

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

June 30, 2011

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IKM COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Richard Wiig	President	2011
Dennis Kasparbauer	Vice President	2011
Lynn Berry	Board Member	2011
Judy Erb	Board Member	2013
David Heller	Board Member	2011
Kenny Juhl	Board Member	2013
James Rasmussen	Board Member	2013
School Officials		
Jeff Kruse	Superintendent	
Mary Heller	District Secretary/Treasurer	

Independent Auditor's Report

To the Board of Education of
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District, Manilla, Iowa, as of, and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

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

In accordance with Government Auditing Standards, we have also issued our reports dated March 27, 2012, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 12 and 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

March 27, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

IKM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$5,005,758 in fiscal 2010 to \$4,894,660 in fiscal 2011, while General Fund expenditures decreased from \$5,239,723 in fiscal 2010 to \$4,756,449 in fiscal 2011. The District's General Fund balance increased from \$363,310 in fiscal 2010 to \$501,521 in fiscal 2011, a 38% increase.
- The decrease in General Fund revenues was attributable to a decrease in Whole Grade Sharing revenues received from the Manning Community School District. The decrease in expenditures is also attributable to Whole Grade Sharing in that monies paid to the Manning Community School District were less in 2011.

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

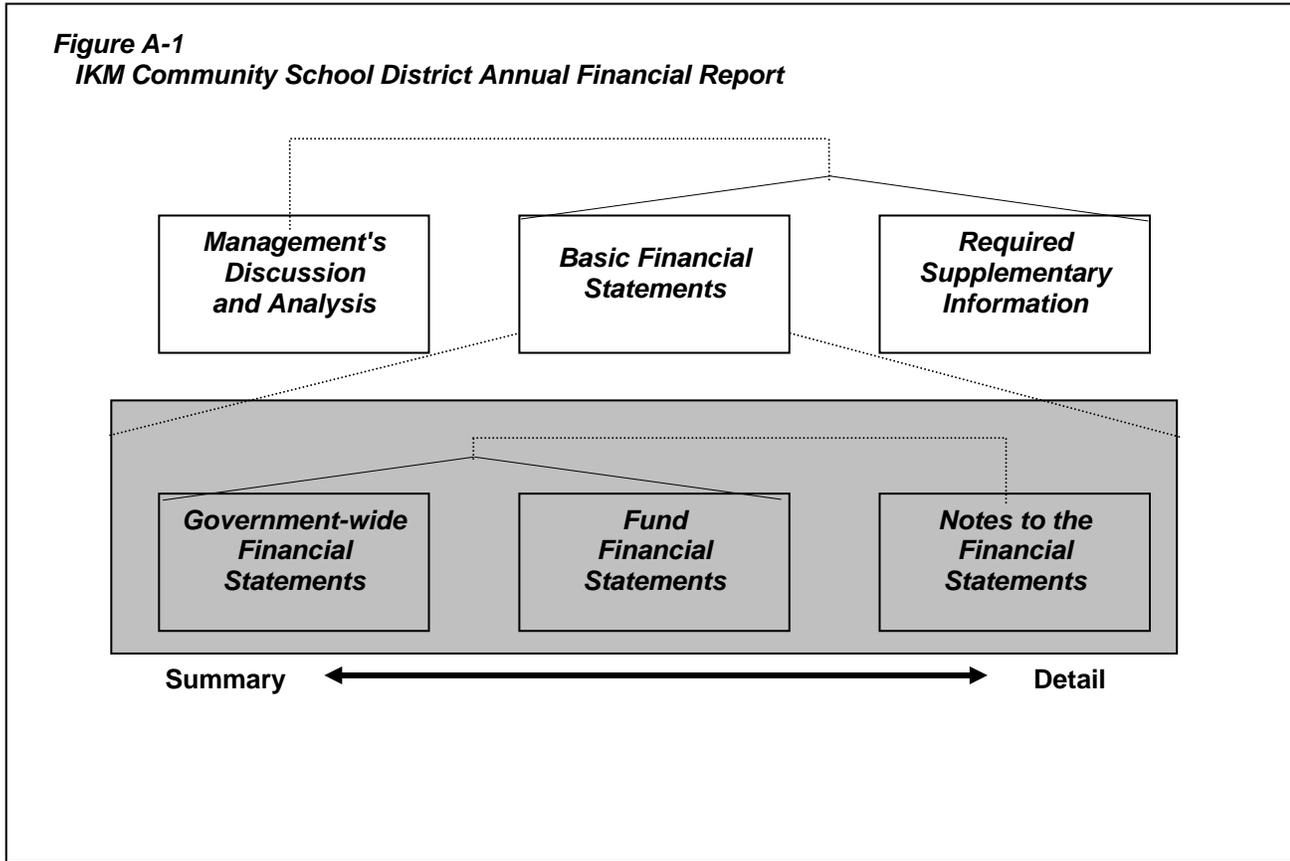


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2010-2011 %
	Governmental Activities		Business-type Activities		Total School District		
	2011	2010	2011	2010	2011	2010	
	\$	\$	\$	\$	\$	\$	
Current and other assets	1,712,282	3,577,240	68,458	75,471	1,780,740	3,652,711	-51%
Capital assets	2,058,571	2,217,655	51,192	16,546	2,109,763	2,234,201	-6%
Total assets	3,770,853	5,794,895	119,650	92,017	3,890,503	5,886,912	-34%
Long-term liabilities	783,499	927,313	3,242	1,569	786,741	928,880	-15%
Other liabilities	136,028	2,140,060	2,865	2,017	138,893	2,142,077	-94%
Total liabilities	919,527	3,067,373	6,107	3,586	925,634	3,070,957	-70%
Net Assets:							
Invested in capital assets, net of related debt	1,463,571	1,482,655	51,192	16,546	1,514,763	1,499,201	1%
Restricted	765,920	728,130	-	-	765,920	728,130	5%
Unrestricted	621,835	516,739	62,351	71,885	684,186	588,624	16%
TOTAL NET ASSETS	2,851,326	2,727,524	113,543	88,431	2,964,869	2,815,955	5%

The District's combined total net assets increased by nearly 5%, or approximately \$148,914 over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$37,790 or 5% over the prior year. The increase was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$95,562, or 16%. This increase in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the change in net assets for the year ended June 30, 2011 compared to the year ended June 30, 2010.

Figure A-4

	Change in Net Assets						Percentage Change 2010-2011 %
	Governmental Activities		Business-type Activities		Total School District		
	2011 \$	2010 \$	2011 \$	2010 \$	2011 \$	2010 \$	
Revenues							
Program Revenues:							
Charges for services	487,335	1,156,133	98,731	95,991	586,066	1,252,124	-53%
Operating grants & contributions	787,815	794,244	96,341	91,570	884,156	885,814	<-1%
Capital grants & contributions	-	-	-	-	-	-	-
General Revenues:							
