

LENOX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

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Lenox Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
Kurtis Christensen	President	2013
Todd Barker	Vice President	2013
Nicole Hogan	Board Member	2011
Rosa Cruz	Board Member	2011
Brent Wise	Board Member	2013
<b>School Officials</b>		
David Henrichs	Superintendent	2011
Paula Horton	District Secretary/ Treasurer	2011
Richard Wilson	Attorney	2011

# LENOX COMMUNITY SCHOOL DISTRICT

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of  
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lenox Community School District, Lenox Iowa, as of and for the year ended June 30, 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Lenox Community School District at June 30, 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.

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2012 on our consideration of Lenox Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lenox Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2010 (which are not presented herein) and expressed an unqualified opinion 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.

A handwritten signature in black ink that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2012

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

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

### **2011 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$4,082,212 in fiscal 2010 to \$4,369,844 in fiscal 2011, while General Fund expenditures increased from \$3,973,425 in fiscal 2010 to \$4,019,418 in fiscal 2011. However, revenues still outpaced expenditures resulting in an increase in the District's General Fund balance from \$818,936 in fiscal 2010 to \$1,169,362 in fiscal 2011, a 42.79% increase over the prior year.
- The increase in General Fund revenues was attributable to an increase in state revenue in fiscal 2011. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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

**Figure A-1**  
**Lenox Community School District Annual Financial Report**

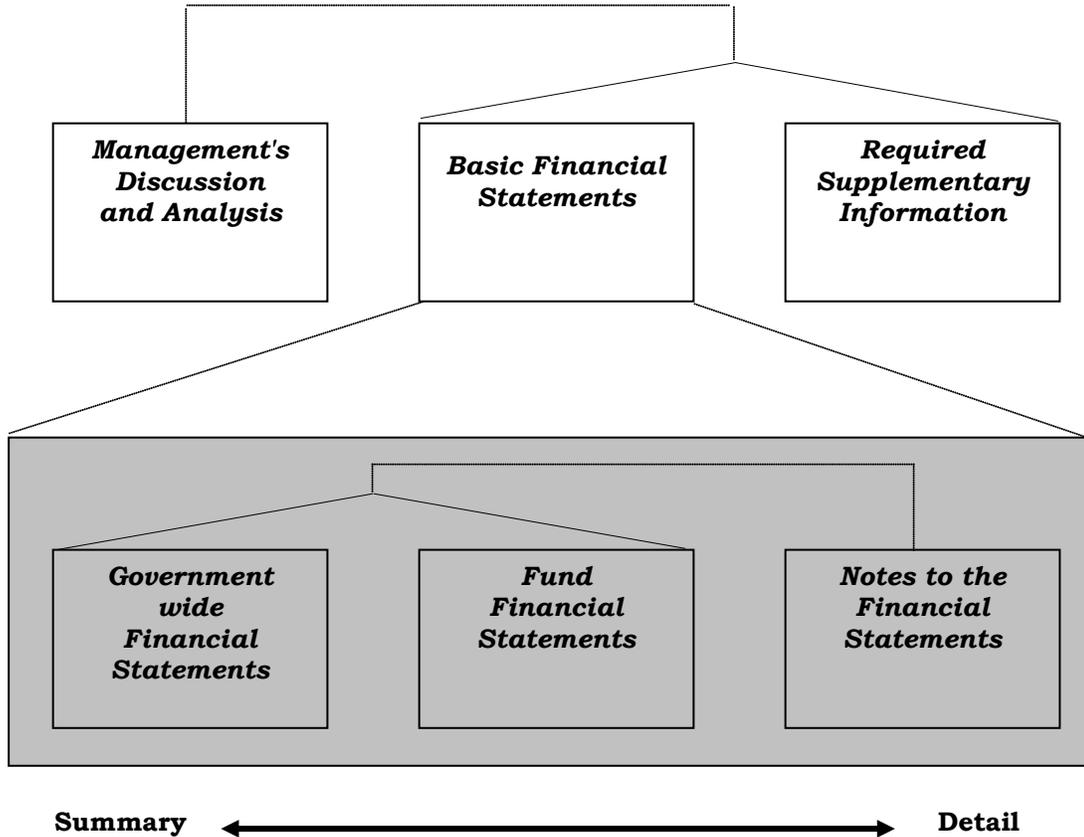


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 4,276,435	3,610,246	72,267	63,356	4,348,702	3,673,602	18.38%
Capital assets	4,623,235	4,593,035	24,208	24,011	4,647,443	4,617,046	0.66%
Total assets	<u>8,899,670</u>	<u>8,203,281</u>	<u>96,475</u>	<u>87,367</u>	<u>8,996,145</u>	<u>8,290,648</u>	<u>8.51%</u>
Long-term obligations	2,942,832	3,255,262	-	-	2,942,832	3,255,262	-9.60%
Other liabilities	2,290,788	2,028,422	13,528	10,921	2,304,316	2,039,343	12.99%
Total liabilities	<u>5,233,620</u>	<u>5,283,684</u>	<u>13,528</u>	<u>10,921</u>	<u>5,247,148</u>	<u>5,294,605</u>	<u>-0.90%</u>
Net assets:							
Invested in capital assets, net of related debt	1,718,235	1,433,035	24,208	24,011	1,742,443	1,457,046	19.59%
Restricted	803,668	724,214	-	-	803,668	724,214	10.97%
Unrestricted	1,144,147	762,348	58,739	52,435	1,202,886	814,783	47.63%
Total net assets	<u>\$ 3,666,050</u>	<u>2,919,597</u>	<u>82,947</u>	<u>76,446</u>	<u>3,748,997</u>	<u>2,996,043</u>	<u>25.13%</u>

The District's combined net assets increased by \$752,954, or 25.13% over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g. land, infrastructure, intangibles, buildings and equipment), less of related debt. The debt related to the invested in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$79,454, or 10.97% from the prior year. The increase in restricted net assets was primarily due to the increase in restrictions in categorical funding in the General Fund and the increase in the fund balance of the Statewide Sales, Services and Use Tax Fund.

