

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis (MD&A)		7-15
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	18
Statement of Activities	B	19
Governmental Fund Financial Statements:		
Balance Sheet	C	20
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	21
Statement of Revenues, Expenditures and Changes in Fund Balances	E	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	23
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	24
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	25
Statement of Cash Flows	I	26
Notes to Financial Statements		27-38
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		40
Notes to Required Supplementary Information - Budgetary Reporting		41
Schedule of Funding Progress for the Retiree Health Plan		42
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	45
Schedule of Changes in Student Activity Accounts	3	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	47
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		48-49
Schedule of Findings		50-53

Lineville-Clio Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2009 Election)</b>		
David Brennecke	President	2009
Cherlyn Hullinger	Vice President	2011
Judy Shields	Board Member	2009
Virginia Clow	Board Member	2011
Jose Moreno	Board Member	2011
<b>(After September 2009 Election)</b>		
Cherlyn Hullinger	President	2011
Virginia Clow	Vice President	2011
Mike Graham	Board Member	2013
Amanda Wiltamuth	Board Member	2013
Jose Moreno	Board Member	2011
<b>Officials</b>		
Rob Busch	Superintendent	2010
Cheryl Porter	District Secretary/Treasurer and Business Manager	2010
Alan Wilson	Attorney	2010

**Lineville-Clio Community  
School District**

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

**Certified Public Accountants**

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Lineville-Clio 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 Lineville-Clio Community School District, Lineville-Clio 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, business type activities, each major fund, and the aggregate remaining fund information of the Lineville-Clio Community School District at June 30, 2010 and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated December 7, 2010 on our consideration of the Lineville-Clio 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 Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 15 and 40 through 42 are not required parts of the

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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 the presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lineville-Clio 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 four years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 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.

December 7, 2010

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

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Lineville-Clio 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 \$1,393,242 in fiscal 2009 to \$1,114,627 in fiscal 2010, while General Fund expenditures decreased from \$1,429,357 in fiscal 2009 to \$1,206,272 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$33,437 in fiscal 2009 to a deficit \$58,208 in fiscal 2010, a 274.08% decrease from the prior year.
- The decrease in General Fund revenues was attributable to decreases in state and federal source revenues in fiscal 2010. The decrease in expenditures was due primarily to decreased expenses in the support services and non-instructional programs areas.

### **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 Lineville-Clio 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 Lineville-Clio 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 Lineville-Clio 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 non-major governmental funds.

