

LENOX 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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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2009 election)**

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

**Board of Education
(After September 2009 election)**

Kurtis Christensen	President	2013
Todd Barker	Vice President	2013
Nicole Hogan	Board Member	2011
Rosa Cruz	Board Member	2011
Brent Wise	Board Member	2013

School Officials

David Henrichs	Superintendent	2010
Paula Horton	District Secretary/ Treasurer	2010
Richard Wilson	Attorney	2010

LENOX 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
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lenox Community School District, Lenox 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.

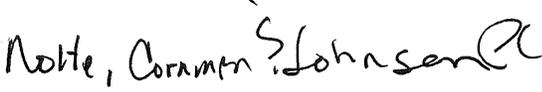
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Lenox Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 7, 2011 on our consideration of Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lenox Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2009 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-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.

March 7, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Lenox Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 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 \$4,120,628 in fiscal 2009 to \$4,082,212 in fiscal 2010, while General Fund expenditures increased from \$3,930,648 in fiscal 2009 to \$3,973,425 in fiscal 2010. However, revenues still outpaced expenditures resulting in an increase in the District's General Fund balance from \$710,149 in fiscal 2009 to \$818,936 in fiscal 2010, a 15.32% increase over the prior year.
- The decrease in General Fund revenues was attributable to a decrease in state revenue in fiscal 2010. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of funding Progress for the Retiree Health Plan.

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

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

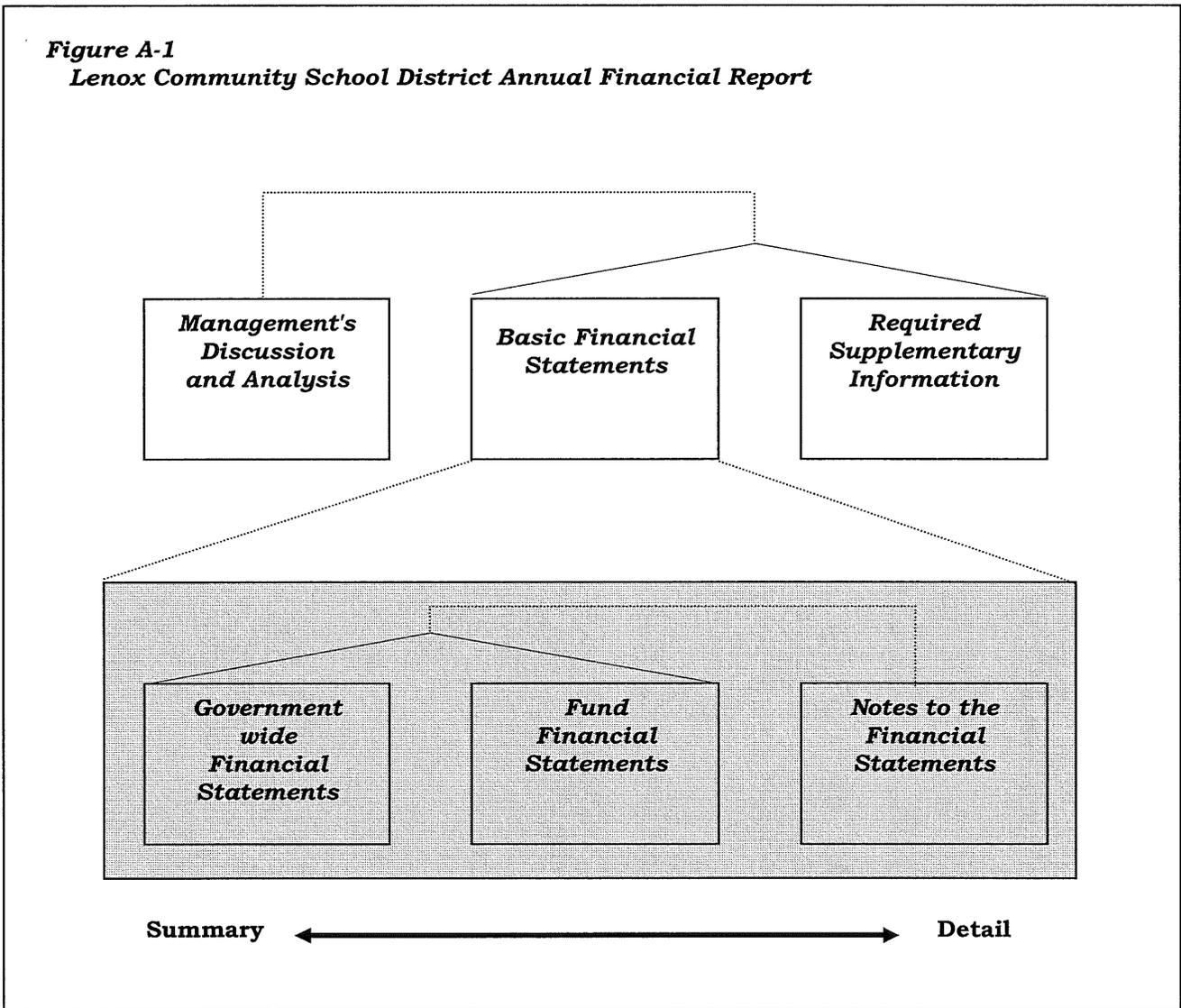


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2010 compared to June 30, 2009.