Unrestricted net assets - are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$388,103, or 47.63%. The increase in unrestricted net assets was primarily due to the increase in the fund balance of the General Fund.

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

Figure A-4 Changes of Net Assets								
	Governmental Activities		Business Type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2011	2010	2011	2010	2011	2010	2010-11	
Revenues:								
Program revenues:								
Charges for services	\$ 506,797	545,367	84,330	87,235	591,127	632,602	-6.56%	
Operating grants, contributions and restricted interest	484,340	854,951	139,696	138,137	624,036	993,088	-37.16%	
Capital grants, contributions and restricted interest	17,561	87,270	-	-	17,561	87,270	-79.88%	
General revenues:								
Local tax	1,562,065	1,491,201	-	-	1,562,065	1,491,201	4.75%	
Income surtax	237,651	255,835	-	-	237,651	255,835	-7.11%	
Statewide sales, services and use tax	252,397	130,405	-	-	252,397	130,405	93.55%	
Unrestricted state grants	1,951,844	1,395,228	-	-	1,951,844	1,395,228	39.89%	
Nonspecific program federal grants	45,217	-	-	-	45,217	-	100.00%	
Other	102,891	27,229	11,036	2,337	113,927	29,566	285.33%	
Total revenues	<u>5,160,763</u>	<u>4,787,486</u>	<u>235,062</u>	<u>227,709</u>	<u>5,395,825</u>	<u>5,015,195</u>	<u>7.59%</u>	
Program expenses:								
Governmental activities:								
Instructional	2,809,554	2,862,538	-	-	2,809,554	2,862,538	-1.85%	
Support services	1,213,950	1,162,088	20,764	12,114	1,234,714	1,174,202	5.15%	
Non-instructional programs	-	-	207,797	187,831	207,797	187,831	10.63%	
Other expenses	390,806	391,634	-	-	390,806	391,634	-0.21%	
Total expenses	<u>4,414,310</u>	<u>4,416,260</u>	<u>228,561</u>	<u>199,945</u>	<u>4,642,871</u>	<u>4,616,205</u>	<u>0.58%</u>	
Changes in net assets	746,453	371,226	6,501	27,764	752,954	398,990	88.72%	
Net assets beginning of year, as restated	<u>2,919,597</u>	<u>2,548,371</u>	<u>76,446</u>	<u>48,682</u>	<u>2,996,043</u>	<u>2,597,053</u>	<u>15.36%</u>	
Net assets end of year	<u>\$ 3,666,050</u>	<u>2,919,597</u>	<u>82,947</u>	<u>76,446</u>	<u>3,748,997</u>	<u>2,996,043</u>	<u>25.13%</u>	

In fiscal 2011, local tax, income surtax, statewide sales, services and use tax, and unrestricted state grants account for 77.58% of the revenue from governmental activities while charges for services and operating grants, contributions and restricted interest account for 95.31% of the revenue from business type activities.

The District's total revenues were approximately \$5.39 million, of which approximately \$5.16 million was for governmental activities and approximately \$.23 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 7.59% increase in revenues and a 0.58% increase in expenses. The increase was primarily due to the increase in local tax and statewide sales, services and use tax revenues.

## Governmental Activities

Revenues for governmental activities were \$5,160,763 and expenses were \$4,414,310.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses for the year ended June 30, 2011 compared to the year ended June 30, 2010.

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 2,809,554	2,862,538	-1.85%	2,027,241	1,611,100	25.83%
Support services	1,213,950	1,162,088	4.46%	1,147,361	1,162,088	-1.27%
Other expenses	390,806	391,634	-0.21%	231,010	155,484	48.57%
Totals	<u>\$ 4,414,310</u>	<u>4,416,260</u>	<u>-0.04%</u>	<u>3,405,612</u>	<u>2,928,672</u>	<u>16.29%</u>

For the year ended June 30, 2011:

- The cost financed by users of the District's programs was \$506,797.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$501,901.
- The net cost of governmental activities was financed with \$1,562,065 in local tax, \$237,651 in income surtax, \$252,397 in statewide sales, services and use tax, \$1,951,844 in unrestricted state grants, \$45,217 in nonspecific program federal grants, \$2,437 in interest income and \$100,454 in other general revenues.

## Business Type Activities

Revenues of the District's business type activities were \$235,062 and expenses were \$228,561. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,769,236, well above last year's ending fund balances of \$1,394,341.

## Governmental Fund Highlights

- The District's improving General Fund financial position from \$818,936 to \$1,169,362 is the product of many factors. Increases in local and state source revenues during the year as compared to fiscal 2010 were largely responsible for the increase in revenue.
- The Capital Projects fund balance increased from \$358,256 in fiscal 2010 to \$360,498 in fiscal 2011. This was due to revenues outpacing expenditures for the year. The District implemented GASB Statement No. 54 which reclassified the Physical Plant and Equipment Levy Fund as a Capital Project Fund.

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## Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$76,446 at June 30, 2010 to \$82,947 at June 30, 2011, representing an increase of 8.50%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$220,190 less than budgeted revenues, a variance of 4.11%. The most significant variance resulted from the District receiving less from state sources than originally anticipated.

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2011, the District had invested \$4,647,443, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$180,604.

The original cost of the District's capital assets was \$6,545,654. Governmental funds account for \$6,474,766 with the remainder of \$70,888 in the Proprietary, School Nutrition Fund.

