	869	440,947	441,840
Interfund receivable	0	0	1,250	1,250
Due from other governments	0	0	76,808	76,808
<b>TOTAL ASSETS</b>	<b>\$ 24</b>	<b>869</b>	<b>519,005</b>	<b>519,898</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Interfund payable	\$ 0	0	155	155
Accounts payable	1,573	14	4,244	5,831
Total liabilities	1,573	14	4,399	5,986
Unreserved fund balances	(1,549)	855	514,606	513,912
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 24</b>	<b>869</b>	<b>519,005</b>	<b>519,898</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCE  
 CAPITAL PROJECTS FUND  
 YEAR ENDED JUNE 30, 2010

	Capital Projects Fund			
	Elementary Building	Baseball Field Project	Statewide Sales, Services and Use Tax	Total
Revenues:				
Local sources:				
Statewide sales, services and use tax	\$ 0	0	524,009	524,009
Interest on investments	530	5	1,733	2,268
Contributions	0	1,925	0	1,925
Other	0	0	133,573	133,573
Total revenues	530	1,930	659,315	661,775
Expenditures:				
Current:				
Other expenditures:				
Facilities acquisitions	1,877,678	7,285	106,777	1,991,740
Excess(Deficiency) of revenues over(under) expenditures	(1,877,148)	(5,355)	552,538	(1,329,965)
Other financing sources(uses):				
Transfer in	730,684	0	31,192	761,876
Transfer out	0	0	(750,799)	(750,799)
Total other financing sources(uses)	730,684	0	(719,607)	11,077
Deficiency of revenues under expenditures and other financing sources(uses)	(1,146,464)	(5,355)	(167,069)	(1,318,888)
Fund balance beginning of year	1,144,915	6,210	681,675	1,832,800
Fund balance end of year	\$ (1,549)	855	514,606	513,912

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 PRIVATE-PURPOSE TRUST FUND, SCHOLARSHIP ACCOUNTS  
 JUNE 30, 2010

	Andrus Scholarship Fund	Teacher's Memorial Scholarship	Shoemaker Scholarship Fund	Other Scholarships	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 71,351	6,446	32,865	564	111,226
<b>LIABILITIES</b>					
Interfund payable	4,000	0	0	0	4,000
<b>NET ASSETS</b>					
Reserved for scholarships	0	5,896	26,316	0	32,212
Unreserved	67,351	550	6,549	564	75,014
<b>TOTAL NET ASSETS</b>	<b>\$ 67,351</b>	<b>6,446</b>	<b>32,865</b>	<b>564</b>	<b>107,226</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,  
 SCHOLARSHIP ACCOUNTS  
 YEAR ENDED JUNE 30, 2010

	Andrus Scholarship Fund	Teacher's Memorial Scholarship	Shoemaker Scholarship Fund	Other Scholarships	Total
Additions:					
Interest income	\$ 287	167	769	60	1,283
Donations	71,064	0	0	250	71,314
<b>TOTAL REVENUES</b>	<b>71,351</b>	<b>167</b>	<b>769</b>	<b>310</b>	<b>72,597</b>
Deductions:					
Scholarships awarded	4,000	0	0	0	4,000
Net change in net assets	67,351	167	769	310	68,597
Net assets beginning of year	0	6,279	32,096	254	38,629
Net assets end of year	\$ 67,351	6,446	32,865	564	107,226