	Figure A-3							
	Condensed Statement of Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
2010	2009	2010	2009	2010	2009	2009-10		
Current and other assets	\$ 3,610,246	3,229,780	63,356	36,979	3,673,602	3,266,759	12.45%	
Capital assets	4,593,035	4,396,808	24,011	22,172	4,617,046	4,418,980	4.48%	
Total assets	8,203,281	7,626,588	87,367	59,151	8,290,648	7,685,739	7.87%	
Long-term obligations	3,255,262	3,434,678	-	-	3,255,262	3,434,678	-5.22%	
Other liabilities	2,028,422	1,643,539	10,921	10,469	2,039,343	1,654,008	23.30%	
Total liabilities	5,283,684	5,078,217	10,921	10,469	5,294,605	5,088,686	4.05%	
Net assets:								
Invested in capital assets, net of related debt	1,433,035	986,808	24,011	22,172	1,457,046	1,008,980	44.41%	
Restricted	724,214	771,892	-	-	724,214	771,892	-6.18%	
Unrestricted	762,348	789,671	52,435	26,510	814,783	816,181	-0.17%	
Total net assets	\$ 2,919,597	2,548,371	76,446	48,682	2,996,043	2,597,053	15.36%	

The District's combined net assets increased by 15.36%, or \$398,990, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$47,678, or 6.18% from the prior year.

Unrestricted net assets - are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$1,398, or 0.17%.

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

Figure A-4								
Changes of Net Assets								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2010	2009	2010	2009	2010	2009	2009-10	
Revenues:								
Program revenues:								
Charges for services	\$ 545,367	486,812	87,235	92,770	632,602	579,582	9.15%	
Operating grants, contributions and restricted interest	854,951	768,630	138,137	114,295	993,088	882,925	12.48%	
Capital grants, contributions and restricted interest	87,270	-	-	-	87,270	-	100.00%	
General revenues:								
Local tax	1,491,201	1,448,408	-	-	1,491,201	1,448,408	2.95%	
Income surtax	255,835	227,023	-	-	255,835	227,023	12.69%	
Statewide sales, services and use tax	130,405	136,813	-	-	130,405	136,813	-4.68%	
Unrestricted state grants	1,395,228	1,564,943	-	-	1,395,228	1,564,943	-10.84%	
Other	27,229	163,025	2,337	100	29,566	163,125	-81.88%	
Total revenues	4,787,486	4,795,654	227,709	207,165	5,015,195	5,002,819	0.25%	
Program expenses:								
Governmental activities:								
Instructional	2,862,538	2,775,973	-	-	2,862,538	2,775,973	3.12%	
Support services	1,162,088	1,160,237	12,114	12,410	1,174,202	1,172,647	0.13%	
Non-instructional programs	-	-	187,831	180,779	187,831	180,779	3.90%	
Other expenses	391,634	566,332	-	-	391,634	566,332	-30.85%	
Total expenses	4,416,260	4,502,542	199,945	193,189	4,616,205	4,695,731	-1.69%	
Changes in net assets	371,226	293,112	27,764	13,976	398,990	307,088	29.93%	
Beginning net assets	2,548,371	2,255,259	48,682	34,706	2,597,053	2,289,965	13.41%	
Ending net assets	\$ 2,919,597	2,548,371	76,446	48,682	2,996,043	2,597,053	15.36%	

In fiscal 2010, local tax and unrestricted state grants account for 60.29% of the revenue from governmental activities while charges for services and operating grants, contributions and restricted interest account for 98.97% of the revenue from business type activities.

The District's total revenues were approximately \$5.02 million, of which approximately \$4.79 million was for governmental activities and approximately \$.23 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 0.25% increase in revenues and a 1.69% decrease in expenses. Increases in local and federal sources of revenues helped to offset the reduction in state sources.

Governmental Activities

Revenues for governmental activities were \$4,787,486 and expenses were \$4,416,260.

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	\$ 2,862,538	2,775,973	3.12%	1,611,100	1,653,189	-2.55%
Support services	1,162,088	1,160,237	0.16%	1,162,088	1,159,543	0.22%
Other expenses	391,634	566,332	-30.85%	155,484	434,368	-64.20%
Totals	<u>\$ 4,416,260</u>	<u>4,502,542</u>	<u>-1.92%</u>	<u>2,928,672</u>	<u>3,247,100</u>	<u>-9.81%</u>

- The cost financed by users of the District's programs was \$545,367.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$942,221.
- The net cost of governmental activities was financed with \$1,491,201 in local tax, \$255,835 in income surtax, \$130,405 in statewide sales, services and use tax, \$1,395,228 in unrestricted state grants, \$2,830 in interest income and \$24,399 in other general revenues.

Business Type Activities

Revenues of the District's business type activities were \$227,709 and expenses were \$199,945. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,394,341, slightly below last year's ending fund balances of \$1,408,158. Although District revenues were down, expenditures were also held in check limiting the decline in combined fund balances.

Governmental Fund Highlights

The District's improving General Fund financial position from \$710,149 to \$818,936 is the product of many factors:

- Increases in federal grants during the year helped to offset the reduction in state sources of revenue.
- The increase in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$48,682 at June 30, 2009 to \$76,446 at June 30, 2010, representing an increase of 57.03%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$248,710 less than budgeted revenues, a variance of 4.74%. The most significant variance resulted from the District receiving less from state sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$4,617,046, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$148,263.

The original cost of the District's capital assets was \$6,370,376. Governmental funds account for \$6,302,213 with the remainder of \$68,163 in the Proprietary, School Nutrition Fund.