The largest percentage of change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$232,041 at June 30, 2011, compared to \$119,112 reported at June 30, 2010. The increase in machinery and equipment was due to the purchase of a school bus and athletic facility seating.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 50,521	50,521	-	-	50,521	50,521	0.00%
Land improvements	19,055	20,176	-	-	19,055	20,176	-5.56%
Buildings	4,345,826	4,427,237	-	-	4,345,826	4,427,237	-1.84%
Machinery and equipment	207,833	95,101	24,208	24,011	232,041	119,112	94.81%
Total	\$ 4,623,235	4,593,035	24,208	24,011	4,647,443	4,617,046	0.66%

### Long-Term Debt

At June 30, 2011, the District had \$2,942,832 in general obligation and other long-term debt outstanding. This represents a decrease of 9.60% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$2,730,000 at June 30, 2011.

The District had total outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$175,000 at June 30, 2011.

The District had early retirement payable from the Special Revenue: Management Fund of \$10,765 at June 30, 2011.

The District had a net OPEB liability payable of 27,067 at June 30, 2011.

Figure A-7			
Outstanding Long-Term Obligations			
	Total District		Total Change
	June 30,		June 30,
	2011	2010	2010-11
General obligation bonds	\$ 2,730,000	2,905,000	-6.02%
Capital loan notes	175,000	255,000	-31.37%
Compensated absences	-	38,202	-100.00%
Early retirement	10,765	43,060	-75.00%
Net OPEB liability	27,067	14,000	93.34%
Totals	<u>\$ 2,942,832</u>	<u>3,255,262</u>	<u>-9.60%</u>

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

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- On July 1, 2011, the IPERS increase to 8.07% will increase the Lenox Community Schools employer benefits costs during fiscal 2012. An additional increase to 8.67% is anticipated for FY13.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

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LENOX COMMUNITY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 1,944,308	62,085	2,006,393
Receivables:			
Property tax:			
Delinquent	35,410	-	35,410
Succeeding year	1,666,894	-	1,666,894
Income surtax	218,217	-	218,217
Accounts	3,512	5,174	8,686
Due from other governments	408,094	-	408,094
Inventories	-	5,008	5,008
Capital assets, net of accumulated depreciation	4,623,235	24,208	4,647,443
<b>Total assets</b>	<b>8,899,670</b>	<b>96,475</b>	<b>8,996,145</b>
<b>Liabilities</b>			
Accounts payable	125,191	12,048	137,239
Salaries and benefits payable	348,148	-	348,148
Due to other governments	65,749	-	65,749
Interest payable	8,689	-	8,689
Deferred revenue:			
Succeeding year property tax	1,666,894	-	1,666,894
Other	76,117	-	76,117
Unearned revenue	-	1,480	1,480
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	180,000	-	180,000
Capital loan notes payable	85,000	-	85,000
Early retirement payable	10,765	-	10,765
Portion due after one year:			
General obligation bonds payable	2,550,000	-	2,550,000
Capital loan notes payable	90,000	-	90,000
Net OPEB liability	27,067	-	27,067
<b>Total liabilities</b>	<b>5,233,620</b>	<b>13,528</b>	<b>5,247,148</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,718,235	24,208	1,742,443
Restricted for:			
Categorical funding	214,559	-	214,559
Management levy purposes	180,122	-	180,122
Student activities	44,124	-	44,124
Debt service	4,365	-	4,365
School infrastructure	173,677	-	173,677
Physical plant and equipment	186,821	-	186,821
Unrestricted	1,144,147	58,739	1,202,886
<b>Total net assets</b>	<b>\$ 3,666,050</b>	<b>82,947</b>	<b>3,748,997</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

**LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	Contributions and Restricted Interest	Contributions and Restricted Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 1,561,784	314,419	77,166	-	(1,170,199)	-	(1,170,199)
Special	567,189	108,291	31,000	-	(427,898)	-	(427,898)
Other	680,581	83,664	167,773	-	(429,144)	-	(429,144)
	<u>2,809,554</u>	<u>506,374</u>	<u>275,939</u>	<u>-</u>	<u>(2,027,241)</u>	<u>-</u>	<u>(2,027,241)</u>
Support services:							
Student	88,337	-	1,218	-	(87,119)	-	(87,119)
Instructional	108,856	-	22,299	-	(86,557)	-	(86,557)
Administration	439,684	-	22,920	-	(416,764)	-	(416,764)
Operation and maintenance of plant	429,240	-	-	17,561	(411,679)	-	(411,679)
Transportation	147,833	423	2,168	-	(145,242)	-	(145,242)
	<u>1,213,950</u>	<u>423</u>	<u>48,605</u>	<u>17,561</u>	<u>(1,147,361)</u>	<u>-</u>	<u>(1,147,361)</u>
Other expenses:							
Long-term debt interest	112,354	-	-	-	(112,354)	-	(112,354)
AEA flowthrough	159,796	-	159,796	-	-	-	-
Depreciation(unallocated)*	118,656	-	-	-	(118,656)	-	(118,656)
	<u>390,806</u>	<u>-</u>	<u>159,796</u>	<u>-</u>	<u>(231,010)</u>	<u>-</u>	<u>(231,010)</u>
Total governmental activities	<u>4,414,310</u>	<u>506,797</u>	<u>484,340</u>	<u>17,561</u>	<u>(3,405,612)</u>	<u>-</u>	<u>(3,405,612)</u>
Business type activities:							
Support services:							
Administration	20,764	-	-	-	-	(20,764)	(20,764)
Non-instructional programs:							
Nutrition services	207,797	84,330	139,696	-	-	16,229	16,229
Total business type activities	<u>228,561</u>	<u>84,330</u>	<u>139,696</u>	<u>-</u>	<u>-</u>	<u>(4,535)</u>	<u>(4,535)</u>
Total	<u>\$ 4,642,871</u>	<u>591,127</u>	<u>624,036</u>	<u>17,561</u>	<u>(3,405,612)</u>	<u>(4,535)</u>	<u>(3,410,147)</u>
<b>General Revenues:</b>							
Local tax levied for:							
General purposes				\$ 1,324,728	-		1,324,728
Capital outlay				97,599	-		97,599
Debt service				139,738	-		139,738
Income surtax				237,651	-		237,651
Statewide sales, services and use tax				252,397	-		252,397
Unrestricted state grants				1,951,844	-		1,951,844
Nonspecific program federal grants				45,217	-		45,217
Unrestricted investment earnings				2,437	241		2,678
Other general revenues				100,454	10,795		111,249
Total general revenues				<u>4,152,065</u>	<u>11,036</u>		<u>4,163,101</u>
Changes in net assets				746,453	6,501		752,954
Net assets beginning of year				<u>2,919,597</u>	<u>76,446</u>		<u>2,996,043</u>
Net assets end of year				<u>\$ 3,666,050</u>	<u>82,947</u>		<u>3,748,997</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments	\$ 1,435,987	267,806	233,632	1,937,425
Receivables:				
Property tax:				
Delinquent	27,324	2,212	5,874	35,410
Succeeding year	1,312,214	106,310	248,370	1,666,894
Income surtax	160,026	58,191	-	218,217
Accounts	3,007	-	505	3,512
Due from other funds	-	21,306	-	21,306
Due from other governments	295,051	113,043	-	408,094
<b>Total assets</b>	<b>\$ 3,233,609</b>	<b>568,868</b>	<b>488,381</b>	<b>4,290,858</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Due to other funds	\$ 21,306	-	-	21,306
Accounts payable	80,687	43,869	635	125,191
Salaries and benefits payable	348,148	-	-	348,148
Due to other governments	65,749	-	-	65,749
Deferred revenue:				
Succeeding year property tax	1,312,214	106,310	248,370	1,666,894
Income surtax	160,026	58,191	-	218,217
Other	76,117	-	-	76,117
Total liabilities	2,064,247	208,370	249,005	2,521,622
Fund balances:				
Restricted for:				
Categorical funding	214,559	-	-	214,559
Management levy purposes	-	-	190,887	190,887
Student activities	-	-	44,124	44,124
Debt service	-	-	4,365	4,365
School infrastructure	-	173,677	-	173,677
Physical plant and equipment	-	186,821	-	186,821
Unassigned	954,803	-	-	954,803
Total fund balances	1,169,362	360,498	239,376	1,769,236
<b>Total liabilities and fund balances</b>	<b>\$ 3,233,609</b>	<b>568,868</b>	<b>488,381</b>	<b>4,290,858</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

<b>Total fund balances of governmental funds(page 20)</b>	\$ 1,769,236
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,623,235
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	218,217
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(8,689)
Long-term liabilities, including general obligation bonds payable, capital loan notes payable, early retirement payable and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(2,942,832)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	<u>6,883</u>
<b>Net assets of governmental activities(page 18)</b>	<u><u>\$ 3,666,050</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$ 1,363,914	407,672	259,135	2,030,721
Tuition	413,349	-	-	413,349
Other	128,888	474	90,453	219,815
State sources	2,211,389	52	139	2,211,580
Federal sources	246,345	17,561	-	263,906
Total revenues	<u>4,363,885</u>	<u>425,759</u>	<u>349,727</u>	<u>5,139,371</u>
<b>Expenditures:</b>				
Current:				
Instruction:				
Regular	1,579,492	-	77,581	1,657,073
Special	567,189	-	-	567,189
Other	599,334	-	75,463	674,797
	<u>2,746,015</u>	<u>-</u>	<u>153,044</u>	<u>2,899,059</u>
Support services:				
Student	87,895	-	-	87,895
Instructional	125,208	-	-	125,208
Administration	434,285	-	3,866	438,151
Operation and maintenance of plant	349,332	-	20,331	369,663
Transportation	116,887	77,661	9,461	204,009
	<u>1,113,607</u>	<u>77,661</u>	<u>33,658</u>	<u>1,224,926</u>
Other expenditures:				
Facilities acquisitions	-	118,647	-	118,647
Long-term debt:				
Principal	-	-	255,000	255,000
Interest and fiscal charges	-	-	113,007	113,007
AEA flowthrough	159,796	-	-	159,796
	<u>159,796</u>	<u>118,647</u>	<u>368,007</u>	<u>646,450</u>
Total expenditures	<u>4,019,418</u>	<u>196,308</u>	<u>554,709</u>	<u>4,770,435</u>
Excess(Deficiency) of revenues over(under) expenditures	344,467	229,451	(204,982)	368,936
Other financing sources(uses):				
Transfers in	-	-	227,209	227,209
Transfers out	-	(227,209)	-	(227,209)
Proceeds from sale of equipment	5,959	-	-	5,959
Total other financing sources(uses):	<u>5,959</u>	<u>(227,209)</u>	<u>227,209</u>	<u>5,959</u>
Net change in fund balances	350,426	2,242	22,227	374,895
Fund balances beginning of year, as restated	<u>818,936</u>	<u>358,256</u>	<u>217,149</u>	<u>1,394,341</u>
Fund balances end of year	<u>\$ 1,169,362</u>	<u>360,498</u>	<u>239,376</u>	<u>1,769,236</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 22) \$ 374,895

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

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

Capital outlay expenditures	\$ 206,927	
Depreciation expense	<u>(176,727)</u>	30,200

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 21,392

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 255,000

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

Early retirement	32,295	
Compensated absences	38,202	
Other postemployment benefits	<u>(13,067)</u>	57,430