Property taxes	2,019,714	1,740,237	-	-	2,019,714	1,740,237	16%
Income Surtax	210,364	236,624	-	-	210,364	236,624	-11%
Local option sales tax	262,989	262,648	-	-	262,989	262,648	<1%
Unrestricted state grants	1,470,367	1,255,381	-	-	1,470,367	1,255,381	17%
Unrestricted investment earnings	9,424	14,892	328	386	9,752	15,278	-36%
Other revenue	19,103	19,045	-	-	19,103	19,045	<1%
Total Revenues	5,267,111	5,479,204	195,400	187,947	5,462,511	5,667,151	-4%
Expenses:							
Instruction	3,113,292	3,817,981	-	-	3,113,292	3,817,981	-18%
Support services	1,700,008	1,533,312	-	-	1,700,008	1,533,312	11%
Non-instructional programs	411	123	170,288	168,800	170,699	168,923	1%
Other expenditures	329,598	338,785	-	-	329,598	338,785	-3%
Total expenses	5,143,309	5,690,201	170,288	168,800	5,313,597	5,859,001	-9%
CHANGE IN NET ASSETS	123,802	(210,997)	25,112	19,147	148,914	(191,850)	178%
Net assets beginning of year	2,727,524	2,938,521	88,431	69,284	2,815,955	3,007,805	-6%
Net assets end of year	2,851,326	2,727,524	113,543	88,431	2,964,869	2,815,955	5%

In fiscal year 2010 property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

As shown in figure A-4, the District as a whole experienced a 4% decrease in revenues and a 9% decrease in expenses. Property tax increased \$279,477.

Governmental Activities-

Revenues for governmental activities were \$5,267,111 and expenses were \$5,143,309. The district revenues decreased in 2011 due to the decrease in revenue received for Whole Grade Sharing. The expenditures decreased also due to the decrease in cost of Whole Grade Sharing.

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

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-2011	2011	2010	Change 2010-2011
	\$	\$	\$	\$	\$	\$
Instruction	3,113,292	3,817,981	-704,689	2,007,814	2,035,315	-27,501
Support Services	1,700,008	1,533,312	166,696	1,698,496	1,528,454	170,042
Non-instructional Programs	411	123	288	411	123	288
Other Expenses	329,598	338,785	-9,187	161,438	175,932	-14,494
TOTAL	5,143,309	5,690,201	-546,892	3,868,159	3,739,824	128,335

For the year ended June 30, 2011

- The cost financed by users of the District's programs was \$487,355. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$787,815.
- The net cost of governmental activities was financed with \$2,493,067 in property and local other taxes and \$1,470,367 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$195,400 and expenses were \$170,288. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2011, the District increased meal prices. This increase resulted in increased revenue to the School Nutrition Fund that the District will use to help with the replacement of equipment and increased salary and benefits of a Food Service Director in 2012.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,241,507, below last year's ending fund balances of \$1,357,888.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. During fiscal year 2010 the State Aid reductions of \$360,000 were only partially offset by Federal revenue increases of \$157,000. This \$203,000 difference, along with differences in 2011 continue to reflect the district.
- The General Fund balance increased from \$363,310 to \$501,521, due in part to the decreased cost of Whole Grade Sharing.
- The Capital Project Fund includes revenues from sales tax and from the physical plant and equipment property tax levy. These two revenue streams and the related expenditures are tracked separately in the District's accounting records, but are combined into one Capital Projects Fund for financial reporting. The monies in the Capital Projects fund will be used for future capital improvements and equipment purchases.