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

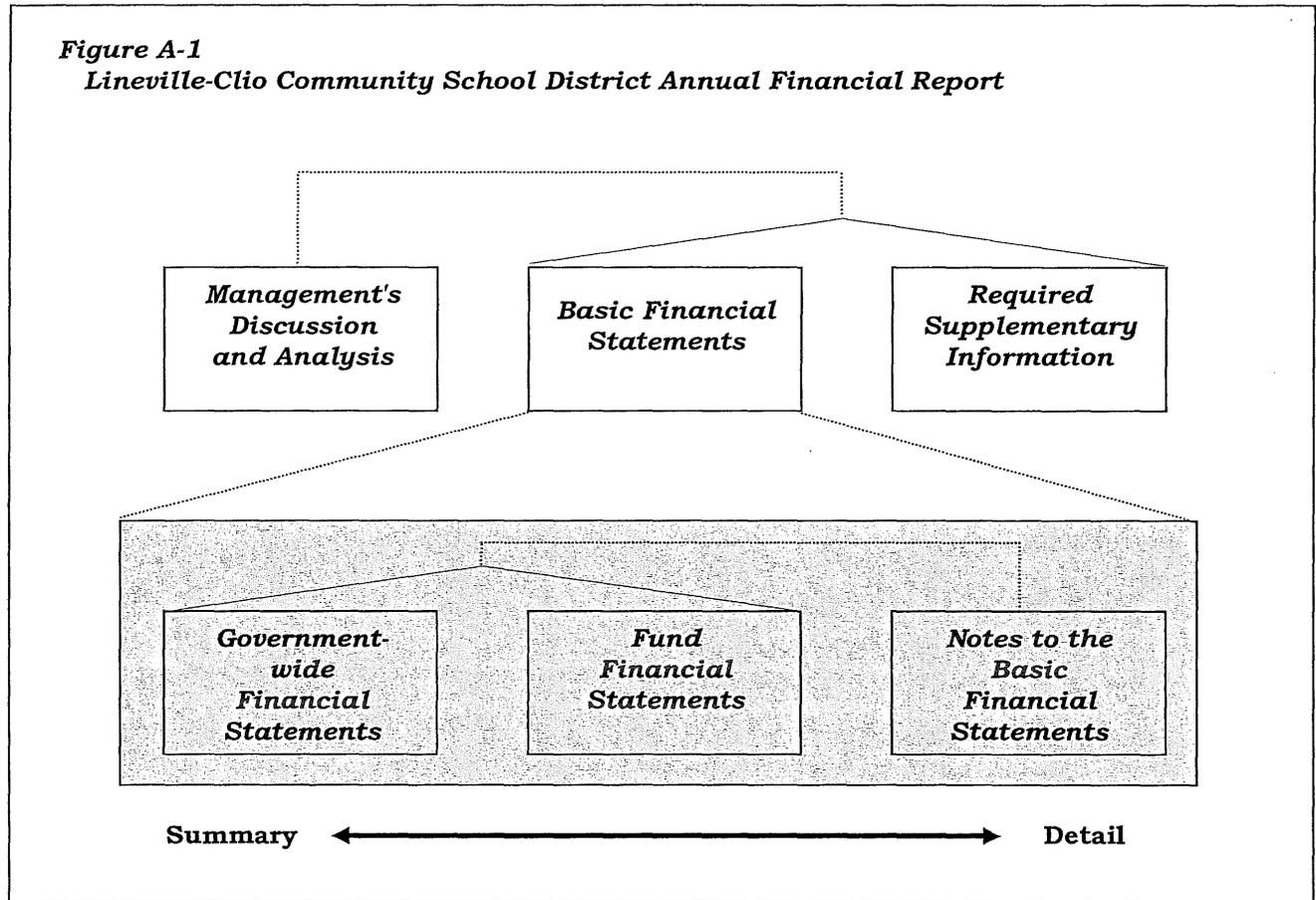


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	District-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
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
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

## 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.

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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 two kinds of funds:

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

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

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

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

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	\$ 967,404	1,531,733	1,623	1,511	969,027	1,533,244	-36.80%
Capital assets	871,457	900,390	613	776	872,070	901,166	-3.23%
Total assets	1,838,861	2,432,123	2,236	2,287	1,841,097	2,434,410	-24.37%
Long-term obligations	716,897	764,432	103	0	717,000	764,432	-6.20%
Other liabilities	777,310	1,313,858	17,427	14,499	794,737	1,328,357	-40.17%
Total liabilities	1,494,207	2,078,290	17,530	14,499	1,511,737	2,092,789	-27.76%
Net assets:							
Invested in capital assets, net of related debt	156,457	135,958	613	776	157,070	136,734	14.87%
Restricted	293,001	196,822	0	0	293,001	196,822	48.87%
Unrestricted	(104,804)	21,053	(15,907)	(12,988)	(120,711)	8,065	-1596.73%
Total net assets	\$ 344,654	353,833	(15,294)	(12,212)	329,360	341,621	-3.59%

The District's combined net assets decreased by 3.59%, or \$12,261 from the prior year. A large share of the District's net assets is the invested in capital assets less the related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$96,179, or 48.87% from the prior year. The increase in restricted net assets is mainly attributable to the increases in fund balance for the Management Levy Fund, Physical Plant and Equipment Levy Fund and the Capital Projects Fund.

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 \$128,776, or 1,596.73%. The decrease in unrestricted net assets is mainly attributable to the decrease in fund balance of the General Fund.

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
	2010	2009	2010	2009	2010	2009	2009-10
Revenues:							
Program revenues:							
Charges for services	\$ 43,316	56,213	14,465	21,839	57,781	78,052	-25.97%
Operating grants, contributions and restricted interest	349,464	657,132	23,542	30,099	373,006	687,231	-45.72%
General revenues:							
Property tax	524,595	429,988	0	0	524,595	429,988	22.00%
Income surtax	25,385	29,551	0	0	25,385	29,551	-14.10%
Statewide sales, services and use tax	54,576	51,034	0	0	54,576	51,034	6.94%
Unrestricted state grants	309,070	304,082	0	0	309,070	304,082	1.64%
Unrestricted investment earnings	7,397	21,051	0	0	7,397	21,051	-64.86%
Other	21,872	16,070	134	92	22,006	16,162	36.16%
Total revenues	\$ 1,335,675	1,565,121	38,141	52,030	1,373,816	1,617,151	-15.05%
Program expenses:							
Governmental activities:							
Instruction	\$ 853,883	802,305	0	0	853,883	802,305	6.43%
Support services	346,523	464,113	413	379	346,936	464,492	-25.31%
Non-instructional programs	54,418	226,122	40,810	58,041	95,228	284,163	-66.49%
Other expenses	90,030	86,660	0	0	90,030	86,660	3.89%
Total expenses	1,344,854	1,579,200	41,223	58,420	1,386,077	1,637,620	-15.36%
Change in net assets	(9,179)	(14,079)	(3,082)	(6,390)	(12,261)	(20,469)	40.10%
Beginning net assets	353,833	367,912	(12,212)	(5,822)	341,621	362,090	-5.65%
Ending net assets	\$ 344,654	353,833	(15,294)	(12,212)	329,360	341,621	-3.59%

In fiscal 2010, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 68.40% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.65% of the revenue from business type activities.

The District's total revenues were \$1,373,816, of which \$1,335,675 was for governmental activities and \$38,141 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 15.05% decrease in revenues and a 15.36% decrease in expenses. The largest declines in revenues occurred in operating grants, contributions and restricted interest and unrestricted investment earnings.

