

**INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
TRURO, IOWA**

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

JUNE 30, 2012

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INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2011 election)		
Leah Gray	President	2011
Julie Brownlee	Vice President	2011
Ken Stanley	Board Member	2011
Dan Kirkpatrick	Board Member	2013
Bryan Arzani	Board Member	2013
(After September 2011 election)		
Leah Gray	President	2015
Julie Brownlee	Vice President	2015
Dan Kirkpatrick	Board Member	2013
Bryan Arzani	Board Member	2013
Ken Stanley	Board Member	2015
<u>School Officials</u>		
Eric Sundermeyer	Superintendent	2014
Jennifer Jamison	District Secretary/ Business Manager	2012
Ahlers & Cooney, P.C.	Attorney	2012

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Interstate 35 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 Interstate 35 Community School District, Iowa, as of and for the year ended June 30, 2012, 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Interstate 35 Community School District at June 30, 2012, 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 December 28, 2012 on our consideration of Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 18 and 56 through 58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U. S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Interstate 35 Community School District's basic financial statements. The financial statements for the eight years ended June 30, 2011 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 9 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of District management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
December 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 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, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

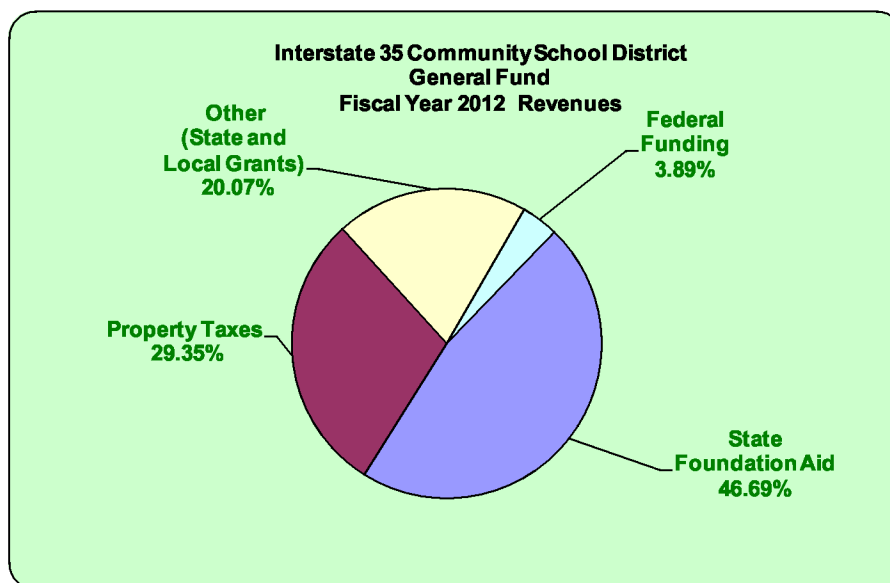
2012 FINANCIAL HIGHLIGHTS

- **Budget:** The State of Iowa legislatively approved an allowable growth factor of 0 percent for fiscal year 2012. The district's enrollment increased by 1.8 students from 874.0 in fiscal year 2011 to 875.8 in fiscal year 2012. The increase in enrollment resulted in a .21 percent increase, or \$10,589 in new regular program funding.

In April, 2011, the board approved a budget for fiscal year 2012 for all funds of \$11,311,007 (including transfers). In May, 2012, the board amended the budget one time by \$2,551,771 for unanticipated increases in support services and non-instructional programs and for general obligation debt refunding.

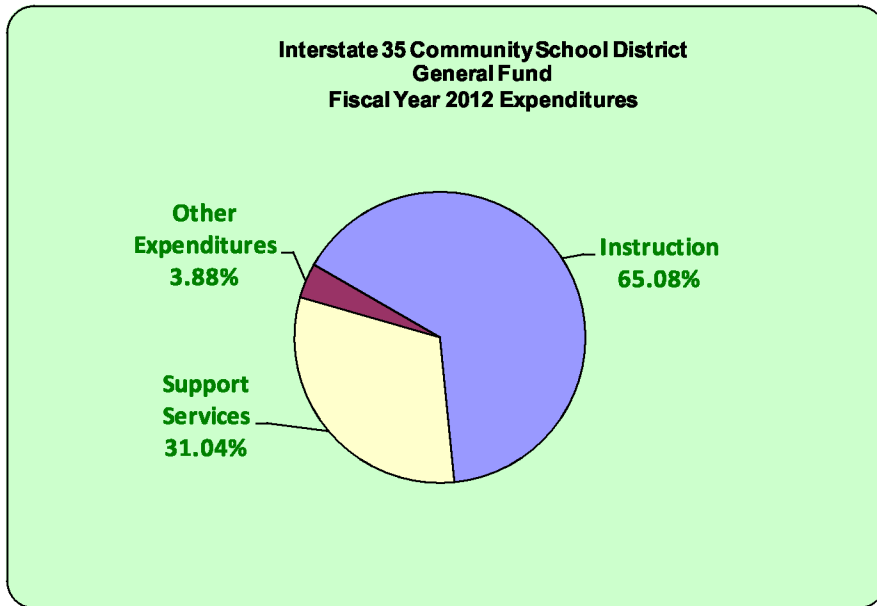
- **Revenue:** Government-wide revenues were \$10,775,172, which primarily consisted of state aid, property taxes, charges for service, and operating grants, contributions and restricted interest. General revenues accounted for approximately 76.7 percent of the District-wide revenue. Program specific revenues in the form of charges for services and grants and contributions, accounted for 23.3 percent of total fiscal year 2012 revenues.