The largest percentage of change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$119,112 at June 30, 2010, compared to \$100,313 reported at June 30, 2009.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	2009-10
Land	\$ 50,521	50,521	-	-	50,521	50,521	0.00%
Land improvements	20,176	21,297	-	-	20,176	21,297	-5.26%
Buildings	4,427,237	4,246,849	-	-	4,427,237	4,246,849	4.25%
Machinery and equipment	95,101	78,141	24,011	22,172	119,112	100,313	18.74%
Total	\$ 4,593,035	4,396,808	24,011	22,172	4,617,046	4,418,980	4.48%

Long-Term Debt

At June 30, 2010, the District had \$3,255,262 in general obligation and other long-term debt outstanding. This represents a decrease of 5.22% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,905,000 at June 30, 2010.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$255,000 at June 30, 2010.

The District had compensated absences payable from the General Fund of \$38,202 at June 30, 2010.

The District had early retirement payable from the Special Revenue: Management Fund of \$43,060 at June 30, 2010.

During its initial year of recording net OPEB liability in accordance with GASB Statement No. 45, the District disclosed a balance of \$14,000 at June 30, 2010.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2010	2009	2009-10
General Obligation Bonds	\$ 2,905,000	3,075,000	-5.53%
Capital Loan Notes	255,000	335,000	-23.88%
Compensated absences	38,202	24,678	54.80%
Early Retirement	43,060	-	100.00%
Net OPEB Liability	14,000	-	100.00%
Totals	<u>\$ 3,255,262</u>	<u>3,434,678</u>	<u>-5.22%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

LENOX COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 1,435,849	53,851	1,489,700
Receivables:			
Property tax:			
Delinquent	24,293	-	24,293
Succeeding year	1,590,893	-	1,590,893
Income surtax	196,825	-	196,825
Interfund	-	-	-
Accounts	25,389	85	25,474
Due from other governments	336,997	-	336,997
Inventories	-	9,420	9,420
Capital assets, net of accumulated depreciation	4,593,035	24,011	4,617,046
Total assets	8,203,281	87,367	8,290,648
Liabilities			
Accounts payable	67,955	9,809	77,764
Salaries and benefits payable	324,641	-	324,641
Due to other governments	34,091	-	34,091
Interest payable	9,342	-	9,342
Deferred revenue:			
Succeeding year property tax	1,590,893	-	1,590,893
Other	1,500	-	1,500
Unearned revenue	-	1,112	1,112
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	175,000	-	175,000
Capital loan notes payable	80,000	-	80,000
Compensated absences payable	38,202	-	38,202
Early retirement payable	43,060	-	43,060
Portion due after one year:			
General obligation bonds payable	2,730,000	-	2,730,000
Capital loan notes payable	175,000	-	175,000
Net OPEB liability	14,000	-	14,000
Total liabilities	5,283,684	10,921	5,294,605
Net Assets			
Invested in capital assets, net of related debt	1,433,035	24,011	1,457,046
Restricted for:			
Categorical funding	190,705	-	190,705
Management levy	132,926	-	132,926
Physical plant and equipment levy	228,964	-	228,964
Capital projects	129,292	-	129,292
Debt service	5,240	-	5,240
Other special revenue purposes	37,087	-	37,087
Unrestricted	762,348	52,435	814,783
Total net assets	\$ 2,919,597	76,446	2,996,043

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX 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
Functions/Programs:							
Governmental activities:							
Instruction:							
Regular	\$ 1,616,190	323,111	513,041	-	(780,038)	-	(780,038)
Special	602,155	143,284	65,479	-	(393,392)	-	(393,392)
Other	644,193	78,972	127,551	-	(437,670)	-	(437,670)
	<u>2,862,538</u>	<u>545,367</u>	<u>706,071</u>	<u>-</u>	<u>(1,611,100)</u>	<u>-</u>	<u>(1,611,100)</u>
Support services:							
Student	84,814	-	-	-	(84,814)	-	(84,814)
Instructional staff	165,600	-	-	-	(165,600)	-	(165,600)
Administration	441,105	-	-	-	(441,105)	-	(441,105)
Operation and maintenance of plant	347,559	-	-	-	(347,559)	-	(347,559)
Transportation	123,010	-	-	-	(123,010)	-	(123,010)
	<u>1,162,088</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,162,088)</u>	<u>-</u>	<u>(1,162,088)</u>
Other expenditures:							
Facilities acquisitions	11,173	-	-	87,270	76,097	-	76,097
Long-term debt interest	119,648	-	-	-	(119,648)	-	(119,648)
AEA flowthrough	148,880	-	148,880	-	-	-	-
Depreciation(unallocated)*	111,933	-	-	-	(111,933)	-	(111,933)
	<u>391,634</u>	<u>-</u>	<u>148,880</u>	<u>87,270</u>	<u>(155,484)</u>	<u>-</u>	<u>(155,484)</u>
Total governmental activities	<u>4,416,260</u>	<u>545,367</u>	<u>854,951</u>	<u>87,270</u>	<u>(2,928,672)</u>	<u>-</u>	<u>(2,928,672)</u>
Business type activities:							
Support services:							
Administration	12,114	-	-	-	-	(12,114)	(12,114)
Non-instructional programs:							
Nutrition services	187,831	87,235	138,137	-	-	37,541	37,541
Total business type activities	<u>199,945</u>	<u>87,235</u>	<u>138,137</u>	<u>-</u>	<u>-</u>	<u>25,427</u>	<u>25,427</u>
Total	<u>\$ 4,616,205</u>	<u>632,602</u>	<u>993,088</u>	<u>87,270</u>	<u>(2,928,672)</u>	<u>25,427</u>	<u>(2,903,245)</u>
General Revenues:							
Local tax levied for:							
General purposes					\$ 1,268,335	-	1,268,335
Capital outlay					94,999	-	94,999
Debt service					127,867	-	127,867
Income surtax					255,835	-	255,835
Statewide sales, services and use tax					130,405	-	130,405
Unrestricted state grants					1,395,228	-	1,395,228
Unrestricted investment earnings					2,830	124	2,954
Other general revenues					24,399	2,213	26,612
Total general revenues					<u>3,299,898</u>	<u>2,337</u>	<u>3,302,235</u>
Changes in net assets					371,226	27,764	398,990
Net assets beginning of year					2,548,371	48,682	2,597,053
Net assets end of year					<u>\$ 2,919,597</u>	<u>76,446</u>	<u>2,996,043</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments	\$ 1,063,935	142,453	229,461	1,435,849
Receivables:				
Property tax:				
Delinquent	19,361	1,548	3,384	24,293
Succeeding year	1,226,653	103,795	260,445	1,590,893
Income surtax	144,338	52,487	-	196,825
Interfund	-	87,194	-	87,194
Accounts	23,644	1,745	-	25,389
Due from other governments	222,237	-	114,760	336,997
Total assets	\$ 2,700,168	389,222	608,050	3,697,440
Liabilities and Fund Balances				
Liabilities:				
Interfund payable	\$ 87,194	-	-	87,194
Accounts payable	62,815	3,976	1,164	67,955
Salaries and benefits payable	324,641	-	-	324,641
Due from other governments	34,091	-	-	34,091
Deferred revenue:				
Succeeding year property tax	1,226,653	103,795	260,445	1,590,893
Income surtax	144,338	52,487	-	196,825
Other	1,500	-	-	1,500
Total liabilities	1,881,232	160,258	261,609	2,303,099
Fund balances:				
Reserved for:				
Debt service	-	-	5,240	5,240
Categorical funding	190,705	-	-	190,705
Unreserved	628,231	228,964	341,201	1,198,396
Total fund balances	818,936	228,964	346,441	1,394,341
Total liabilities and fund balances	\$ 2,700,168	389,222	608,050	3,697,440