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 653

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 6,883

**Changes in net assets of governmental activities(page 19) \$ 746,453**

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	Business Type Activities - Enterprise Fund	Governmental Activities - Internal Service
	School Nutrition	
<b>Assets</b>		
Cash and pooled investments	\$ 62,085	6,883
Accounts receivable	5,174	-
Inventories	5,008	-
Capital assets, net of accumulated depreciation	24,208	-
<b>Total assets</b>	<u>96,475</u>	<u>6,883</u>
<b>Liabilities</b>		
Accounts payable	12,048	-
Unearned revenue	1,480	-
<b>Total liabilities</b>	<u>13,528</u>	<u>-</u>
<b>Net Assets</b>		
Invested in capital assets	24,208	-
Unrestricted	58,739	6,883
<b>Total net assets</b>	<u>\$ 82,947</u>	<u>6,883</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Business Type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Fund
Operating revenue:		
Local sources:		
Charges for services	\$ 84,330	36,991
Miscellaneous	10,795	5,353
Total operating revenue	<u>95,125</u>	<u>42,344</u>
Operating expenses:		
Current:		
Instruction:		
Regular	-	35,478
Support services:		
Administration:		
Salaries	16,976	-
Benefits	3,788	-
	<u>20,764</u>	<u>-</u>
Non-instructional programs:		
Food service operations:		
Salaries	62,186	-
Benefits	10,756	-
Services	6,531	-
Supplies	124,447	-
Depreciation	3,877	-
	<u>207,797</u>	<u>-</u>
Total operating expenses	<u>228,561</u>	<u>35,478</u>
Operating income(loss)	<u>(133,436)</u>	<u>6,866</u>
Non-operating revenues:		
State sources	2,112	-
Federal sources	137,584	-
Interest income	241	17
Total non-operating revenues	<u>139,937</u>	<u>17</u>
Change in net assets	6,501	6,883
Net assets beginning of year	<u>76,446</u>	<u>-</u>
Net assets end of year	<u>\$ 82,947</u>	<u>6,883</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Business Type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 84,783	-
Cash received from miscellaneous sources	5,621	42,344
Cash payments to employees for services	(93,706)	(35,478)
Cash payments to suppliers for goods or services	(109,140)	-
Net cash provided by(used in) operating activities	<u>(112,442)</u>	<u>6,866</u>
Cash flows from non-capital financing activities:		
State grants received	2,112	-
Federal grants received	122,397	-
Net cash provided by non-capital financing activities	<u>124,509</u>	<u>-</u>
Cash flows from investing financing activities:		
Interest on investments	241	17
Cash flows from capital financing activities		
Purchase of assets	(4,074)	-
Net increase in cash and cash equivalents	8,234	6,883
Cash and cash equivalents beginning of year	53,851	-
Cash and cash equivalents end of year	<u>\$ 62,085</u>	<u>6,883</u>
<b>Reconciliation of operating income(loss) to net cash used by operating activities:</b>		
Operating income(loss)	\$ (133,436)	6,866
Adjustments to reconcile operating income(loss) to net cash used by operating activities:		
Commodities consumed	15,187	-
Depreciation	3,877	-
Decrease in inventories	4,412	-
Increase in accounts receivable	(5,089)	-
Increase in accounts payable	2,239	-
Increase in unearned revenue	368	-
Net cash provided by(used in) operating activities	<u>\$ (112,442)</u>	<u>6,866</u>

**Non-cash investing, capital and related financing activities:**

During the year ended June 30, 2011, the District received \$15,187 of federal commodities.

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
 FIDUCIARY FUND  
 JUNE 30, 2011

		Agency
<b>Assets</b>		
Cash and pooled investments	\$	358
<b>Liabilities</b>		
Due to other groups	\$	358

SEE NOTES TO BASIC FINANCIAL STATEMENTS

LENOX COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011

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

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

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds. Combining schedules are also included for the Capital Project 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

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

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self-funded health insurance plan.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be

collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

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

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund 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 spendable 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 imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 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.

At June 30, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,534,675 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) **Interfund Receivables/Payables**

The detail of interfund receivables and payables at June 30, 2011 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects:		
Physical Plant and		
Equipment Levy	General Fund	<u>\$ 21,306</u>

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

(4) **Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects:	
	Physical Plant and	
	Equipment Levy	\$ 89,513
Debt Service	Capital Projects:	
	Statewide Sales,	
	Services and Use Tax	<u>137,696</u>
Total		<u>\$ 227,209</u>

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

The Capital Projects: Statewide Sales, Services and Use Tax Levy Fund transferred funds to the Debt Service Fund for payment on General Obligation Bond indebtedness.

**(5) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 50,521	-	-	50,521
Total capital assets not being depreciated	50,521	-	-	50,521
Capital assets being depreciated:				
Buildings	5,540,588	30,000	-	5,570,588
Land improvements	22,418	-	-	22,418
Machinery and equipment	688,686	176,927	34,374	831,239
Total capital assets being depreciated	6,251,692	206,927	34,374	6,424,245
Less accumulated depreciation for:				
Buildings	1,113,351	111,411	-	1,224,762
Land improvements	2,242	1,121	-	3,363
Machinery and equipment	593,585	64,195	34,374	623,406
Total accumulated depreciation	1,709,178	176,727	34,374	1,851,531
Total capital assets being depreciated, net	4,542,514	30,200	-	4,572,714
Governmental activities capital assets, net	\$ 4,593,035	30,200	-	4,623,235
<b>Business type activities:</b>				
Machinery and equipment	\$ 68,163	4,074	1,349	70,888
Less accumulated depreciation	44,152	3,877	1,349	46,680
Business type activities capital assets, net	\$ 24,011	197	-	24,208