The General Fund had \$8,315,312 in revenues for fiscal year 2012, which primarily consisted of state aid and property taxes. General Fund revenues increased from \$7,724,787 in fiscal year 2011 to \$8,315,312 in fiscal year 2012, which represents a 7.64% increase.



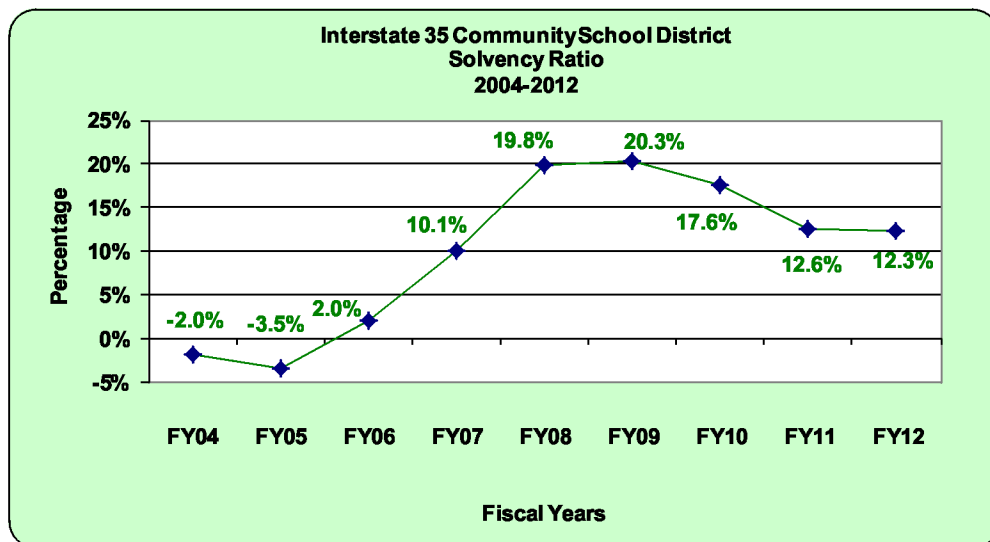
- **Expenses:** The government-wide expenses were \$9,721,374, of which \$2,511,907 were offset by program specific charges for services or grants and contributions. General revenues of \$8,263,265 provided for the remaining cost of these programs.

The General Fund had \$7,990,389 in fiscal year 2012 expenses, which primarily consisted of instructional expenses. General Fund expenses increased 2.8% from \$7,773,474 in fiscal 2010 to \$7,990,389 in fiscal year 2012.



- General Fund Balance and Solvency Ratio:** The District's overall General Fund balance increased from \$1,264,729 as of June 30, 2011 to \$1,590,904 as of June 30, 2012. As a result, the General Fund combined unassigned and assigned fund balance increased from \$930,453 as of June 30, 2011 to \$984,331 as of June 30, 2012.

The District's solvency ratio (unassigned and assigned fund balance/General Fund revenues less AEA flowthrough) decreased from 12.6 percent in 2011 to 12.3 percent in 2012 due to increases in restricted fund balances for state categorical funding.



The Board guidelines set a target of 12.5% for the District's solvency ratio.

Debt: The Debt Service Fund balance decreased from \$471,510 at the end of fiscal year 2011 to \$433,465 at the end of fiscal year 2012. The cash and pooled investments of the Debt Service Fund include cash held in a sinking fund and debt service fund at Bankers Trust per the bond covenant for the sales tax revenue bonds. Monthly revenues are transferred from the Capital Projects Fund to the Debt Service Fund for payment of principal and interest on the sales tax revenue bonds.

- **Capital Projects:** Revenues from sales taxes increased from \$589,113 in fiscal year 2011 to \$660,308 in fiscal year 2012. Expenses (including transfers out to debt service) decreased from \$681,434 in fiscal year 2011 to \$364,916 in fiscal year 2012 due to the completion of various facility improvements in the District.

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 Interstate 35 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 Interstate 35 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 Interstate 35 Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the non-major funds.