- The Physical Plant and Equipment Levy account balance increased from \$186,196 at June 30, 2010 to \$246,562 at June 30, 2011.
- The Statewide Sales Tax account balance increased from \$300,683 at June 30, 2010 to \$377,241 at June 30, 2011.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$88,431 at June 30, 2010 to \$113,543 at June 30, 2011, representing an increase of approximately 28%. For fiscal 2011, the District increased meal prices, resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function area due to the timing of expenditures at year end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2011, the District had invested \$2,109,763, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment, and transportation equipment. (See Figure A-6) This represents a net decrease of 5% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$176,980.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage
	Activities		Activities		School District		
	2011	2010	2011	2010	2011	2010	2010-2011
	\$	\$	\$	\$	\$	\$	%
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,874,532	1,991,816	-	-	1,874,532	1,991,816	-6%
Improvements	76,798	99,639	-	-	76,798	99,639	-23%
Equipment & furniture	97,241	116,200	51,192	16,546	148,433	132,746	12%
TOTAL	2,058,571	2,217,655	51,192	16,546	2,109,763	2,224,201	-5%

Long-Term Debt

On June 30, 2011, the District had \$786,741 in general obligation and other long-term debt outstanding. This represents a decrease of 15% from last year. (See Figure A-7) Additional information is presented in the audit.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Percentage Change
	2011	2010	2010-2011
	\$	\$	
Governmental activities:			
Termination benefits	130,155	164,075	-21%
Revenue bonds	595,000	735,000	-19%
Net OPEB liability	58,344	29,805	96%
	<u>783,499</u>	<u>928,880</u>	<u>-16%</u>
Business type activities:			
Net OPEB liability	3,242	1,569	107%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has evaluated the condition of its transportation vehicles and determines that it will be necessary to purchase one bus and/or suburban each year. The Physical Plant and Equipment Levy Fund will be used.
- Fiscal 2011 is the last year of a three-year contract with the IKM-Manning Education Teacher Association (SETA). The District has negotiated a new agreement during fiscal 2012. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- With reorganization the IKM-Manning School District will not be eligible for REAP Funds.
- School financing is highly dependent upon student enrollment. The District's October 2011 enrollment decreased by 28 students; this is largely attributable to higher open enrollment out numbers.
- The District has experienced declining enrollment for the past several years and expects this trend to continue.
- The District will reorganize with Manning on July 1, 2011.
- Continuation of no "new money" will result in a declining revenue base.

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 Dr. Thomas Ward, District Superintendent, IKM-Manning Community School District, 755 Main Street, Manilla, Iowa, 51454.

BASIC FINANCIAL STATEMENTS

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2011

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:	1,252,316	63,463	1,315,779
Receivables:			
Property tax:			
Delinquent	26,117	-	26,117
Accounts	-	119	119
Due from other governments	433,849	-	433,849
Inventories	-	4,876	4,876
Capital assets, net of accumulated depreciation	2,058,571	51,192	2,109,763
Total assets	3,770,853	119,650	3,890,503
Liabilities			
Accounts payable	33,590	-	33,590
Due to other governments	93,475	-	93,475
Deferred revenue:			
Other	8,963	2,865	11,828
Long-term liabilities:			
Portion due within one year:			
Termination benefits	29,913	-	29,913
Portion due after one year:			
Revenue bonds payable	595,000	-	595,000
Termination benefits	100,242	-	100,242
Net OPEB liability	58,344	3,242	61,586
Total liabilities	919,527	6,107	925,634
Net assets			
Invested in capital assets, net of related debt	1,463,571	51,192	1,514,763
Restricted for:			
Categorical funding	25,040	-	25,040
Management levy	115,297	-	115,297
Physical plant and equipment levy	246,562	-	246,562
Student activities	1,780	-	1,780
School infrastructure	377,241	-	377,241
Unrestricted	621,835	62,351	684,186
Total net assets	2,851,326	113,543	2,964,869