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 2,945,975	2,971,929	2,786,311	2,471,965	2,223,894	2,179,574	2,143,277
Tuition	333,479	367,377	382,909	280,918	225,742	274,359	276,825
Other	542,933	563,834	660,877	650,662	529,519	308,038	246,383
Intermediate sources	4,229	0	0	0	0	0	0
State sources	2,468,163	3,081,649	3,022,660	2,796,166	2,607,387	2,354,530	2,389,082
Federal sources	457,574	143,264	136,261	134,070	163,665	129,821	202,799
<b>Total</b>	<b>\$ 6,752,353</b>	<b>7,128,053</b>	<b>6,989,018</b>	<b>6,333,781</b>	<b>5,750,207</b>	<b>5,246,322</b>	<b>5,258,366</b>
Expenditures:							
Instruction:							
Regular	\$ 2,701,092	2,756,153	2,509,918	2,498,452	2,212,621	2,183,741	2,101,693
Special	470,689	486,105	614,365	535,445	452,323	397,406	392,970
Other	773,687	619,570	577,951	504,123	449,844	452,576	449,997
Support services:							
Student	159,227	149,934	147,969	153,304	173,868	153,510	118,405
Instructional staff	249,372	182,556	171,789	165,191	184,969	61,286	50,096
Administration	571,684	587,668	647,296	571,524	570,536	470,249	570,554
Operation and maintenance of plant	422,498	457,126	451,017	427,015	353,394	403,515	364,018
Transportation	324,671	364,220	302,418	475,415	325,478	250,777	224,607
Other expenditures:							
Facilities acquisitions	1,992,527	7,538,683	1,101,113	327,700	190,632	133,838	78,417
Long-term debt:							
Principal	420,000	240,000	2,900,000	250,000	235,000	225,000	40
Interest and fiscal charges	367,638	362,660	197,273	163,860	176,080	187,820	198,079
AEA flow-through	239,356	220,023	210,904	194,268	175,489	169,052	167,090
<b>Total</b>	<b>\$ 8,692,441</b>	<b>13,964,698</b>	<b>9,832,013</b>	<b>6,266,297</b>	<b>5,500,234</b>	<b>5,088,770</b>	<b>4,715,966</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	\$ 11,192
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	97,643 *
			<u>108,835</u>
TEAM NUTRITION GRANTS	10.574	FY 10	<u>500</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3555-G	26,971
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 09	2,982
ARRA - TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	14,931
			<u>44,884</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	<u>1,202</u>
IMPROVING TEACHER QUALITY STATE GRANTS (TITLE IIA)	84.367	FY 10	<u>17,759</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 10	<u>3,907</u>
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	<u>253,908</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 10	29,977
ARRA - SPECIAL EDUCATION GRANTS TO STATES (PART B), RECOVERY ACT	84.391	FY 10	81,964
			<u>111,941</u>
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	<u>4,229</u>
TOTAL			<u>\$ 547,165</u>

\* - Includes \$41,416 of non-cash awards.

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Lawton-Bronson Community School District and is presented in conformity with 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 Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

(a professional corporation)

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Telephone (641) 792-1910

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

To the Board of Education of the  
Lawton-Bronson 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 Lawton-Bronson 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 February 3, 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 Lawton-Bronson Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lawton-Bronson Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lawton-Bronson 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 and other deficiencies we consider to be significant deficiencies.

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 misstatement 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 item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-10 and II-C-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawton-Bronson 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.

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 3, 2011

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

**Certified Public Accountants**

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Lawton-Bronson Community School District:

Compliance

We have audited the compliance of Lawton-Bronson Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Lawton-Bronson 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 grant agreements applicable to each of its major federal programs is the responsibility of Lawton-Bronson Community School District's management. Our responsibility is to express an opinion on Lawton-Bronson 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 Lawton-Bronson 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 Lawton-Bronson Community School District's compliance with those requirements.

In our opinion, Lawton-Bronson 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

The management of Lawton-Bronson Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Lawton-Bronson Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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 Lawton-Bronson Community School District's internal control over compliance.

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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 a deficiency in internal control over compliance we consider to be a material weakness.

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 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 3, 2011

LAWTON-BRONSON 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) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was 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 were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
- Clustered
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual
    - CFDA Number 84.391 - ARRA - State Fiscal Stabilization Fund (SFSF)  
Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lawton-Bronson Community School District did not qualify as a low-risk auditee.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We realize segregation of duties will never be 100%. We cannot afford to add additional staff but will work to better separate duties so that the same person is not responsible for all duties. The District is exploring the potential of utilizing part of an existing para professional's job duties to include assisting the activities director. If that happens, this position could improve our segregation of duties.

Conclusion - Response accepted.

II-B-10 Gate Admissions - It was noted that the District does not utilize pre-numbered tickets for event admissions and a reconciliation is not performed after the event.

Recommendation - The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.

- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.
- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - The District will use pre-numbered tickets. Cash will be reconciled before submitting the cash to the administrator on duty.