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

Total fund balances of governmental funds (page 20)	\$ 1,394,341
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,593,035
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	196,825
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,342)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, compensated absences payable, early retirement and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,255,262)</u>
Net assets of governmental activities (page 18)	<u><u>\$ 2,919,597</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 1,348,347	182,193	338,115	1,868,655
Tuition	396,671	-	-	396,671
Other	90,267	447	88,292	179,006
State sources	1,813,128	54	85,642	1,898,824
Federal sources	425,736	1,745	-	427,481
Total revenues	4,074,149	184,439	512,049	4,770,637
Expenditures:				
Current:				
Instruction:				
Regular	1,523,505	-	23,932	1,547,437
Special	602,155	-	-	602,155
Other	581,941	-	85,076	667,017
	2,707,601	-	109,008	2,816,609
Support services:				
Student	84,340	-	-	84,340
Instructional staff	169,903	-	-	169,903
Administration	435,475	-	3,988	439,463
Operation and maintenance of plant	322,209	-	23,782	345,991
Transportation	105,017	-	9,679	114,696
	1,116,944	-	37,449	1,154,393
Other expenditures:				
Facilities acquisitions	-	42,721	259,652	302,373
Long-term debt:				
Principal	-	-	250,000	250,000
Interest and fiscal charges	-	-	120,262	120,262
AEA flowthrough	148,880	-	-	148,880
	148,880	42,721	629,914	821,515
Total expenditures	3,973,425	42,721	776,371	4,792,517
Excess(deficiency) of revenues over(under) expenditures	100,724	141,718	(264,322)	(21,880)
Other financing sources(uses):				
Transfers in	-	-	237,000	237,000
Transfer out	-	(130,924)	(106,076)	(237,000)
Sale of equipment	8,063	-	-	8,063
Total other financing sources(uses):	8,063	(130,924)	130,924	8,063
Net change in fund balances	108,787	10,794	(133,398)	(13,817)
Fund balances beginning of year	710,149	218,170	479,839	1,408,158
Fund balances end of year	\$ 818,936	228,964	346,441	1,394,341

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ (13,817)

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

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

Capital outlay expenditures	\$ 340,515	
Depreciation expense	(144,288)	196,227

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 8,786

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. 250,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	(43,060)	
Compensated absences	(13,524)	
Other postemployment benefits	(14,000)	(70,584)

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. 614

Changes in net assets of governmental activities (page 19) \$ 371,226

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and pooled investments	\$ 53,851
Accounts receivable	85
Inventories	9,420
Capital assets, net of accumulated depreciation	<u>24,011</u>
Total assets	<u>87,367</u>
Liabilities	
Accounts payable	9,809
Unearned revenue	<u>1,112</u>
Total liabilities	<u>10,921</u>
Net Assets	
Invested in capital assets	24,011
Unrestricted	<u>52,435</u>
Total net assets	<u>\$ 76,446</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

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

	School Nutrition
Operating revenue:	
Local sources:	
Charges for services	\$ 87,235
Miscellaneous	901
Total operating revenue	88,136
Operating expenses:	
Support services:	
Administration:	
Salaries	11,253
Benefits	861
	12,114
Non-instructional programs:	
Food service operations:	
Salaries	59,782
Benefits	11,758
Services	2,116
Supplies	110,200
Depreciation	3,975
	187,831
Total operating expenses	199,945
Operating loss	(111,809)
Non-operating revenues:	
State sources	2,274
Federal sources	135,863
Interest income	124
Total non-operating revenues	138,261
Change in net assets before other financing sources	26,452
Other financing sources:	
Sale of equipment	1,312
Change in net assets	27,764
Net assets beginning of year	48,682
Net assets end of year	\$ 76,446