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 15,729
Other		5,784
Support services:		
Instructional staff		13,823
Operation and maintenance of plant		1,250
Transportation		21,485
Unallocated depreciation		<u>118,656</u>
Total governmental activities depreciation expense		<u>\$ 176,727</u>
Business type activities:		
Food services		<u>\$ 3,877</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	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,905,000	-	175,000	2,730,000	180,000
Capital loan notes	255,000	-	80,000	175,000	85,000
Compensated absences	38,202	-	38,202	-	-
Early retirement	43,060	10,765	43,060	10,765	10,765
Net OPEB liability	14,000	13,067	-	27,067	-
Total	<u>\$ 3,255,262</u>	<u>23,832</u>	<u>336,262</u>	<u>2,942,832</u>	<u>275,765</u>

General Obligation Bonds Payable

Details of the District's June 30, 2011 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2012	3.00 %	\$ 180,000	97,970	277,970
2013	3.10	190,000	92,570	282,570
2014	3.20	195,000	86,680	281,680
2015	3.30	200,000	80,440	280,440
2016	3.40	210,000	73,840	283,840
2017-2021	3.50-3.90	1,200,000	250,600	1,450,600
2022-2023	4.00	555,000	33,600	588,600
Total		<u>\$ 2,730,000</u>	<u>715,700</u>	<u>3,445,700</u>

Capital Loan Notes Payable

Details of the District's June 30, 2011 capital loan notes indebtedness are as follows:

Year Ending June 30,	Note Issue of June 30, 2005			
	Interest Rates	Principal	Interest	Total
2012	3.55 %	\$ 85,000	6,302	91,302
2013	3.65	90,000	3,285	93,285
Total		\$ 175,000	9,587	184,587

Early Retirement

The District offered a voluntary early retirement plan to its full-time employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentive for each eligible employee is equal to 1.00% for each year of service of his/her salary amount of the final contracted year of employment; maximum of \$10,000. During the year ended June 30, 2011, the District paid \$43,060 of early retirement benefit payments.

**(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 contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$170,463, \$168,057, and \$155,915, respectively, equal to the required contributions for each year.

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

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

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

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

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

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

Annual required contribution	\$ 23,000
Interest on net OPEB obligation	630
Adjustment to annual required contribution	(563)
Annual OPEB cost	<u>23,067</u>
Contributions made	<u>(10,000)</u>
Increase in net OPEB obligation	13,067
Net OPEB obligation beginning of year	<u>14,000</u>
Net OPEB obligation end of year	<u><u>\$ 27,067</u></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 \$10,000 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% 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:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$23,000	39.13%	\$14,000
2011	\$23,067	43.35%	\$27,067

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 \$199,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$199,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1,480,335 and the ratio of the UAAL to covered payroll was 13.44%. 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. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

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

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

**(9) Risk Management**

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

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$159,796 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 ending restricted balance for categorical funding at June 30, 2011 is comprised of the following:

Project	Amount
LEP Weighting	\$ 2,141
Home School Assistance Program	1,209
Gifted and Talented Programs	19,370
Returning Dropouts and Dropout Prevention Programs	111,236
Four-year-old Preschool State Aid	31,370
Beginning Teacher Mentoring and Induction Program	488
Teacher Salary Supplement	17,499
Professional Development for Model Core Curriculum	18,170
Professional Development	13,076
Total	<u>\$ 214,559</u>

**(12) Accounting Change/Restatement**

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances June 30, 2010 as previously reported	\$ 129,292	228,964
Changes in fund type classification per implementation of GASB Statement No. 54	228,964	(228,964)
Balances July 1, 2010, as restated	<u>\$ 358,256</u>	<u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 2,663,885	95,366	2,759,251	2,716,918	2,716,918	42,333
State sources	2,211,580	2,112	2,213,692	2,527,705	2,527,705	(314,013)
Federal sources	263,906	137,584	401,490	350,000	350,000	51,490
Total revenues	5,139,371	235,062	5,374,433	5,594,623	5,594,623	(220,190)
<b>Expenditures/Expenses:</b>						
Instruction	2,899,059	-	2,899,059	4,121,113	4,121,113	1,222,054
Support services	1,224,926	20,764	1,245,690	2,123,819	2,123,819	878,129
Non-instructional programs	-	207,797	207,797	281,982	281,982	74,185
Other expenditures	646,450	-	646,450	692,837	692,837	46,387
Total expenditures/expenses	4,770,435	228,561	4,998,996	7,219,751	7,219,751	2,220,755
Excess(Deficiency) of revenues over(under) expenditures/expenses	368,936	6,501	375,437	(1,625,128)	(1,625,128)	2,000,565
Other financing sources, net	5,959	-	5,959	5,000	5,000	959
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses and other financing uses	374,895	6,501	381,396	(1,620,128)	(1,620,128)	2,001,524
Balances beginning of year	1,394,341	76,446	1,470,787	1,189,732	1,189,732	281,055
Balances end of year	\$ 1,769,236	82,947	1,852,183	(430,396)	(430,396)	2,282,579

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX 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 Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

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

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	-	\$ 199,000	199,000	0.00%	\$ 1,645,298	12.10%
2011	July 1, 2009	-	199,000	199,000	0.00%	1,480,335	13.44%