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2011

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular	1,908,118	422,585	559,804	-
Special	645,750	48,588	-	-
Other	559,424	15,337	59,164	-
	<u>3,113,292</u>	<u>486,510</u>	<u>618,968</u>	<u>-</u>
Support services:				
Student	77,737	-	-	-
Instructional staff	312,770	-	-	-
Administration	625,230	-	-	-
Operation and maintenance of plant	401,419	825	-	-
Transportation	282,852	-	687	-
	<u>1,700,008</u>	<u>825</u>	<u>687</u>	<u>-</u>
Non-instructional programs	<u>411</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	7,137	-	-	-
Long-term debt interest	30,789	-	808	-
AEA flowthrough	167,352	-	167,352	-
Depreciation (unallocated)*	124,320	-	-	-
	<u>329,598</u>	<u>-</u>	<u>168,160</u>	<u>-</u>
Total governmental activities	<u>5,143,309</u>	<u>487,335</u>	<u>787,815</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	170,288	98,731	96,341	-
Total	<u>5,313,597</u>	<u>586,066</u>	<u>884,156</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Statewide sales, services and use tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(925,729)	-	(925,729)
(597,162)	-	(597,162)
(484,923)	-	(484,923)
<u>(2,007,814)</u>	<u>-</u>	<u>(2,007,814)</u>
(77,737)	-	(77,737)
(312,770)	-	(312,770)
(625,230)	-	(625,230)
(400,594)	-	(400,594)
(282,165)	-	(282,165)
<u>(1,698,496)</u>	<u>-</u>	<u>(1,698,496)</u>
(411)	-	(411)
(7,137)	-	(7,137)
(29,981)	-	(29,981)
-	-	-
<u>(124,320)</u>	<u>-</u>	<u>(124,320)</u>
<u>(161,438)</u>	<u>-</u>	<u>(161,438)</u>
(3,868,159)	-	(3,868,159)
-	24,784	24,784
<u>(3,868,159)</u>	<u>24,784</u>	<u>(3,843,375)</u>
1,966,056	-	1,966,056
53,658	-	53,658
210,364	-	210,364
262,989	-	262,989
1,470,367	-	1,470,367
9,424	328	9,752
19,103	-	19,103
<u>3,991,961</u>	<u>328</u>	<u>3,992,289</u>
123,802	25,112	148,914
<u>2,727,524</u>	<u>88,431</u>	<u>2,815,955</u>
<u>2,851,326</u>	<u>113,543</u>	<u>2,964,869</u>

IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2011

	General	Capital Projects	Management	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	455,381	549,895	245,260	1,780	1,252,316
Receivables:					
Property tax:					
Delinquent	25,259	666	192	-	26,117
Due from other governments	357,105	76,744	-	-	433,849
Total assets	837,745	627,305	245,452	1,780	1,712,282
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	30,088	3,502	-	-	33,590
Due to other governments	93,475	-	-	-	93,475
Deferred revenue:					
Income surtax	203,698	-	-	-	203,698
Other	8,963	-	-	-	8,963
Total liabilities	336,224	3,502	-	-	339,726
Fund balances:					
Restricted for:					
Categorical funding	25,040	-	-	-	25,040
Management levy	-	-	245,452	-	245,452
Student activities	-	-	-	1,780	1,780
School infrastructure	-	377,241	-	-	377,241
Physical plant and equipment	-	246,562	-	-	246,562
Unassigned	476,481	-	-	-	476,481
Total fund balances	501,521	623,803	245,452	1,780	1,372,556
Total liabilities and fund balances	837,745	627,305	245,452	1,780	1,712,282

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2011

\$

Total fund balances of governmental funds (Exhibit C)	1,372,556
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***Amounts reported for governmental activities in the
Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,058,571
--	-----------

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	203,698
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Long-term liabilities, including bonds payable, special termination benefits and other postemployment benefits payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(783,499)</u>
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Net assets of governmental activities (Exhibit A)	<u><u>2,851,326</u></u>
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IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	General	Capital Projects	Management	Nonmajor Governmental	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,153,584	316,647	14,811	-	2,485,042
Tuition	165,635	-	-	-	165,635
Other	318,104	2,563	10,604	13,572	344,843
State sources	1,973,095	29	8	-	1,973,132
Federal sources	284,242	-	-	-	284,242
Total revenues	<u>4,894,660</u>	<u>319,239</u>	<u>25,423</u>	<u>13,572</u>	<u>5,252,894</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,892,082	-	-	-	1,892,082
Special	639,617	-	-	-	639,617
Other	489,394	-	-	66,127	555,521
	<u>3,021,093</u>	<u>-</u>	<u>-</u>	<u>66,127</u>	<u>3,087,220</u>
Support services:					
Student	77,179	-	-	-	77,179
Instructional staff	311,655	-	-	-	311,655
Administration	608,558	-	41,213	-	649,771
Operation and maintenance of plant	336,659	-	62,530	-	399,189
Transportation	233,953	-	10,658	-	244,611
	<u>1,568,004</u>	<u>-</u>	<u>114,401</u>	<u>-</u>	<u>1,682,405</u>
Non-instructional programs	-	-	411	-	411
Other expenditures:					
Facilities acquisition	-	22,168	-	-	22,168
Long-term debt:					
Principal	-	-	-	140,000	140,000
Interest and fiscal charges	-	-	-	30,789	30,789
AEA flowthrough	167,352	-	-	-	167,352
	<u>167,352</u>	<u>22,168</u>	<u>-</u>	<u>170,789</u>	<u>360,309</u>
Total expenditures	<u>4,756,449</u>	<u>22,168</u>	<u>114,812</u>	<u>236,916</u>	<u>5,130,345</u>
Excess (deficiency) of revenues over	<u>138,211</u>	<u>297,071</u>	<u>(89,389)</u>	<u>(223,344)</u>	<u>122,549</u>
Other financing sources (uses):					
Sales of real estate	-	8,500	-	-	8,500
Operating transfers in	-	-	-	168,647	168,647
Operating transfers out	-	(168,647)	-	-	(168,647)
Total other financing sources (uses)	<u>-</u>	<u>(160,147)</u>	<u>-</u>	<u>168,647</u>	<u>8,500</u>
Net change in fund balances	<u>138,211</u>	<u>136,924</u>	<u>(89,389)</u>	<u>(54,697)</u>	<u>131,049</u>
Fund balances beginning of year, as restated	<u>363,310</u>	<u>486,879</u>	<u>334,841</u>	<u>56,477</u>	<u>1,241,507</u>
Fund balances end of year	<u>501,521</u>	<u>623,803</u>	<u>245,452</u>	<u>1,780</u>	<u>1,372,556</u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		131,049
 <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and loss on disposal of capital assets exceeded capital outlay expenditures in the current year, as follows:</p>		
Loss on disposal of capital assets	(2,308)	
Expenditures for capital assets	15,031	
Depreciation expense	<u>(171,807)</u>	(159,084)
<p>Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.</p>		
		8,025
<p>Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.</p>		
		140,000
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:</p>		
Termination benefits	33,920	
Other postemployment benefits	<u>(30,108)</u>	<u>3,812</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>123,802</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2011