Conclusion - Response accepted.

II-C-10 Receipting Procedures - We noted that sponsors of student organizations were collecting money from individuals, fundraising events and other revenue fees. These collections are turned into the office for receipting, depositing and posting only after the event or fundraising drive is completed. When the money is turned into the office there does not appear to be supporting documentation for the money collected that later could be used for reconciliation uses. We noted that once collected at the office, these were handled in a comparable manner as receipts directly delivered to the office, where receipts are given and deposited. The copies of the receipts issued at the buildings are provided to the central office for posting and reconciling the bank statement. There does not appear to be controls in place to document monies collected and turned in from sponsors to be reconciled to the actual deposit.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for multiple previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts.

Response - The District will work to develop a reconciliation form that the entire district will use when submitting monies to be deposited into accounts.

Conclusion - Response accepted.

#### OTHER MATTERS:

II-D-10 Nutrition Procedures - We noted during the audit that the commodity food listing was not priced out correctly at the end of the year.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly.

Response - The District will work to price out food inventory correctly at the end of the year. The nutrition director, superintendent and superintendent's secretary will meet on an annual basis to make sure that inventory is priced correctly.

Conclusion - Response accepted.

II-E-10 Student Activity Fund Interest - We noted during our audit that the Student Activity Fund has an interest account. It appears that interest earned during the year has not been allocated to individual accounts in the Student Activity Fund.

Recommendation - Interest earned each year should be allocated out on an annual basis to the individual activity accounts.

Response - Interest will be allocated out on an annual basis to the individual activity fund accounts.

Conclusion - Response accepted.

LAWTON-BRONSON 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 10.553 - School Breakfast Program  
CFDA Number 10.555 - National School Lunch Program Education  
Federal Award Year: 2010  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

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

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We realize segregation of duties will never be 100%. We cannot afford to add additional staff but will work to better separate duties so that the same person is not responsible for all duties.

Conclusion - Response accepted.

LAWTON-BRONSON COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2010

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010 exceeded the amounts budgeted in the instruction and non-instructional programs functions.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-10 Questionable Disbursements - We noted during our audit that the District wrote checks for the purchase of gift cards to give to students as sales incentives as top sellers for fundraisers. Giving gift cards to students as incentive prizes does not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and make necessary adjustments to comply.

Response - Students will no longer be receiving cash or gift cards as incentive prizes for fundraisers.

Conclusion - Response accepted.

**Meal Money for state tournaments** - We noted disbursements from the Student Activity Fund for student meals at state tournament events. Students received a specified amount of cash without documentation as to the amount or which students received the money. Students were not required to submit receipts for purchases made. There was no documentation of any unused funds being returned to the District.

Recommendation - Better internal controls would be for the District to maintain a sign-off sheet showing which students received meal money as well as the amount given. The District should require that meal receipts and any unused funds be returned to the Central Office after the event unless the amount has been approved as a de minimis meal allowance.

Response - The District will review procedures with sponsors and request that a sign-off sheet be maintained to be turned into Central Office as support that students received meal money for trips.

Conclusion - Response accepted.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

However, we noted during our audit that reimbursements to employees for travel expenses had no detailed receipts attached for supporting documentation. According to District Board policy 401.11, employees that seek reimbursement of expenses must attach a detailed receipt to the claim form otherwise the expense becomes the employees' expense.

Recommendation - The District should review Board Policy 401.11 with employees to ensure that receipts for all reimbursable expenses are attached for supporting documentation.

Response - The District will review the policy in with employees and enforce the policy as written.

Conclusion - Response accepted.

IV-D-10 Business Transactions - No business transactions between the District and District officials were noted.

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-10 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students reported on Line 2 as open enrolled out students was understated by one student and the number of students reported on Line 3 as tuitioned out was understated by two students.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District's auditors will contact the Iowa Department of Education and Department of Management on our behalf to resolve this matter.

Conclusion - Response accepted.