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

OTHER SUPPLEMENTARY INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue				Total
	Management Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>					
Cash and pooled investments	\$ 188,181	44,254	232,435	1,197	233,632
Receivables:					
Property tax:					
Delinquent	2,706	-	2,706	3,168	5,874
Succeeding year	110,000	-	110,000	138,370	248,370
Accounts	-	505	505	-	505
<b>Total assets</b>	<b>\$ 300,887</b>	<b>44,759</b>	<b>345,646</b>	<b>142,735</b>	<b>488,381</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ -	635	635	-	635
Deferred revenue:					
Succeeding year property tax	110,000	-	110,000	138,370	248,370
Total liabilities	110,000	635	110,635	138,370	249,005
Fund balances:					
Restricted for:					
Management levy purposes	190,887	-	190,887	-	190,887
Student activities	-	44,124	44,124	-	44,124
Debt service	-	-	-	4,365	4,365
Total fund balances	190,887	44,124	235,011	4,365	239,376
<b>Total liabilities and fund balances</b>	<b>\$ 300,887</b>	<b>44,759</b>	<b>345,646</b>	<b>142,735</b>	<b>488,381</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2011

	Special Revenue			Total	
	Manage- ment Levy	Student Activity	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
Revenues:					
Local sources:					
Local tax	\$ 119,397	-	119,397	139,738	259,135
Other	6,679	83,664	90,343	110	90,453
State sources	64	-	64	75	139
Total revenues	126,140	83,664	209,804	139,923	349,727
Expenditures:					
Current:					
Instruction:					
Regular	77,581	-	77,581	-	77,581
Other	-	75,463	75,463	-	75,463
Support services:					
Administration	3,866	-	3,866	-	3,866
Operation and maintenance of plant	20,331	-	20,331	-	20,331
Transportation	9,461	-	9,461	-	9,461
Other expenditures:					
Long-term debt:					
Principal	-	-	-	255,000	255,000
Interest and fiscal charges	-	-	-	113,007	113,007
Total expenditures	111,239	75,463	186,702	368,007	554,709
Excess(Deficiency) of revenues over(under) expenditures	14,901	8,201	23,102	(228,084)	(204,982)
Other financing sources:					
Transfers in	-	-	-	227,209	227,209
Net change in fund balances	14,901	8,201	23,102	(875)	22,227
Fund balances beginning of year, as restated	175,986	35,923	211,909	5,240	217,149
Fund balances end of year	\$ 190,887	44,124	235,011	4,365	239,376

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX 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
<b>Assets</b>			
Cash and pooled investments	\$ 104,503	163,303	267,806
Receivables:			
Property tax:			
Delinquent	-	2,212	2,212
Succeeding year	-	106,310	106,310
Income surtax	-	58,191	58,191
Due from other funds	-	21,306	21,306
Due from other governments	113,043	-	113,043
<b>Total assets</b>	<b>\$ 217,546</b>	<b>351,322</b>	<b>568,868</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 43,869	-	43,869
Deferred revenue:			
Succeeding year property tax	-	106,310	106,310
Income surtax	-	58,191	58,191
Total liabilities	43,869	164,501	208,370
Fund balances:			
Restricted for:			
School infrastructure	173,677	-	173,677
Physical plant and equipment	-	186,821	186,821
Total fund balances	173,677	186,821	360,498
<b>Total liabilities and fund balances</b>	<b>\$ 217,546</b>	<b>351,322</b>	<b>568,868</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 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	\$ 252,397	155,275	407,672
Other	153	321	474
State sources	-	52	52
Federal sources	-	17,561	17,561
Total revenues	<u>252,550</u>	<u>173,209</u>	<u>425,759</u>
Expenditures:			
Support services:			
Transportation	-	77,661	77,661
Other expenditures:			
Facilities acquisitions	70,469	48,178	118,647
Total expenditures	<u>70,469</u>	<u>125,839</u>	<u>196,308</u>
Excess of revenues over expenditures	182,081	47,370	229,451
Other financing uses:			
Transfers out	(137,696)	(89,513)	(227,209)
Net change in fund balances	44,385	(42,143)	2,242
Fund balances beginning of year, as restated	<u>129,292</u>	<u>228,964</u>	<u>358,256</u>
Fund balances end of year	<u>\$ 173,677</u>	<u>186,821</u>	<u>360,498</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
<b>Athletics:</b>				
General athletics	\$ -	4,373	4,220	153
Football	-	11,034	11,034	-
Volleyball	724	2,558	2,887	395
Boys Basketball	909	3,356	2,096	2,169
Girls Basketball	739	3,387	2,890	1,236
Wrestling	-	1,431	1,431	-
Girls Track	-	12	12	-
HS Baseball	-	2,297	1,767	530
JH Baseball	-	146	35	111
HS Softball	238	2,570	2,732	76
JH Softball	-	156	135	21
Weight Room	480	-	-	480
	<u>3,090</u>	<u>31,320</u>	<u>29,239</u>	<u>5,171</u>
<b>Band/Vocal:</b>				
HS Music	6,827	3,763	3,825	6,765
Uniform Fees	1,755	242	387	1,610
Music Supplies	15	97	112	-
	<u>8,597</u>	<u>4,102</u>	<u>4,324</u>	<u>8,375</u>
<b>Clubs/Organizations:</b>				
Art Club	42	-	-	42
Peer Helpers	74	357	20	411
Football Cheerleaders	810	3,573	2,379	2,004
Basketball Cheerleaders	1,066	111	112	1,065
Wrestling Cheerleaders	102	111	59	154
Student Council	758	873	1,203	428
National Honor Society	45	-	-	45
Annual Staff	11,821	6,610	6,526	11,905
Drama Club	-	919	858	61
Explorer's	31	-	-	31
Foreign Language	81	-	-	81
FCCLA	-	1,373	1,214	159
	<u>14,830</u>	<u>13,927</u>	<u>12,371</u>	<u>16,386</u>