	School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	63,463
Accounts receivable	119
Inventories	4,876
Capital assets, net of accumulated depreciation	<u>51,192</u>
Total assets	<u>119,650</u>
Liabilities	
Deferred revenue	2,865
Net OPEB liability	<u>3,242</u>
Total liabilities	<u>6,107</u>
Net assets	
Invested in capital assets	51,192
Unrestricted	<u>62,351</u>
Total net assets	<u><u>113,543</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	<u>School Nutrition</u>
	\$
Operating revenue:	
Local sources:	
Charges for service	<u>98,731</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	59,621
Benefits	29,676
Purchased services	64,077
Supplies	11,741
Depreciation	5,173
Total operating expenses	<u>170,288</u>
Operating income (loss)	<u>(71,557)</u>
Non-operating revenues:	
State sources	1,747
Federal sources	94,594
Interest income	328
Total non-operating revenues	<u>96,669</u>
Change in net assets	25,112
Net assets beginning of year	<u>88,431</u>
Net assets end of year	<u><u>113,543</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2011

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	99,578
Cash payments to employees for services	(87,624)
Cash payments to suppliers for goods or services	(64,077)
Net cash used by operating activities	<u>(52,123)</u>
Cash flows from non-capital financing activities:	
State grants received	1,747
Federal grants received	84,123
Net cash provided by non-capital financing activities	<u>85,870</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(39,819)</u>
Cash flows from investing activities:	
Interest on investments	<u>328</u>
Net increase (decrease) in cash and cash equivalents	(5,744)
Cash and cash equivalents at beginning of year	<u>69,207</u>
Cash and cash equivalents at end of year	<u><u>63,463</u></u>
Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	(71,557)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Commodities used	10,471
Depreciation	5,173
Decrease (increase) in inventories	1,270
Decrease (increase) in accounts receivable	(1)
(Decrease) increase in deferred revenue	848
(Decrease) increase in other postemployment benefits	1,673
Net cash used by operating activities	<u><u>(52,123)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2011, the District received \$10,471 of federal commodities.

IKM COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2011

1. Summary of Significant Accounting Policies

IKM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford and Shelby Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

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 revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The Management Fund is a special revenue fund that is used to account for the revenues from and expenditures of the management property tax levy.

The District reports the following major proprietary fund:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the district's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned, and then unassigned fund balances.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants, and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture and equipment and intangibles, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Intangibles	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-20 years
Furniture and equipment	5-20 years

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

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

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

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

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

Fund Equity – In the governmental fund financial statements fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures in the other expenditures functional area exceeded the amount budgeted.

2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Debt Service	Capital Projects Fund	168,647

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

4. Iowa School Cash Anticipation Program (ISCAP)

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

The District pledges its state foundation aid payments and General Fund receipts as security for the warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the Series 2010-11A warrants is 1.2% plus the one-month LIBOR rate, adjusted daily. A summary of the District's ISCAP activity for the year ended June 30, 2011, is as follows:

Series	Warrant Date	Final Warrant Maturity Date	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
			\$	\$	\$	\$
2010-11A	6/23/10	6/28/11	-	-	-	-

During the year ended June 30, 2011, the District did not pay any interest on the ISCAP warrants.

5. Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Balance Beginning of Year \$	Increases \$	Decreases & Reclassifications \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	3,534,760	15,031	(500)	3,550,291
Improvements other than buildings	345,570	-	269	345,301
Furniture and equipment	871,628	-	2,538	869,090
Total capital assets being deprec.	<u>4,751,958</u>	<u>15,031</u>	<u>2,307</u>	<u>4,764,682</u>
Less accumulated depreciation for:				
Buildings	1,542,944	116,344	(16,471)	1,675,759
Improvements other than buildings	245,931	7,976	(14,596)	268,503
Furniture and equipment	755,428	47,487	31,066	771,849
Total accumulated depreciation	<u>2,544,303</u>	<u>171,807</u>	<u>(1)</u>	<u>2,716,111</u>
Total capital assets being depreciated, net	<u>2,207,655</u>	<u>(156,776)</u>	<u>2,308</u>	<u>2,048,571</u>
Governmental activities capital assets, net	<u>2,217,655</u>	<u>(156,776)</u>	<u>2,308</u>	<u>2,058,571</u>
Business type activities:				
Furniture and equipment	81,907	39,819	-	121,726
Less accumulated depreciation	<u>65,361</u>	<u>5,173</u>	<u>-</u>	<u>70,534</u>
Business type activities capital assets, net	<u>16,546</u>	<u>34,646</u>	<u>-</u>	<u>51,192</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	3,770
Support services:	
Administration	6,034
Transportation	37,683
	<u>47,487</u>
Unallocated depreciation	<u>124,320</u>
Total depreciation expense – governmental activities	<u>171,807</u>
Business type activities:	
Food services	<u>5,173</u>

6. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2011, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Governmental activities:					
Revenue bonds	735,000	-	140,000	595,000	-
Termination benefits	164,075	1,186	35,106	130,155	29,913
Net OPEB liability	<u>28,236</u>	<u>30,108</u>	<u>-</u>	<u>58,344</u>	<u>-</u>
Total	<u><u>927,311</u></u>	<u><u>31,294</u></u>	<u><u>175,106</u></u>	<u><u>783,499</u></u>	<u><u>29,913</u></u>
Business type activities:					
Net OPEB liability	<u>1,569</u>	<u>1,673</u>	<u>-</u>	<u>3,242</u>	<u>-</u>

Termination Benefits

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

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

At June 30, 2011, the District has obligations to five participants with a total liability of \$130,155. Actual early retirement expenditures for the year ended June 30, 2011 totaled \$35,106.

Revenue Bonds

Details of the District's June 30, 2011 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2012	3.45	-	11,883	11,883
2013	3.70	140,000	21,176	161,176
2014	3.80	135,000	16,021	151,021
2015	3.90	120,000	11,116	131,116
2016	4.10	50,000	7,751	57,751
2017-2019	4.25-4.75	<u>150,000</u>	<u>10,339</u>	<u>160,339</u>
		<u><u>595,000</u></u>	<u><u>78,286</u></u>	<u><u>673,286</u></u>

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

interest remaining to be paid on the notes is \$673,286. For the current year, \$140,000 of principal and \$28,595 of interest was paid on the bonds and total statewide sales, services and use tax revenues were \$262,989.

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

- Bonds maturing after July 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- Starting July 1, 2008 the District shall establish a sinking fund. Money in the sinking account shall be used to pay the interest and principal on the bonds. Monthly payments to the sinking fund shall not be less than the sum of 1/6 of the next interest payment and 1/12 of the next principal payment. The sinking fund is part of the Debt Service Fund.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$176,869, \$175,023 and \$185,992 respectively, equal to the required contributions for each year.

8. Other Postemployment Benefits (OPEB)

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

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2011, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

	\$
Annual required contribution	38,852
Interest on net OPEB obligation	745
Adjustment to annual required contribution	<u>(3,536)</u>
Annual OPEB cost	36,061
Contributions made	<u>4,280</u>
Increase in net OPEB obligation	31,781
Net OPEB obligation beginning of year	<u>29,805</u>
Net OPEB obligation end of year	<u>61,586</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2011.

For the year ended June 30, 2011, the District contributed \$4,280 to the medical plan. Plan members eligible for benefits contribute \$526 of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
	\$	%	\$
2010	35,330	15.6%	29,805
2011	36,061	11.9%	61,586

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$325,482, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$325,482. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$2,300,000, and the ratio of the UAAL to covered payroll was 14.2%. As of June 30, 2011, there were no trust fund assets.

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

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

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

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2000.

The UAAL is being amortized over 30 years.

9. Risk Management

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$167,352 for the year ended June 30, 2011, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

11. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
	\$
Teacher salary supplement	16,330
Educator quality, professional development	533
Core curriculum	8,177
	<u>25,040</u>

12. School District Reorganization

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

13. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund type Definitions, was implemented during the year ended 2011. The effect of fund type reclassifications is as follows:

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
	\$	\$
Balances June 30, 2010, as previously reported	300,683	186,196
Change in fund type classification per implementation of GASB Statement No. 54	<u>186,196</u>	<u>(186,196)</u>
Balances July 1, 2010, as restated	<u>486,879</u>	<u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,995,520	99,059	3,094,579	4,036,420	4,036,420	(941,841)
State sources	1,973,132	1,747	1,974,879	2,186,508	2,186,508	(211,629)
Federal sources	284,242	94,594	378,836	230,500	230,500	148,336
Total revenues	<u>5,252,894</u>	<u>195,400</u>	<u>5,448,294</u>	<u>6,453,428</u>	<u>6,453,428</u>	<u>(1,005,134)</u>
Expenditures/Expenses:						
Instruction	3,087,220	-	3,087,220	4,618,814	4,618,814	1,531,594
Support services	1,682,405	-	1,682,405	2,006,000	2,006,000	323,595
Non-instructional programs	411	170,288	170,699	300,000	300,000	129,301
Other expenditures	360,309	-	360,309	359,694	359,694	(615)
Total expenditures/expenses	<u>5,130,345</u>	<u>170,288</u>	<u>5,300,633</u>	<u>7,284,508</u>	<u>7,284,508</u>	<u>1,983,875</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	122,549	25,112	147,661	(831,080)	(831,080)	978,741
Other financing sources (uses) net	<u>8,500</u>	<u>-</u>	<u>8,500</u>	<u>-</u>	<u>-</u>	<u>8,500</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	131,049	25,112	156,161	(831,080)	(831,080)	987,241
Balance beginning of year	<u>1,241,507</u>	<u>88,431</u>	<u>1,329,938</u>	<u>815,930</u>	<u>815,930</u>	<u>514,008</u>
Balance end of year	<u><u>1,372,556</u></u>	<u><u>113,543</u></u>	<u><u>1,486,099</u></u>	<u><u>(15,150)</u></u>	<u><u>(15,150)</u></u>	<u><u>1,501,249</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2011

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year ended June 30, 2011.

During the year ended June 30, 2011, expenditures in the other expenditures function exceeded the amount budgeted.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Funding Progress for the Retiree Health Plan

Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a) \$	Actuarial Accrued Liability (AAL) (b) \$	Unfunded AAL (UAAL) (b-a) \$	Funded Ratio (a/b) %	Covered Payroll (c) \$	UAAL as a Percentage of Covered Payroll ((b-a)/c) %
2010	July 1, 2009	-	325,482	325,482	0.0%	1,319,000	24.7%
2011	July 1, 2009	-	325,482	325,482	0.0%	2,300,000	14.2%

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

OTHER SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2011

Assets	<u>Student Activity</u> \$	<u>Debt Service</u> \$	<u>Total</u> \$
Cash and pooled investments	<u>1,780</u>	<u>-</u>	<u>1,780</u>
Liabilities & Fund Balances			
Liabilities	-	-	-
Fund balances:			
Restricted for:			
Student activities	<u>1,780</u>	<u>-</u>	<u>1,780</u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2011

	Student Activity	Debt Service	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Revenues:			
Local sources:			
Other	12,764	808	13,572
Expenditures:			
Current:			
Instruction:			
Other instruction	66,127	-	66,127
Other expenditures:			
Long-term debt:			
Principal	-	140,000	140,000
Interest and fiscal charges	-	30,789	30,789
Total expenditures	<u>66,127</u>	<u>170,789</u>	<u>236,916</u>
Excess (deficiency)of revenues over (under) expenditures	(53,363)	(169,981)	(223,344)
Other financing sources (uses):			
Operating transfers in	-	168,647	168,647
Net change in fund balance	(53,363)	(1,334)	(54,697)
Fund balances beginning of year, as restated	<u>55,143</u>	<u>1,334</u>	<u>56,477</u>
Fund balances end of year	<u><u>1,780</u></u>	<u><u>-</u></u>	<u><u>1,780</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Capital Project Accounts

June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax \$	Physical Plant and Equipment Levy \$	Total \$
Assets			
Cash and pooled investments	303,999	245,896	549,895
Receivables:			
Property tax:			
Delinquent	-	666	666
Due from other governments	76,744	-	76,744
Total assets	<u>380,743</u>	<u>246,562</u>	<u>627,305</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	3,502	-	3,502
Fund balances:			
Restricted for:			
School infrastructure	377,241	-	377,241
Physical plant and equipment	-	246,562	246,562
Total fund balances	<u>377,241</u>	<u>246,562</u>	<u>623,803</u>
Total liabilities and fund balances	<u>380,743</u>	<u>246,562</u>	<u>627,305</u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balance
Capital Project Accounts

Year ended June 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	262,989	53,658	316,647
Other	1,134	1,429	2,563
State sources	-	29	29
Total revenues	<u>264,123</u>	<u>55,116</u>	<u>319,239</u>
Expenditures:			
Other expenditures:			
Facilities acquisition	<u>18,918</u>	<u>3,250</u>	<u>22,168</u>
Excess (deficiency) of revenues over (under) expenditures	<u>245,205</u>	<u>51,866</u>	<u>297,071</u>
Other financing sources (uses):			
Sale of real property	-	8,500	8,500
Operating transfers out	<u>(168,647)</u>	<u>-</u>	<u>(168,647)</u>
Total other financing sources (uses)	<u>(168,647)</u>	<u>8,500</u>	<u>(160,147)</u>
Net change in fund balance	76,558	60,366	136,924
Fund balances beginning of year, as restated	<u>300,683</u>	<u>186,196</u>	<u>486,879</u>
Fund balance end of year	<u><u>377,241</u></u>	<u><u>246,562</u></u>	<u><u>623,803</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2011