IV-H-10 Supplementary Weighting - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-10 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

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

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		\$	237,067
Statewide sales and services tax revenue			524,009
Ependitures/Transfers Out:			
School infrastructure:			
Buildings	\$	520,961	
Debt service for school infrastructure:			
Revenue debt		240,115	761,076
Ending Balance			\$ 0

As a result of the statewide sales, services and use tax revenues received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy	\$ 1.64000	\$ 254,116

IV-M-10 Financial Condition - We noted during our audit that the Nutrition Fund had deficit unrestricted net assets of \$22,909, the Preschool Fund had deficit unrestricted net assets of \$46,868 and the Before and After the Bell Fund had deficit unrestricted net assets of \$16,412. The District had a deficit unrestricted net assets balance in the governmental activities of \$349,999. The District also had two individual Student Activity Fund accounts with deficits totaling \$1,934.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - The District will continue to monitor all fund balances and work to eliminate all negative balances.

Conclusion - Response accepted.

IV-N-10 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliations that have been outstanding for over a year.

Recommendation - The District should determine if the outstanding checks should be reissued, voided or submitted to the State as unclaimed property. If the checks are submitted as unclaimed property, the District must do so annually before November 1<sup>st</sup> as required by Chapter 556.1(10) and 556.11 of the Code of Iowa.

Response - The District will work with the bank to determine which checks are actually outstanding and reissue what is necessary or submit to the State as unclaimed property.

Conclusion - Response accepted.

II-O-10 Authorized Check Signatures - We noted during our audit instances of checks not always have two signatures.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President may designate an authorized signer to sign in his/her absence. The District should review this process and make necessary changes to ensure all checks are signed in compliance with Chapter 291.1 of the Code of Iowa.

Response - The District will review procedures and make certain all checks have two signatures in the future.

Conclusion - Response accepted.

IV-P-10 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District will contact the bank to ensure that all bank statements include the front and back images of all checks.

Conclusion - Response accepted.

IV-Q-10 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. The District currently receipts this into the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The district should receipt rent collected for facility usage into the General Fund.

Response - All rent checks will be deposited into the General Fund.

Conclusion - Response accepted.

IV-R-10 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District should have the Board President sign all contracts entered into by the District to be in compliance with 291.1 of the Code of Iowa.

Response - The Board President will sign all contracts in the future.

Conclusion - Response accepted.

IV-S-10 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. More specific examples of these instances of questioned items and recommendations are as follows:

**Donations:** Donations received from Target are intended for instructional supplies for students. Currently, the District records Target donations in the Student Activity Fund.

**Advanced Placement Exam:** Fees collected and subsequent expenditures for advanced placement testing are considered instructional in nature.

Recommendation - The District should review the propriety of revenues and expenditures that are recorded in the Student Activity Fund to ensure recording in the proper fund. Target donations are considered an undesignated donation; therefore, they should be received into the General Fund for use as determined by the District's Board of Directors. The designation should be noted annually in the District's board minutes.

Revenues and expenditures related to advanced placement exam testing is instructional in nature and would be more appropriate from the General Fund.

Response - All donations given to the District for instructional purposes will be deposited into the General Fund and all expenditures for instructional purposes will be spent from the General Fund.

Conclusion - Response accepted.

IV-T-10 Interfund Loans - We noted during our audit that the District has interfund loans which were on the balance sheets in the prior year and still on the current year balance sheets. The interfund loans outstanding as of June 30, 2010 are in Note 3, pages 35 and 36.

According to a declaratory order issued by the Iowa Department of Education to the Auditor of State dated April 11, 2008, interfund loans on the District's year end financial statements must be repaid to their respective funds on or before October 1<sup>st</sup> of the following fiscal year or the date of the District's Board of Directors organizational meeting, whichever is later. If the District is unable to repay the interfund loans by that time, the District must issue anticipatory warrants to repay the interfund loans according to Iowa Code Chapter 74.

Recommendation - It appears the District should issue anticipatory warrants to comply with the declaratory ruling in order to repay the interfund loan.

Response - As of the opinion date of this audit, all interfunds have been resolved except for the Before and After the Bell Fund and the Preschool Fund. The District is aware of the declaratory order issued by the Department of Education and is working to develop a five year plan to eliminate the interfund payable for the Before and After the Bell Fund and a two year plan to eliminate the interfund payable for the Preschool Fund.

Conclusion - Response acknowledged.