### Governmental Activities

Revenues for governmental activities were \$1,335,675 and expenses were \$1,344,854. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available resources.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change 2009-10	2010	2009	Change 2009-10
Instruction	\$ 853,883	802,305	6.43%	502,949	348,532	44.30%
Support services	346,523	464,113	-25.34%	341,346	463,508	-26.36%
Non-instructional programs	54,418	226,122	-75.93%	54,418	(1,472)	0.00%
Other expenses	90,030	86,660	3.89%	53,361	55,287	-3.48%
Totals	<u>\$ 1,344,854</u>	<u>1,579,200</u>	<u>-14.84%</u>	<u>952,074</u>	<u>865,855</u>	<u>9.96%</u>

- The cost financed by users of the District's programs was \$43,316.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$349,464.
- The net cost of governmental activities was financed with \$524,595 in property tax, \$25,385 in income surtax, \$54,576 in statewide sales, services and use tax, \$309,070 in unrestricted state grants, \$7,397 in unrestricted investment earnings and \$21,872 in other general revenues.

### Business Type Activities

Revenues of the District's business type activities were \$38,141 and expenses were \$41,223. 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 Lineville-Clio 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 \$167,654, a \$29,237 decline from last year's ending fund balances of \$196,891.

### Governmental Fund Highlights

- The District's decrease in General Fund financial position is the product of many factors. One primary reason is the substantial decline in federal sources of revenue during fiscal year 2010 as compared to fiscal year 2009. The District was effective in limiting costs which lead to a similar decrease in District expenditures in fiscal year 2010 as compared to fiscal year 2009. In spite of these efforts, the District had more expenditures than revenues causing the General Fund balance to decrease by \$91,645.
- The Physical Plant and Equipment Levy Fund increased from \$62,154 at June 30, 2009 to \$91,179 at June 30, 2010. An increase in the amount of property tax received during the year coupled with decreased expenditures as compared to the previous year led to the increase in fund balance.

- The Capital Projects Fund balance increased from \$58,773 at June 30, 2009 to \$79,079 at June 30, 2010. The increase was in part because of increased revenues for the Capital Projects Fund for fiscal 2010 as compared to fiscal 2009. A decrease in the amount of the transfer from Capital Projects Fund to the Debt Service Fund for retirement of general obligation bond debt also contributed to the fund balance increase.

**Proprietary Fund Highlights**

- The School Nutrition Fund net assets decreased from a deficit of \$12,212 at June 30, 2009 to a deficit of \$15,294 at June 30, 2010, representing a decrease of 25.24%.

**BUDGETARY HIGHLIGHTS**

The District’s revenues were \$1,017,109 less than budgeted revenues, a variance of 42.56%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were more than budgeted, primarily due to unexpected expenses in the non-instructional programs function. 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 \$872,070, net of accumulated depreciation, in a broad range of capital assets, including buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.23% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$29,096.

The original cost of the District’s capital assets was \$1,130,935. Governmental funds account for \$1,127,613 with the remainder of \$3,322 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District’s buildings totaled \$43,107 net of depreciation at June 30, 2009, compared to \$33,427 reported at June 30, 2010. This decrease resulted from the current year depreciation expense.

Figure A-6  
Capital Assets, Net of Depreciation

	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
Buildings	\$ 827,768	846,580	0	0	827,768	846,580	-2.22%
Improvements other than buildings	10,875	11,479	0	0	10,875	11,479	-5.26%
Machinery and equipment	32,814	42,331	613	776	33,427	43,107	-22.46%
Total	\$ 871,457	900,390	613	776	872,070	901,166	-3.23%

## Long Term Debt

At year-end, the District had \$717,000 in general obligation and other long-term debt outstanding. This represents a decrease of 6.20%. (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 \$715,000 in general obligation bonds outstanding at June 30, 2010.

During the year ended June 30, 2010, the District made its final payment on the bus lease payable.

The District had a net OPEB liability of \$2,000 at June 30, 2010

Figure A-7  
Outstanding Long-Term Obligations

	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
General obligation bonds	\$ 715,000	755,000	0	0	715,000	755,000	-5.30%
Bus lease	0	9,432	0	0	0	9,432	-100.00%
Net OPEB Liability	1,897	0	103	0	2,000	0	100.00%
Totals	\$ 716,897	764,432	103	0	717,000	764,432	-6.20%

## 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 circumstance that could significantly affect its financial health in the future:

- The national recession that has adversely impacted the state of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid (allowable growth) to schools will be based on the condition of the state and national economies. Given the current financial status of the State of Iowa, there is a possibility that the state aid rate will be reduced for the fiscal 2011 year.
- On December 7, 2010, the Lineville-Clio Community School District and the Wayne Community School District held a public meeting for consolidation of the two districts. Residents of the Lineville-Clio Community School District passed a resolution to merge with Wayne Community School District on a 60.9% vote. Residents of the Wayne Community School District passed a resolution to merge with Lineville-Clio Community School District on a 79.5% vote.

## 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 Cheryl Porter, Board Secretary, Lineville-Clio Community School District, 200 W 6th St, Lineville, Iowa, 50147.