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 87,422
Cash received from miscellaneous sources	901
Cash payments to employees for services	(83,654)
Cash payments to suppliers for goods or services	(96,729)
Net cash used in operating activities	(92,060)
Cash flows from non-capital financing activities:	
State grants received	2,274
Federal grants received	119,680
Net cash provided by non-capital financing activities	121,954
Cash flows from investing financing activities:	
Interest on investments	124
Cash flows from capital financing activities	
Purchase of assets	(5,814)
Sale of equipment	1,312
Net cash flows from capital financing activities	(4,502)
Net increase in cash and cash equivalents	25,516
Cash and cash equivalents beginning of year	28,335
Cash and cash equivalents end of year	\$ 53,851
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (111,809)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities consumed	16,183
Depreciation	3,975
Decrease in inventories	388
Decrease in accounts receivable	64
Decrease in accounts payable	(984)
Increase in unearned revenue	123
Net cash used by operating activities	\$ (92,060)

Non-cash investing, capital and related financing activities:
During the year ended June 30, 2010, the District received \$16,183 of federal commodities.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2010

	<u>Agency</u>
Assets	
Cash and pooled investments	\$ 340
	<u>340</u>
Liabilities	
Due to other groups	\$ 340
	<u>340</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

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

The Lenox Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold, Taylor and Union Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund is used to account for machinery and equipment expenditures as well as the improvements to capital facilities.

The District reports the following proprietary fund:

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board

Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Land improvements	1,000
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 of depreciation over the following estimated useful lives:

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

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(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 \$1,006,692 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Interfund Receivables/Payables

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

Receivable Fund	Payable Fund	Amount
Special Revenue, Physical Plant and Equipment Levy	General Fund	<u>\$ 87,194</u>

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

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	\$ 130,924
Debt Service	Capital Projects	<u>106,076</u>
Total		<u>\$ 237,000</u>

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

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

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

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 50,521	-	-	50,521
Total capital assets not being depreciated	50,521	-	-	50,521
Capital assets being depreciated:				
Buildings	5,249,388	291,200	-	5,540,588
Land improvements	22,418	-	-	22,418
Machinery and equipment	697,221	49,315	57,850	688,686
Total capital assets being depreciated	5,969,027	340,515	57,850	6,251,692
Less accumulated depreciation for:				
Buildings	1,002,539	110,812	-	1,113,351
Land improvements	1,121	1,121	-	2,242
Machinery and equipment	619,080	32,355	57,850	593,585
Total accumulated depreciation	1,622,740	144,288	57,850	1,709,178
Total capital assets being depreciated, net	4,346,287	196,227	-	4,542,514
Governmental activities capital assets, net	\$ 4,396,808	196,227	-	4,593,035
Business type activities:				
Machinery and equipment	\$ 62,349	5,814	-	68,163
Less accumulated depreciation	40,177	3,975	-	44,152
Business type activities capital assets, net	\$ 22,172	1,839	-	24,011

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 10,982
Other	6,097
Support services:	
Instructional staff	5,712
Operation and maintenance of plant	1,250
Transportation	8,314
Unallocated depreciation	111,933
Total governmental activities depreciation expense	\$ 144,288
Business type activities:	
Food services	\$ 3,975

(6) Long-Term Liabilities

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

	Balance			Balance	Due
	Beginning			End of	Within
	of Year	Additions	Deletions	Year	One Year
General Obligation Bonds	\$ 3,075,000	-	170,000	2,905,000	175,000
Capital Loan Notes	335,000	-	80,000	255,000	80,000
Compensated Absences	24,678	38,202	24,678	38,202	38,202
Early Retirement	-	43,060	-	43,060	43,060
Net OPEB Liability	-	14,000	-	14,000	-
Total	\$ 3,434,678	95,262	274,678	3,255,262	336,262

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2011	2.90 %	\$ 175,000	103,045	278,045
2012	3.00	180,000	97,970	277,970
2013	3.10	190,000	92,570	282,570
2014	3.20	195,000	86,680	281,680
2015	3.30	200,000	80,440	280,440
2016-2020	3.40-3.80	1,150,000	292,100	1,442,100
2021-2023	3.90-4.00	815,000	65,940	880,940
Total		\$ 2,905,000	818,745	3,723,745

Capital Loan Notes Payable

Details of the District's June 30, 2010 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005			
	Interest Rates	Principal	Interest	Total
2011	3.45 %	\$ 80,000	9,063	89,063
2012	3.55	85,000	6,302	91,302
2013	3.65	90,000	3,285	93,285
Total		\$ 255,000	18,650	273,650

(7) **Pension and Retirement Benefits**

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$168,057, \$155,915, and \$140,749, respectively, equal to the required contributions for each year.

(8) **Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and vision benefits for retirees and their spouses. There are 47 active and 1 retired members in the plan. Participants must be age 55 or older at age of retirement.

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

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

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

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

Annual required contribution	\$ 23,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>23,000</u>
Contributions made	<u>(9,000)</u>
Increase in net OPEB obligation	14,000
Net OPEB obligation beginning of year	<u>-</u>
Net OPEB obligation end of year	<u>\$ 14,000</u>

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

For the year ended June 30, 2010, the District contributed \$9,000 to the medical plan. Plan members eligible for benefits contributed \$12,000, or 57.14% of the premium costs.

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

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$23,000	39.13%	\$14,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$199,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,645,298 and the ratio of the UAAL to covered payroll was 12.10%. 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. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2009 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual health care cost trend rate is 11.00% for the year ended June 30, 2010 grading down by 0.5% each year until an ultimate health care cost trend rate is reached in 2022 of 5.00%.