Account	Balance End of Year	Revenues	Expendi- tures	Balance End of Year
Class Accounts:				
Class of 2010	1,788	-	1,788	-
Class of 2011	4,954	9,724	12,892	1,786
Class of 2012	233	19,528	12,480	7,281
Class of 2013	235	145	32	348
Class of 2014	4	149	14	139
Class of 2015	42	68	-	110
	7,256	29,614	27,206	9,664
Elementary Activities:				
Memory Book	519	1,468	1,222	765
Student Council	967	-	-	967
Activities	119	-	-	119
Music	634	150	-	784
	2,239	1,618	1,222	2,635
Miscellaneous:				
Student Pop	727	-	727	-
Misc school-wide	(1,117)	2,773	-	1,656
Interest	-	310	310	-
JH Stand	156	-	64	92
Immunizations	145	-	-	145
	(89)	3,083	1,101	1,893
Total	\$ 35,923	83,664	75,463	44,124

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

LENOX 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
<b>Assets</b>				
Cash and pooled investments	\$ 340	18,685	18,667	358
<b>Liabilities</b>				
Due to other groups	\$ 340	18,685	18,667	358

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 2,030,721	1,868,655	1,808,919	1,686,714	1,662,237	1,511,553	1,366,507	1,294,775
Tuition	413,349	396,671	413,829	280,851	232,997	266,652	281,335	263,624
Other	219,815	179,006	214,314	195,874	181,662	179,838	174,022	124,466
State sources	2,211,580	1,898,824	2,081,653	1,935,997	1,791,182	1,480,172	1,578,991	1,580,030
Federal sources	263,906	427,481	251,920	186,369	203,138	234,946	349,950	250,371
Total	\$ 5,139,371	4,770,637	4,770,635	4,285,805	4,071,216	3,673,161	3,750,805	3,513,266
Expenditures:								
Current:								
Instruction:								
Regular	\$ 1,657,073	1,547,437	1,548,294	1,416,919	1,350,985	1,391,226	1,366,276	1,251,328
Special	567,189	602,155	607,413	540,657	512,822	518,138	783,153	661,963
Other	674,797	667,017	618,859	607,099	585,730	563,521	265,014	303,544
Support services:								
Student	87,895	84,340	78,757	74,729	19,286	15,072	19,190	17,791
Instructional	125,208	169,903	237,112	122,746	91,206	92,947	45,215	39,274
Administration	438,151	439,463	424,755	397,302	372,026	350,216	318,370	316,205
Operation and maintenance of plant	369,663	345,991	314,591	309,951	279,666	253,494	267,729	232,156
Transportation	204,009	114,696	109,200	133,060	157,560	94,760	85,670	81,062
Non-instructional programs:								
Food service operations	-	-	-	-	-	-	81,063	-
Other expenditures:								
Facilities acquisitions	118,647	302,373	26,140	54,388	176,067	277,080	3,358,309	950,189
Long-term debt:								
Principal	255,000	250,000	235,000	225,000	220,000	140,000	100,000	145,715
Interest and fiscal charges	113,007	120,262	129,862	139,748	149,313	154,835	142,670	137,862
AEA flow-through	159,796	148,880	131,964	115,808	112,369	105,645	106,450	109,086
Total	\$ 4,770,435	4,792,517	4,461,947	4,137,407	4,027,030	3,956,934	6,939,109	4,246,175

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

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

To the Board of Education of  
Lenox Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Lenox Community School District as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 8, 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 Lenox Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Lenox Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lenox Community School District's internal control over financial reporting.

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

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

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lenox Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an

opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

March 8, 2012

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

**Part I: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

LENOX COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-11 Certified Budget - District expenditures for the year ended June 30, 2011, did not exceed the amounts budgeted in any of the functional areas.
- II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-11 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Todd Barker, Board Member Part owner of Barker Implement	Supplies and Services	\$755
Spouse	Accompanist	\$893
Son	Painting BB Fence	\$92
David Henrichs, Superintendent Daughter, Kara Henrichs	BB Ticket Taker	\$18
Diane Lange, Teacher Husband	Services	\$2,395
Paula Horton, Board Secretary Son part owner of Lenox Tire Center	Services	\$1,122
Allen Dukes, Teacher Brother, Leroy Dukes	VB & FB Official	\$300
Jason Reed, Coach Brother, Jordan Reed	JH BB Official	\$75
Tom Christensen, Coach Owns Christensen Sanitation	Garbage Disposal	\$3,240
Brother, Gary Christensen	WR Official	\$140
Brother, Jim Christensen	FB & WR Official	\$390
Karl & Candace Peterson, Teacher Son, Mason Peterson	JH BB Official	\$30
Son, Alex Peterson	BB Official	\$50

Name, Title and Business Connection	Transaction Description	Amount
Leah Henderson, Tech Coordinator Owner of Siverly Graphixs	Supplies and Services	\$2,774
Mark & Candy Sorensen, Custodian/Teacher Daughter, Nicci Sorensen	Painting BB Fence	\$130
Mitch Sorensen, Teacher Owns S&S Sound Spectrum	DJ Services	\$550
Jennifer Miller, Nurse Brother owns Appliance Plus Mother owns Tiger Den	Washer/Repairs Meals	\$211 \$134
Nancy Chapman, Cook Husband owns Don's Body Shop	Repairs	\$2,026

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

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

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

- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-11 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

II-L-11 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		\$	129,292
Revenues/transfers in:			
Sales tax revenues	\$	252,397	
Other local revenues		153	252,550
			<u>381,842</u>
Expenditures/transfers out:			
School infrastructure construction		64,619	
Other		5,850	
Transfer to other funds:			
Debt service fund		137,696	208,165
			<u>208,165</u>
Ending Balance		\$	<u>173,677</u>

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2011, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.47000	\$ 137,696

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

Recommendation - To comply with the Declaratory Ruling, the District should repay the loan or issue anticipatory warrants to repay the interfund loan.

Response - The District transferred the money from the General Fund to the Voted PPEL Fund and entered the proper journal entries to reflect this on September 23, 2011.

Conclusion - Response accepted.