**Lineville-Clio Community  
School District**

BASIC FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 241,958	0	241,958
Receivables:			
Property tax:			
Delinquent	10,173	0	10,173
Succeeding year	634,259	0	634,259
Income surtax	25,077	0	25,077
Accounts	32,494	0	32,494
Due from other governments	23,443	0	23,443
Inventories	0	1,623	1,623
Capital assets, net of accumulated depreciation	871,457	613	872,070
<b>TOTAL ASSETS</b>	<b>1,838,861</b>	<b>2,236</b>	<b>1,841,097</b>
<b>Liabilities</b>			
Excess of warrants issued over bank balance	0	16,981	16,981
Accounts payable	52,695	0	52,695
Salaries and benefits payable	85,415	444	85,859
Interest payable	2,637	0	2,637
Deferred revenue:			
Succeeding year property tax	634,259	0	634,259
Other	2,304	0	2,304
Unearned revenue	0	2	2
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	45,000	0	45,000
Portion due after one year:			
General obligation bonds payable	670,000	0	670,000
Net OPEB liability	1,897	103	2,000
<b>TOTAL LIABILITIES</b>	<b>1,494,207</b>	<b>17,530</b>	<b>1,511,737</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	156,457	613	157,070
Restricted for:			
Categorical funding	67,139	0	67,139
Management levy	32,582	0	32,582
Physical plant and equipment levy	91,179	0	91,179
Capital projects	79,079	0	79,079
Debt service	2,975	0	2,975
Other special revenue purposes	20,047	0	20,047
Unrestricted	(104,804)	(15,907)	(120,711)
<b>TOTAL NET ASSETS</b>	<b>\$ 344,654</b>	<b>(15,294)</b>	<b>329,360</b>

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 568,248	14,735	292,525	(260,988)	0	(260,988)
Special	114,237	0	15,093	(99,144)	0	(99,144)
Other	171,398	28,581	0	(142,817)	0	(142,817)
	853,883	43,316	307,618	(502,949)	0	(502,949)
Support services:						
Student	43,652	0	0	(43,652)	0	(43,652)
Instructional staff	4,316	0	0	(4,316)	0	(4,316)
Administration	185,496	0	0	(185,496)	0	(185,496)
Operation and maintenance of plant	76,658	0	5,177	(71,481)	0	(71,481)
Transportation	36,401	0	0	(36,401)	0	(36,401)
	346,523	0	5,177	(341,346)	0	(341,346)
Non-instructional programs:						
Community service operations	54,418	0	0	(54,418)	0	(54,418)
Other expenditures:						
Interest and fiscal charges	33,945	0	0	(33,945)	0	(33,945)
AEA flowthrough	36,669	0	36,669	0	0	0
Depreciation(unallocated)*	19,416	0	0	(19,416)	0	(19,416)
	90,030	0	36,669	(53,361)	0	(53,361)
Total governmental activities	1,344,854	43,316	349,464	(952,074)	0	(952,074)
Business Type activities:						
Support services:						
Administrative services	273	0	0	0	(273)	(273)
Operation and maintenance of plant services	140	0	0	0	(140)	(140)
	413	0	0	0	(413)	(413)
Non-instructional programs:						
Food service operations	40,810	14,465	23,542	0	(2,803)	(2,803)
Total business type activities	41,223	14,465	23,542	0	(3,216)	(2,803)
Total	\$ 1,386,077	57,781	373,006	(952,074)	(3,216)	(954,877)
<b>General Revenues:</b>						
Local tax for:						
General purposes				\$ 442,363	0	442,363
Capital outlay				29,581	0	29,581
Debt service				52,651	0	52,651
Income surtax				25,385	0	25,385
Statewide sales, services and use tax				54,576	0	54,576
Unrestricted state grants				309,070	0	309,070
Unrestricted investment earnings				7,397	0	7,397
Other				21,872	134	22,006
Total general revenues				942,895	134	943,029
Changes in net assets				(9,179)	(3,082)	(12,261)
Net assets beginning of year				353,833	(12,212)	341,621
Net assets end of year				\$ 344,654	(15,294)	329,360

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

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010

	General	Manage- ment Levy	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>Assets</b>					
Cash and pooled investments	\$ 40,685	33,031	90,605	77,637	241,958
Receivables:					
Property tax:					
Delinquent	7,907	671	574	1,021	10,173
Succeeding year	446,037	120,000	21,575	46,647	634,259
Income surtax	25,077	0	0	0	25,077
Accounts	32,494	0	0	0	32,494
Due from other governments	0	0	0	23,443	23,443
<b>Total Assets</b>	<b>\$ 552,200</b>	<b>153,702</b>	<b>112,754</b>	<b>148,748</b>	<b>967,404</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 51,575	1,120	0	0	52,695
Salaries and benefits payable	85,415	0	0	0	85,415
Deferred revenue:					
Succeeding year property tax	446,037	120,000	21,575	46,647	634,259
Income surtax	25,077	0	0	0	25,077
Other	2,304	0	0	0	2,304
Total liabilities	610,408	121,120	21,575	46,647	799,750
Fund balances:					
Reserved for:					
Debt service	0	0	0	2,975	2,975
Categorical funding	67,139	0	0	0	67,139
Unreserved	(125,347)	32,582	91,179	99,126	97,540
Total fund balances	(58,208)	32,582	91,179	102,101	167,654
<b>Total Liabilities and Fund Balances</b>	<b>\$ 552,200</b>	<b>153,702</b>	<b>112,754</b>	<b>148,748</b>	<b>967,404</b>

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO 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)	\$	167,654
 <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.		871,457
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.		25,077
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.		(2,637)
Long-term liabilities, including general obligation bonds payable 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>(716,897)</u>
<b>Net assets of governmental activities (page 18)</b>	<b>\$</b>	<b><u><u>344,654</u></u></b>