Mortality rates are from the RP-2000 table, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Projected claim costs of the medical plan are \$605 per month for retirees less than age 65. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$148,880 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(11) Categorical Funding

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

Project	Amount
Gifted and Talented Programs	\$ 11,315
Returning Dropouts and Dropout Prevention Programs	94,873
Four-year-old Preschool State Aid	44,570
Beginning Teacher Mentoring and Induction Program	2,676
Teacher Salary Supplement	17,440
Professional Development for Model Core Curriculum	13,314
Professional Development	<u>6,517</u>
Total	<u>\$ 190,705</u>

LENOX COMMUNITY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 2,444,332	88,260	2,532,592	2,474,490	2,474,490	58,102
State sources	1,898,824	2,274	1,901,098	2,360,960	2,360,960	(459,862)
Federal sources	427,481	135,863	563,344	410,294	410,294	153,050
Total revenues	<u>4,770,637</u>	<u>226,397</u>	<u>4,997,034</u>	<u>5,245,744</u>	<u>5,245,744</u>	<u>(248,710)</u>
Expenditures/Expenses:						
Instruction	2,816,609	-	2,816,609	3,634,843	3,634,843	818,234
Support services	1,154,393	12,114	1,166,507	1,653,162	1,653,162	486,655
Non-instructional programs	-	187,831	187,831	206,911	206,911	19,080
Other expenditures	821,515	-	821,515	1,040,640	1,040,640	219,125
Total expenditures/expenses	<u>4,792,517</u>	<u>199,945</u>	<u>4,992,462</u>	<u>6,535,556</u>	<u>6,535,556</u>	<u>1,543,094</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(21,880)	26,452	4,572	(1,289,812)	(1,289,812)	1,294,384
Other financing sources, net	<u>8,063</u>	<u>1,312</u>	<u>9,375</u>	<u>5,000</u>	<u>5,000</u>	<u>4,375</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	(13,817)	27,764	13,947	(1,284,812)	(1,284,812)	1,298,759
Balances beginning of year	<u>1,408,158</u>	<u>48,682</u>	<u>1,456,840</u>	<u>1,396,416</u>	<u>1,396,416</u>	<u>60,424</u>
Balances end of year	<u>\$ 1,394,341</u>	<u>76,446</u>	<u>1,470,787</u>	<u>111,604</u>	<u>111,604</u>	<u>1,359,183</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except 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.

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN
 REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	-	\$ 199,000	199,000	0.00%	\$ 1,645,298	12.10%

See Note 8 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

OTHER SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
Assets						
Cash and pooled investments	\$ 174,685	37,087	211,772	14,532	3,157	229,461
Receivables:						
Property tax:						
Delinquent	1,301	-	1,301	-	2,083	3,384
Succeeding year	120,000	-	120,000	-	140,445	260,445
Due from other governments	-	-	-	114,760	-	114,760
Total assets	\$ 295,986	37,087	333,073	129,292	145,685	608,050
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	-	1,164	1,164	-	-	1,164
Deferred revenue:						
Succeeding year property tax	120,000	-	120,000	-	140,445	260,445
Income surtax	-	-	-	-	-	-
Total liabilities	120,000	1,164	121,164	-	140,445	261,609
Fund balances:						
Reserved for debt service	-	-	-	-	5,240	5,240
Unreserved	175,986	35,923	211,909	129,292	-	341,201
Total fund balances	175,986	35,923	211,909	129,292	5,240	346,441
Total liabilities and fund balances	\$ 295,986	37,087	333,073	129,292	145,685	608,050

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special Revenue					Total
	Management Levy	Student Activity	Total Special Revenue Funds	Capital Projects	Debt Service	Other Nonmajor Governmental Funds
Revenues:						
Local sources:						
Local tax	\$ 79,843	-	79,843	130,405	127,867	338,115
Other	8,757	79,310	88,067	139	86	88,292
State sources	45	-	45	85,525	72	85,642
Total revenues	88,645	79,310	167,955	216,069	128,025	512,049
Expenditures:						
Current:						
Instruction:						
Regular	23,932	-	23,932	-	-	23,932
Other	-	85,076	85,076	-	-	85,076
Support services:						
Administration	3,988	-	3,988	-	-	3,988
Operation and maintenance of plant	23,782	-	23,782	-	-	23,782
Transportation	9,679	-	9,679	-	-	9,679
Other expenditures:						
Facilities acquisitions	-	-	-	259,652	-	259,652
Long-term debt:						
Principal	-	-	-	-	250,000	250,000
Interest and fiscal charges	-	-	-	-	120,262	120,262
Total expenditures	61,381	85,076	146,457	259,652	370,262	776,371
Excess(deficiency) of revenues over(under) expenditures	27,264	(5,766)	21,498	(43,583)	(242,237)	(264,322)
Other financing sources(uses):						
Transfer in	-	-	-	-	237,000	237,000
Transfer out	-	-	-	(106,076)	-	(106,076)
Total other financing sources(uses)	-	-	-	(106,076)	237,000	130,924
Net change in fund balances	27,264	(5,766)	21,498	(149,659)	(5,237)	(133,398)
Fund balances beginning of year	148,722	41,689	190,411	278,951	10,477	479,839
Fund balances end of year	\$ 175,986	35,923	211,909	129,292	5,240	346,441