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Drama	2,624	-	2,624	-	-
Basketball/junior high	-	-	2,609	2,609	-
Football/junior high	-	-	2,351	2,351	-
Track/junior high	-	831	1,188	357	-
Volleyball/junior high	-	20	530	510	-
Softball	-	759	2,173	1,414	-
Activity tickets	13,494	3,731	16,978	(247)	-
Concessions	2,394	-	2,394	-	-
Concessions/junior high	616	2,586	2,161	(1,041)	-
Baseball	-	-	558	558	-
Annual	4,949	-	4,949	-	-
Interest	16,309	107	9,905	(6,511)	-
Student council-MS	222	4,719	4,029	-	912
Student council-HS	2,689	-	2,689	-	-
Student council-Elem.	2,479	11	1,622	-	868
Music - instrumental	9,367	-	9,367	-	-
Total	55,143	12,764	66,127	-	1,780

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2011

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	-	7,292	7,292	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Other liabilities	-	7,292	7,292	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

IKM COMMUNITY SCHOOL DISTRICT

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

For the Last Eight Years

	Modified Accrual Basis							
	2011	2010	2009	2008	2007	2006	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Local tax	2,485,042	2,235,669	2,102,748	1,981,299	1,984,089	1,898,510	1,920,010	2,041,334
Tuition	165,635	163,166	256,330	126,279	145,497	110,313	91,920	87,904
Other	344,843	1,027,447	1,183,171	313,818	329,962	288,687	295,670	263,884
State sources	1,973,132	1,689,092	2,017,792	2,123,044	2,134,481	2,113,616	2,001,821	1,780,773
Federal sources	284,242	359,990	156,972	122,740	143,289	160,543	157,422	186,535
Total revenues	<u>5,252,894</u>	<u>5,475,364</u>	<u>5,717,013</u>	<u>4,667,180</u>	<u>4,737,318</u>	<u>4,571,669</u>	<u>4,466,843</u>	<u>4,360,430</u>
Expenditures:								
Instruction:								
Regular	1,892,082	2,530,680	2,729,454	1,861,318	1,705,167	1,592,528	1,572,871	1,547,521
Special	639,617	688,738	750,498	493,932	509,778	601,808	549,380	647,788
Other	555,521	526,988	493,096	547,041	528,635	520,292	522,559	331,569
Support services:								
Student	77,179	46,452	48,882	42,200	89,785	82,763	78,677	78,592
Instructional staff	311,655	227,221	257,301	195,044	203,247	138,029	121,378	99,857
Administration	649,771	638,072	569,664	446,782	486,407	514,386	502,319	500,465
Operation and maintenance	399,189	356,120	355,743	342,251	331,939	342,241	283,145	274,939
Transportation	244,611	221,208	327,703	259,629	284,273	279,743	193,675	186,662
Non-instructional programs	411	123	165	149	146	142	136	139
Other expenditures:								
Facilities acquisition	22,168	25,850	833,635	1,001,361	36,095	164,932	93,299	195,340
Long-term debt:								
Principal	140,000	135,000	130,000	2,941	5,881	5,881	5,881	5,881
Interest and other charges	30,789	32,983	43,257	-	-	-	-	-
AEA flowthrough	167,352	162,310	149,030	144,269	141,863	137,574	136,369	138,188
Total expenditures	<u>5,130,345</u>	<u>5,591,745</u>	<u>6,688,428</u>	<u>5,336,917</u>	<u>4,323,216</u>	<u>4,380,319</u>	<u>4,059,689</u>	<u>4,006,941</u>

See accompanying independent auditor's report.

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

To the Board of Education of
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 27, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IKM Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IKM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IKM Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items 11-I-A and 11-I-B to be material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

IKM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit IKM Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of IKM Community School District and other parties to whom IKM Community School District may report, and is not intended to be and should not be used by anyone other than these specified parties.

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

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

March 27, 2012

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part I: Findings Related to the Financial Statements:

Internal Control Deficiencies:

11-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, payroll processing, preparing and posting general journal adjusting entries, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

Part II: Other Findings Related to Required Statutory Reporting:

- 11-II-A Certified Budget: Expenditures for the year ended June 30, 2011, exceeded the amount budgeted in the other expenditures function.
- Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion: Response accepted.
- 11-II-B Questionable Expenditures: No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 11-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 11-II-D Business Transactions: No business transactions between the District and District officials or employees were noted.
- 11-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 11-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 11-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.
- 11-II-H Supplementary Weighting: No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 11-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 11-II-J Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 11-II-K Categorical Funding: No instances were noted of categorical funding being used to supplant rather than supplement other funds.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2011

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

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance	\$	\$
		300,683
Revenues/transfers in:		
Statewide sales, services and use tax revenue	262,989	
Other local revenues	1,134	264,123
	<u> </u>	
Expenditures/transfers out:		
School infrastructure construction	18,918	
Transfers to debt service fund	168,647	187,565
	<u> </u>	<u> </u>
Ending balance		<u>377,241</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423e or 423F of the Code of Iowa.