SEE NOTES TO FINANCIAL STATEMENTS

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

	General	Management Levy	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
<b>Revenues:</b>					
Local sources:					
Local tax	\$ 431,932	34,608	29,581	107,227	603,348
Tuition	13,865	0	0	0	13,865
Other	17,048	2,907	16,089	28,793	64,837
State sources	459,459	188	161	286	460,094
Federal sources	192,323	0	0	0	192,323
Total revenues	1,114,627	37,703	45,831	136,306	1,334,467
<b>Expenditures:</b>					
Current:					
Instruction:					
Regular	546,085	6,972	0	12,337	565,394
Special	114,096	0	0	0	114,096
Other	135,493	0	3,389	32,220	171,102
	795,674	6,972	3,389	44,557	850,592
Support services:					
Student	43,545	0	0	0	43,545
Instructional staff	3,588	0	0	0	3,588
Administration	171,006	14,147	0	0	185,153
Operation and maintenance of plant	73,106	0	3,440	0	76,546
Transportation	28,266	1,302	0	0	29,568
	319,511	15,449	3,440	0	338,400
Non-instructional programs:					
Community service operations	54,418	0	0	0	54,418
Other expenditures:					
Long-term debt:					
Principal	0	0	0	49,432	49,432
Interest and fiscal charges	0	0	0	34,193	34,193
AEA flowthrough	36,669	0	0	0	36,669
	36,669	0	0	83,625	120,294
Total expenditures	1,206,272	22,421	6,829	128,182	1,363,704
Excess(Deficiency) of revenues over(under) expenditures	(91,645)	15,282	39,002	8,124	(29,237)
Other financing sources(uses):					
Transfers in	0	0	0	31,977	31,977
Transfers out	0	0	(9,977)	(22,000)	(31,977)
Total other financing sources(uses)	0	0	(9,977)	9,977	0
Net change in fund balances	(91,645)	15,282	29,025	18,101	(29,237)
Fund balance beginning of year	33,437	17,300	62,154	84,000	196,891
Fund balance end of year	\$ (58,208)	32,582	91,179	102,101	167,654

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO 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) \$ (29,237)

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

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

Depreciation expense (28,933)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 1,208

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. 248

Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows: 49,432

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

Other postemployment benefits (1,897)

Changes in net assets of governmental activities (page 19) \$ (9,179)

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF NET ASSETS  
 PROPRIETARY FUND  
 JUNE 30, 2010

	<u>School</u> <u>Nutrition</u>
<b>Assets</b>	
Inventories	\$ 1,623
Capital assets, net of accumulated depreciation	613
<b>Total assets</b>	<u>2,236</u>
<b>Liabilities</b>	
Excess of warrants issued over bank balance	16,981
Salaries and benefits payable	444
Unearned revenue	2
Net OPEB liability	103
<b>Total liabilities</b>	<u>17,530</u>
<b>Net Assets</b>	
Invested in capital assets	613
Unrestricted	(15,907)
<b>Total net assets</b>	<u>\$ (15,294)</u>

SEE NOTES TO FINANCIAL STATEMENTS

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

	School Nutrition
Operating revenues:	
Local sources:	
Charges for services	\$ 14,465
Donations	311
Miscellaneous	134
Total operating revenues	14,910
Operating expenses:	
Support services:	
Administrative Services	273
Operation and maintenance of plant services	140
Total Support services	413
Non-instructional programs:	
Food service operations:	
Salaries	14,473
Benefits	6,315
Supplies	19,752
Depreciation	163
Other	107
Total non-instructional programs	40,810
Total operating expenses	41,223
Operating loss	(26,313)
Non-operating revenues:	
State sources	347
Federal sources	22,884
Total non-operating revenues	23,231
Change in net assets	(3,082)
Net assets beginning of year	(12,212)
Net assets end of year	\$ (15,294)

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO 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	\$ 14,402
Cash received from miscellaneous operating activities	445
Cash payments to employees for services	(25,981)
Cash payments to suppliers for goods or services	(16,514)
Net cash used in operating activities	(27,648)
Cash flows from non-capital financing activities:	
State grants received	347
Federal grants received	18,974
Net cash provided by non-capital financing activities	19,321
Net decrease in cash and cash equivalents	(8,327)
Cash and cash equivalents at beginning of year	(8,654)
Cash and cash equivalents at end of year	\$ (16,981)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (26,313)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	3,910
Depreciation	163
Increase in inventories	(152)
Decrease in salaries and benefits payable	(5,296)
Decrease in unearned revenue	(63)
Increase in other postemployment benefits	103
Net cash used in operating activities	\$ (27,648)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$3,910.

SEE NOTES TO FINANCIAL STATEMENTS

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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

The Lineville-Clio Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Lineville and Clio, Iowa, and the predominate agricultural territory in Wayne and Decatur 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, Lineville-Clio 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 Lineville-Clio 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 Wayne and Decatur 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 non-fiduciary 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 non-major 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 funds are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Management Levy Fund is used to account for the property insurance needs of the District and unemployment payments made to the Iowa Workforce Development.

The Physical Plant and Equipment Levy Fund is utilized to account for building improvements and equipment purchases of the District.

The District reports the following proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary 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 providers 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 non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Balances

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. 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 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	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-12 years

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

Asset Class	Amount
Buildings	\$ 5,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

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

to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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.