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX 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	Balance End of Year
Athletics:				
General athletics	\$ -	4,029	4,029	-
Football	-	6,669	6,669	-
Volleyball	-	2,318	1,594	724
Boys Basketball	1,158	2,680	2,929	909
Girls Basketball	1,341	2,667	3,269	739
Wrestling	450	1,984	2,434	-
Boys Track	36	-	36	-
HS Baseball	-	2,841	2,841	-
JH Baseball	-	180	180	-
HS Softball	-	2,759	2,521	238
JH Softball	-	270	270	-
Weight Room	749	-	269	480
Bowling	30	-	30	-
	<u>3,764</u>	<u>26,397</u>	<u>27,071</u>	<u>3,090</u>
Band/Vocal:				
HS Music	6,847	3,592	3,612	6,827
Uniform Fees	1,808	187	240	1,755
Music Supplies	-	347	332	15
	<u>8,655</u>	<u>4,126</u>	<u>4,184</u>	<u>8,597</u>
Clubs/Organizations:				
Art Club	42	-	-	42
Peer Helpers	74	-	-	74
Football Cheerleaders	507	2,659	2,356	810
Basketball Cheerleaders	964	102	-	1,066
Wrestling Cheerleaders	-	102	-	102
Student Council	1,522	3,142	3,906	758
National Honor Society	45	-	-	45
Annual Staff	13,034	7,231	8,444	11,821
Drama Club	-	829	829	-
Explorer's	31	-	-	31
Foreign Language	81	-	-	81
	<u>16,300</u>	<u>14,065</u>	<u>15,535</u>	<u>14,830</u>

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

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2010	2,766	9,390	10,368	1,788
Class of 2011	67	22,380	17,493	4,954
Class of 2012	62	240	69	233
Class of 2013	174	120	59	235
Class of 2014	-	4	-	4
Class of 2015	-	52	10	42
	<u>3,069</u>	<u>32,186</u>	<u>27,999</u>	<u>7,256</u>
Elementary Activities:				
Memory Book	367	1,841	1,689	519
Student Council	703	330	66	967
Activities	119	-	-	119
Music	634	-	-	634
	<u>1,823</u>	<u>2,171</u>	<u>1,755</u>	<u>2,239</u>
Miscellaneous:				
Student Pop	727	-	-	727
Misc school-wide	7,050	27	8,194	(1,117)
Interest	-	338	338	-
JH Stand	156	-	-	156
Immunizations	145	-	-	145
	<u>8,078</u>	<u>365</u>	<u>8,532</u>	<u>(89)</u>
Total	<u>\$ 41,689</u>	<u>79,310</u>	<u>85,076</u>	<u>35,923</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2010

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 358	20,536	20,554	340
Liabilities				
Due to other groups	\$ 358	20,536	20,554	340

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 1,868,655	1,808,919	1,686,714	1,662,237	1,511,553	1,366,507	1,294,775
Tuition	396,671	413,829	280,851	232,997	266,652	281,335	263,624
Other	179,006	214,314	195,874	181,662	179,838	174,022	124,466
State sources	1,898,824	2,081,653	1,935,997	1,791,182	1,480,172	1,578,991	1,580,030
Federal sources	427,481	251,920	186,369	203,138	234,946	349,950	250,371
Total	\$ 4,770,637	4,770,635	4,285,805	4,071,216	3,673,161	3,750,805	3,513,266
Expenditures:							
Current:							
Instruction:							
Regular	\$ 1,547,437	1,548,294	1,416,919	1,350,985	1,391,226	1,366,276	1,251,328
Special	602,155	607,413	540,657	512,822	518,138	783,153	661,963
Other	667,017	618,859	607,099	585,730	563,521	265,014	303,544
Support services:							
Student	84,340	78,757	74,729	19,286	15,072	19,190	17,791
Instructional staff	169,903	237,112	122,746	91,206	92,947	45,215	39,274
Administration	439,463	424,755	397,302	372,026	350,216	318,370	316,205
Operation and maintenance of plant	345,991	314,591	309,951	279,666	253,494	267,729	232,156
Transportation	114,696	109,200	133,060	157,560	94,760	85,670	81,062
Non-instructional programs:							
Food service operations	-	-	-	-	-	81,063	-
Other expenditures:							
Facilities acquisitions	302,373	26,140	54,388	176,067	277,080	3,358,309	950,189
Long-term debt:							
Principal	250,000	235,000	225,000	220,000	140,000	100,000	145,715
Interest and fiscal charges	120,262	129,862	139,748	149,313	154,835	142,670	137,862
AEA flow-through	148,880	131,964	115,808	112,369	105,645	106,450	109,086
Total	\$ 4,792,517	4,461,947	4,137,407	4,027,030	3,956,934	6,939,109	4,246,175

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Grant Number	Expenditures
Direct:			
U.S. Department of Education: Rural Education	84.358	4334	\$ 32,163
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 10	20,444
National School Lunch Program	10.555	FY 10	110,317 *
			<u>130,761</u>
Child Nutrition Discretionary Grants	10.579	FY 10	<u>5,102</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010	FY 10	59,996
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	FY 10	<u>33,198</u>
			<u>93,194</u>
Migrant Education - State Grant Program	84.011	FY 10	<u>18,720</u>
Career and Technical Education - Basic Grants to States	84.048	FY 10	<u>4,354</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 10	<u>1,301</u>
Fund for the Improvement of Education	84.215	FY 10	<u>1,745</u>
Reading First State Grants	84.357	FY 10	<u>19,417</u>
Improving Teacher Quality State Grants	84.367	FY 10	<u>17,131</u>
Grants for State Assessments and Related Activities	84.369	FY 10	<u>2,535</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 10	<u>171,064</u>
Area Education Agency:			
Special Education Cluster (IDEA):			
Special Education - Grants to States	84.027	FY 10	20,543
ARRA - Special Education Grants to States, Recovery Act	84.391	FY 10	<u>44,936</u>
			<u>65,479</u>
Educational Technology State Grants	84.318	FY 10	<u>340</u>
English Language Acquisition Grants	84.365	FY 10	<u>38</u>
Total			<u>\$ 563,344</u>

* -Includes \$16,183 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Bedford Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and 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)

117 West 3rd Street North, Newton, Iowa 50208-3050

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
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lenox Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 7, 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 Lenox Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency 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 deficiency described in Part II of the accompanying Schedule of Findings and Questioned costs as item II-B-10 to be a significant deficiency.