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 in bank 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 banker's 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 \$164,445 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 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 & Equipment Levy	\$ 9,977
Debt Service	Capital Projects	22,000
Total		<u>\$ 31,977</u>

The transfer from the Physical Plant and Equipment Levy Fund to the Debt Service fund was needed for principal and interest payments on the District's bus lease which was paid off as of June 30, 2010.

The transfer from the Capital Projects Fund to the Debt Service Fund was needed as part of the principal and interest payments on the District's general obligation bond indebtedness.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the 2009-10A warrants was 2.50% The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. A summary of the District's ISCAP activity for the year ended June 30, 2010 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2009-10A	6/25/09	6/23/10	\$ 0	50,000	50,000	0
2009-10B	2/1/10	1/21/11	0	70,000	70,000	0
Total			<u>\$ 0</u>	<u>120,000</u>	<u>120,000</u>	<u>0</u>

During the year ended June 30, 2010, the District paid \$4,065 of interest on the ISCAP warrants.

**(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 being depreciated:				
Buildings	\$ 940,645	0	0	940,645
Improvements other than buildings	12,083	0	0	12,083
Machinery and equipment	174,885	0	0	174,885
Total capital assets being depreciated	<u>1,127,613</u>	<u>0</u>	<u>0</u>	<u>1,127,613</u>
Less accumulated depreciation for:				
Buildings	94,065	18,812	0	112,877
Improvements other than buildings	604	604	0	1,208
Machinery and equipment	132,554	9,517	0	142,071
Total accumulated depreciation	<u>227,223</u>	<u>28,933</u>	<u>0</u>	<u>256,156</u>
Governmental activities capital assets, net	<u>\$ 900,390</u>	<u>(28,933)</u>	<u>0</u>	<u>871,457</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business Type activities:				
Machinery and equipment	\$ 3,322	0	0	3,322
Less accumulated depreciation	2,546	163	0	2,709
Business type activities capital assets, net	<u>\$ 776</u>	<u>(163)</u>	<u>0</u>	<u>613</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 1,969
Support services:		
Instructional staff		722
Transportation		6,826
Unallocated depreciation		<u>19,416</u>
Total governmental activities depreciation expense		<u>\$ 28,933</u>
Business Type activities:		
Food services		<u>\$ 163</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 755,000	0	40,000	715,000	45,000
Bus lease	9,432	0	9,432	0	0
Net OPEB liability	0	1,897	0	1,897	0
Total	\$ 764,432	1,897	49,432	716,897	45,000

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Business type activities:					
Net OPEB liability	\$ 0	103	0	103	0

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 June 1, 2003			
	Interest Rates	Principal	Interest	Total
2011	4.00	% \$ 45,000	31,647	76,647
2012	4.00	45,000	29,848	74,848
2013	4.00	45,000	28,047	73,047
2014	4.10	50,000	26,248	76,248
2015	4.20	50,000	24,198	74,198
2016-2020	4.30-4.65	280,000	86,916	366,916
2021-2023	4.70-4.80	200,000	19,311	219,311
Total		\$ 715,000	246,215	961,215

(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 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 \$44,092, \$50,994, and \$53,891 respectively, equal to the required contributions for each year.

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

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

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 16 active and 2 retired members in the plan.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by United Health Care. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

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

Annual required contribution	\$ 12,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost (expense)	<u>12,000</u>
Contributions made	<u>(10,000)</u>
Increase in net OPEB obligation	2,000
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u>\$ 2,000</u>

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

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 12,000	83.33%	\$ 2,000

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 \$67,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$67,000. The covered payroll (annual payroll of active employees covered by the plan) was \$668,568, and the ratio of the UAAL to the covered payroll was 10.02%. As of June 30, 2010, there were no trust fund assets.

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

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

As of July 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by a percentage each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement age was set at age 62 as based on information provided by the District.

Projected claim costs of the medical plan are \$819 per month for retirees developed from a combination of age adjusted fully insured premiums and manual claims costs. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**(9) Risk Management**

Lineville-Clio 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 \$36,669 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) Deficit Fund Balance/Net Assets**

At June 30, 2010, the General Fund had a deficit unreserved undesignated fund balance of \$125,347 and the Nutrition Fund had deficit unrestricted net assets of \$15,907. The District also had a deficit unrestricted net assets balance in the governmental activities of \$104,804.

**(12) Categorical Funding**

The District's ending reserved balances for categorical funding by project as of June 30, 2010 are as follows:

Project	Amount
Home school assistance program	\$ 3,433
Weighted at-risk programs	4,837
Dropouts and dropout prevention program	34,139
Beginning teacher mentoring	501
Teacher salary supplement	9,874
Market factor	875
Beginning administrator mentoring	366
Professional development model core curriculum	3,287
Professional development	8,862
Market factor incentives	965
Total	<u>\$ 67,139</u>

**(13) Subsequent Events**

On December 7, 2010, the Lineville-Clio Community School District and the Wayne Community School District held a public meeting for consolidation of the two districts. Residents of the Lineville-Clio Community School District passed a resolution to merge with Wayne Community School District on a 60.9% vote. Residents of the Wayne Community School District passed a resolution to merge with Lineville-Clio Community School District on a 79.5% vote.

REQUIRED SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE 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
<b>Revenues:</b>						
Local sources	\$ 682,050	14,910	696,960	725,547	725,547	(28,587)
Intermediate sources	0	0	0	3,000	3,000	(3,000)
State sources	460,094	347	460,441	717,770	717,770	(257,329)
Federal sources	192,323	22,884	215,207	943,400	943,400	(728,193)
Total revenues	<u>1,334,467</u>	<u>38,141</u>	<u>1,372,608</u>	<u>2,389,717</u>	<u>2,389,717</u>	<u>(1,017,109)</u>
<b>Expenditures/Expenses:</b>						
Instruction	850,592	0	850,592	1,052,301	1,052,301	201,709
Support services	338,400	413	338,813	666,023	666,023	327,210
Non-instructional programs	54,418	40,810	95,228	610,689	610,689	515,461
Other expenditures	120,294	0	120,294	160,688	160,688	40,394
Total expenditures/expenses	<u>1,363,704</u>	<u>41,223</u>	<u>1,404,927</u>	<u>2,489,701</u>	<u>2,489,701</u>	<u>1,084,774</u>
Excess(deficiency) of revenues over(under) expenditures/expenses	(29,237)	(3,082)	(32,319)	(99,984)	(99,984)	67,665
Balance beginning of year	196,891	(12,212)	184,679	293,176	293,176	86,915
Balance end of year	<u>\$ 167,654</u>	<u>(15,294)</u>	<u>152,360</u>	<u>193,192</u>	<u>193,192</u>	<u>(40,832)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAAL) (b-a)			
2010	July 1, 2009	\$ -	\$67,000	\$67,000	0.0%	\$668,568	10.02%

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

OTHER SUPPLEMENTARY INFORMATION

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010

	Special Revenue		Capital Projects	Debt Service	Total Other Nonmajor Governmental Funds
	Student Activity				
<b>Assets</b>					
Cash and pooled investments	\$ 20,047		55,636	1,954	77,637
Receivables:					
Property tax:					
Current year delinquent	0		0	1,021	1,021
Succeeding year	0		0	46,647	46,647
Due from other governments	0	23,443		0	23,443
<b>Total Assets</b>	<b>\$ 20,047</b>		<b>79,079</b>	<b>49,622</b>	<b>148,748</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	\$ 0		0	46,647	46,647
Total liabilities	0		0	46,647	46,647
Fund balances:					
Reserved for:					
Debt service	0		0	2,975	2,975
Unreserved	20,047		79,079	0	99,126
Total fund balances	20,047		79,079	2,975	102,101
<b>Total Liabilities and Fund Balances</b>	<b>\$ 20,047</b>		<b>79,079</b>	<b>49,622</b>	<b>148,748</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Special Revenue			Total Other Nonmajor Governmental Balance
	Student Activity	Capital Projects	Debt Service	
Revenues:				
Local sources:				
Local tax	\$ 0	54,576	52,651	107,227
Other	28,720	67	6	28,793
State sources	0	0	286	286
Total revenues	28,720	54,643	52,943	136,306
Expenditures:				
Current:				
Instruction:				
Regular	0	12,337	0	12,337
Other	32,220	0	0	32,220
Other expenditures:				
Long term debt:				
Principal	0	0	49,432	49,432
Interest and fiscal charges	0	0	34,193	34,193
Total expenditures	32,220	12,337	83,625	128,182
Excess(Deficiency) of revenues over(under) expenditures	(3,500)	42,306	(30,682)	8,124
Other financing sources(uses):				
Transfer in	0	0	31,977	31,977
Transfer out	0	(22,000)	0	(22,000)
Total other financing sources(uses)	0	(22,000)	31,977	9,977
Net change in fund balances	(3,500)	20,306	1,295	18,101
Fund balance beginning of year	23,547	58,773	1,680	84,000
Fund balance end of year	\$ 20,047	79,079	2,975	102,101