Compliance and Other Matters

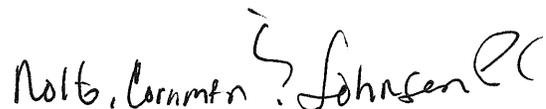
As part of obtaining reasonable assurance about whether Lenox Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct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

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.

Lenox 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 Lenox Community School District's responses and, accordingly, we express no opinion on them.

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 7, 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
Lenox Community School District:

Compliance

We have audited the compliance of Lenox 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. Lenox 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 Lenox Community School District's management. Our responsibility is to express an opinion on Lenox Community School District's compliance based on our audit.

We conducted our audit on compliance in accordance with U.S. generally accepted accounting 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 Lenox 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 Lenox Community School District's compliance with those requirements.

In our opinion, Lenox 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 Lenox 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 Lenox 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 Lenox Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's 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.

Lenox 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 responses, we did not audit Lenox Community School District's responses and, accordingly, we express no opinion on them.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 7, 2011

LENOX 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) A significant deficiency and material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) 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 no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major Programs were as follows:
 - CFDA Number 84.394 - ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act.
 - Clustered programs:
 - CFDA Number 10.553 - School Breakfast Program.
 - CFDA Number 10.555 - National School Lunch Program.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Lenox Community School District did not qualify as a low-risk auditee.

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

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

Conclusion - Response accepted.

II-B-10 Account Not Recorded - We noted during our audit that the District has a Flex account that is not included in the District's accounting system .

Recommendation - All accounts should be included in the District's accounting system.

Response - The district will set up an account on the accounting system for the Flex spending account.

Conclusion - Response accepted.

II-C-10 Intangible Asset Policy - Although the District implemented Governmental Accounting Standards Board Statement No. 51 with regard to intangible assets, the District does not have a policy addressing capitalization of intangible assets.

Recommendation - The District's Board of Directors should adopt an intangible asset policy addressing the capitalization of intangible assets.

Response - The board will adopt an intangible asset policy addressing the capitalization of intangible assets as soon as normal protocol permits.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

LENOX 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 DEFICIENCY:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
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
U.S. 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 - The District will review the duties of office employees and segregate duties where possible. However, it is unlikely that the District will be able to segregate duties without hiring additional staff.

Conclusion - Response accepted.

LENOX 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 expenditures for the year ended June 30, 2010, did not exceed the amounts budgeted in any of the functional areas.

IV-B-10 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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.

IV-D-10 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Barker, Board Member		
Part owner of Barker Implement	Supplies and Services	\$810
Spouse	Accompanist	\$892
Brent Wise, Board Member		
Part owner of Tiger Lanes	HS PE Bowling	\$800
Joyce Sweeney, Secretary		
Spouse owns Sweeney Repair	Repairs	\$377
Brother-in-law owns Vince Sweeney Const.	Services	\$2,458
Paula Horton, Board Secretary		
Son part owner of Lenox Tire Center	Services	\$743
Allen Dukes, Teacher		
Brother, Leroy Dukes	VB & FB Official	\$340
Nephew, Matt Dukes	FB Official	\$50
Mark Curtis, Technical Coordinator		
Owns Curtis Heating & Cooling	Supplies/Repairs	\$944
Tom Christensen, Coach		
Owns Christensen Sanitation	Garbage Disposal	\$3,227
Brother, Gary Christensen	WR Official	\$130
Brother, Jim Christensen	FB & WR Official	\$380
Karl & Candace Peterson, Teacher		
Son, Tyler Peterson	JH BB Official	\$45

Name, Title and Business Connection	Transaction Description	Amount
Leah Siverly, Aide Owner of Siverly Graphixs	Supplies and Services	\$1,206
Mary Beaman, Teacher Beaman Grazier Farms is family farm	Supplies	\$180
Mitch Sorensen, Teacher Owns S&S Sound Spectrum	DJ Services	\$600
Jennifer Miller, Nurse Brother owns Appliance Plus Mother owns Tiger Den	Washer/Repairs Meals	\$453 \$56
Nancy Chapman, Cook Husband owns Don's Body Shop	Repairs	\$329

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

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with District employees do not appear to represent a conflict of interest.

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

- 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 ensure 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 no variances in the basic enrollment data certified to the Department of Education.
- IV-H-10 Supplementary Weighting - No variances regarding the supplementary weighting 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 Servicing Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

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

Beginning Balance		\$	78,083
Statewide sales and service tax revenue			130,405
Expenditures/transfers out:			
School Infrastructure:			
Buildings	\$	102,412	
Debt service for school infrastructure:			
General obligation debt		<u>106,076</u>	<u>208,488</u>
Ending Balance		\$	<u><u>-</u></u>

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

	<u>Per \$1,000 of Taxable Valuation</u>	<u>Property Tax Dollars</u>
Debt service levy	\$ 1.19959	\$ 106,076
Physical plant and equipment levy	\$ 0.27513	\$ 24,329