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO 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
Cheerleading	\$ 124	55	179	0
Drama	455	494	710	239
FCCLA	1,238	0	1,238	0
Science Fundraiser	296	0	0	296
Athletics	10,675	7,287	5,921	12,041
Miscellaneous	0	235	147	88
Student Council	698	478	1,018	158
National Honor Society	289	196	132	353
Annuals	1,471	2,607	3,309	769
Field Trip	617	1,817	762	1,672
Class of 2008	661	0	661	0
Class of 2009	105	0	80	25
Class of 2010	3,555	6,354	9,245	664
Class of 2011	823	7,769	7,723	869
Class of 2012	100	0	0	100
Class of 2013	80	0	0	80
Class of 2014	80	0	0	80
High School Funds	2,255	1,273	1,061	2,467
Middle School Funds	25	155	34	146
<b>Total</b>	<b>\$ 23,547</b>	<b>28,720</b>	<b>32,220</b>	<b>20,047</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LINEVILLE-CLIO 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	\$ 603,348	506,245	476,228	505,730	510,460	419,963	363,171
Tuition	13,865	27,290	18,623	17,784	28,821	38,012	40,703
Other	64,837	77,102	102,443	108,167	292,647	87,589	86,518
Intermediate sources	0	0	0	0	400	1,800	0
State sources	460,094	568,079	624,834	504,732	495,481	528,347	480,380
Federal sources	192,323	382,077	853,110	626,141	768,058	74,524	79,929
<b>Total</b>	<b>\$ 1,334,467</b>	<b>1,560,793</b>	<b>2,075,238</b>	<b>1,762,554</b>	<b>2,095,867</b>	<b>1,150,235</b>	<b>1,050,701</b>
Expenditures:							
Current:							
Instruction:							
Regular	\$ 565,394	569,924	519,672	555,333	474,169	532,941	543,880
Special	114,096	105,129	86,048	40,647	83,336	141,501	67,827
Other	171,102	125,283	193,653	144,945	161,616	141,867	192,309
Support services:							
Student	43,545	54,487	69,821	69,975	55,689	13,936	13,574
Instructional staff	3,588	4,790	12,251	14,754	13,030	2,784	10,236
Administration	185,153	240,925	397,522	372,341	497,234	144,375	121,110
Operation and maintenance of plant	76,546	111,738	107,147	127,269	117,711	96,930	141,155
Transportation	29,568	41,954	41,743	56,082	33,019	20,156	25,160
Other support	0	0	0	0	0	127	19,360
Non-instructional programs	54,418	226,122	500,038	342,048	395,183	0	0
Other expenditures:							
Facilities acquisitions	0	7,000	0	651	0	971,552	60,022
Long-term debt:							
Principal	49,432	48,915	48,427	40,000	35,000	35,000	0
Interest and other charges	34,193	36,110	37,798	37,848	38,897	40,898	0
AEA flow-through	36,669	31,373	31,129	29,350	28,792	28,043	29,089
<b>Total</b>	<b>\$ 1,363,704</b>	<b>1,603,750</b>	<b>2,045,249</b>	<b>1,831,243</b>	<b>1,933,676</b>	<b>2,170,110</b>	<b>1,223,722</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

**Certified Public Accountants**

(a professional corporation)

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Independent Auditor's Report on Internal Control over financial Reporting and  
on Compliance and Other Matters

Based on an Audit of Financial Statements performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Lineville-Clio 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 Lineville-Clio Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 7, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lineville-Clio 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 Lineville-Clio Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lineville-Clio 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, 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 deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-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 I of the accompanying Schedule of Findings as item I-A-10 to be a significant deficiency.

Compliance and Other Matters

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

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

Lineville-Clio Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Lineville-Clio 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 Lineville-Clio Community School District and other parties to whom Lineville-Clio Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Lineville-Clio 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 PC  
NOLTE, CORNMAN & JOHNSON, P.C.

December 7, 2010

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

I-B-10 Payroll Procedures - We noted during our audit that an employee's contract amount differed from the amount recorded in the payroll register.

Recommendation - The District should review the contract and payments in question to ensure the proper amount was distributed. Necessary adjustments should be made to reconcile the contracted amount to the amount received by the employee.

Response - The contract in question and the payments that were made were reviewed. The District determined that the correct amount had been paid to the employee during the fiscal year. The error occurred when the contract was typed for signature. In the future, a more thorough review and double check will be made when contracts are presented for signature.

Conclusion - Response accepted.

LINEVILLE-CLIO COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-10 Certified Budget - District disbursements for the year ended June 30, 2010, did not exceed the amount budgeted.
- II-B-10 Questionable Disbursements - We noted during our audit that the District wrote checks or gave cash to individual students from the Student Activity Fund for art prizes. Cash prizes do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

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

Response - The District will discontinue the practice of purchasing gift certificates/gift cards as student incentive prizes.

Conclusion - Response accepted.

- II-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.
- II-D-09 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
David Brennecke, Board Member Son provides mowing services	Services	\$1,440
Jose Moreno, Board Member Spouse substitute cook	Services	\$413
Jose Moreno, Board Member	Bus Driver	\$2,500

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

In accordance with Chapter 279.7A of the Code of Iowa, the above transactions with the Board Member do not appear to represent a conflict of interest.

- II-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-10 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

- II-H-10 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-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.
- II-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.
- II-K-10 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
- II-L-10 Statewide Sales, Services and Use 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 and services tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales and services tax are as follows:

Beginning Balance		\$	0
Statewide sales, services and use tax revenue			54,576
Expenditures/Transfers out:			
School infrastructure:			
Equipment	\$	12,337	
Debt service for school infrastructure:			
General obligation debt		22,000	34,337
Ending balance		\$	<u>20,239</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:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 0.73539	\$ 22,000
Physical plant & equipment levy	\$ 0.67000	\$ 20,044

- II-M-10 Financial Condition - The General Fund had a deficit unreserved undesignated fund balance of \$125,347 and the Nutrition Fund had deficit unrestricted net assets of \$15,907. The District also had a deficit unrestricted net assets balance in the governmental activities of \$104,804.

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

Response - We are aware of the declining fund balances. Some steps such as closing a building and whole grade sharing and staff reduction have already taken place. We are continuing to search for ways to improve our financial condition.

Conclusion - Response accepted.

II-N-10 Authorized Check Signatures - We noted during our audit that checks written from the Student Activity and General Fund do not always have two signatures.

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

Response - We will monitor checks more closely in the future to ensure all checks have two authorized signatures.

Conclusion - Response accepted.