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

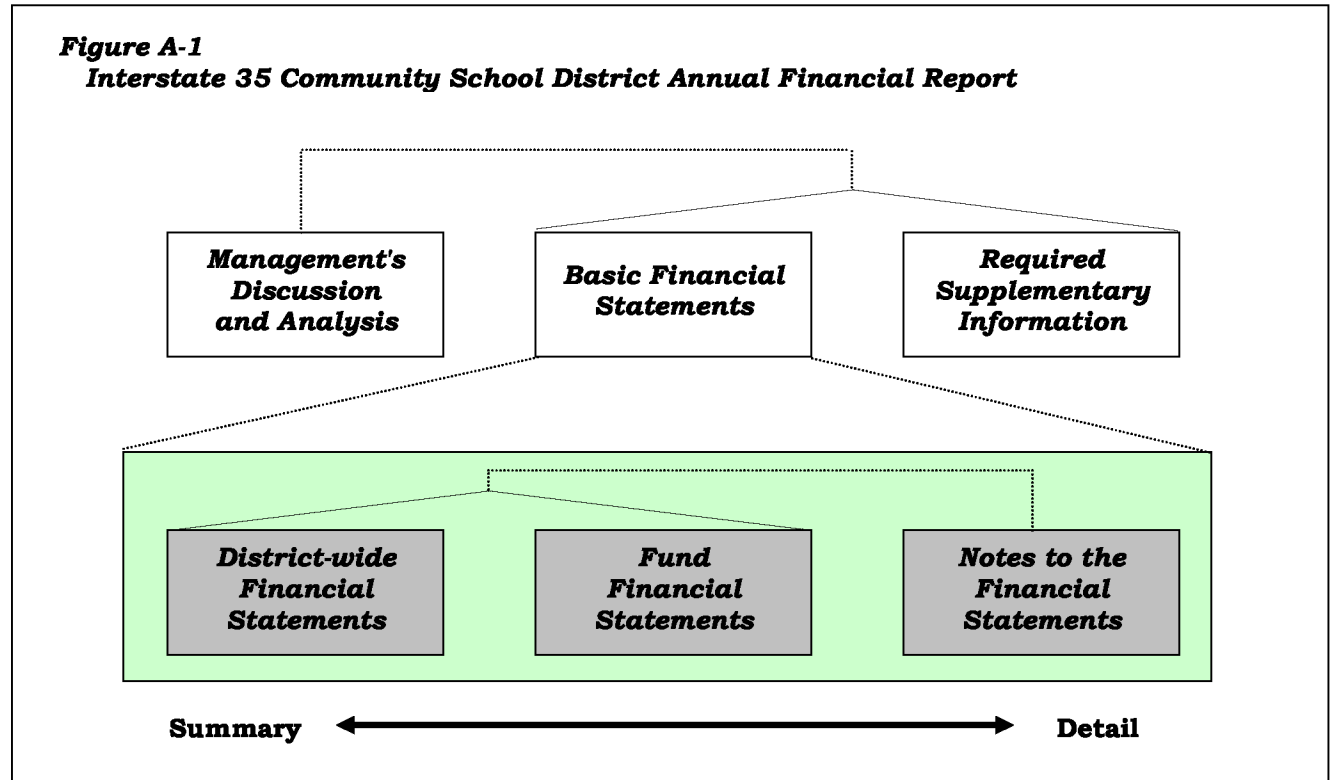


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and the 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 three enterprise funds: the School Nutrition Fund, the Preschool Fund and the Roadrunner Childcare Center Fund.

The required financial statements for the proprietary funds include a statement of net assets, 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 Private-Purpose Trust Fund.

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

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the 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 for the year ended June 30, 2012 compared to June 30, 2011.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 7,267,104	6,387,066	11,841	27,000	7,278,945	6,414,066	13.48%
Capital assets	12,218,480	12,536,028	21,358	30,774	12,239,838	12,566,802	-2.60%
Total assets	19,485,584	18,923,094	33,199	57,774	19,518,783	18,980,868	2.83%
Long-term liabilities	4,708,633	5,561,278	17,486	17,486	4,726,119	5,578,764	-15.28%
Other liabilities	4,277,240	3,951,831	18,829	7,476	4,296,069	3,959,307	8.51%
Total liabilities	8,985,873	9,513,109	36,315	24,962	9,022,188	9,538,071	-5.41%
Net assets:							
Invested in capital assets, net of related debt	7,993,480	7,474,955	21,358	30,774	8,014,838	7,505,729	6.78%
Restricted	1,908,819	1,351,080	0	0	1,908,819	1,351,080	41.28%
Unrestricted	597,412	583,950	(24,474)	2,038	572,938	585,988	-2.23%
Total net assets	\$ 10,499,711	9,409,985	(3,116)	32,812	10,496,595	9,442,797	11.16%

The District's combined net assets increased by 11.16%, or \$1,053,798, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represents 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 \$557,739, or 41.28% over the prior year. The increase in restricted net assets can be attributable to the increase in resources restricted for categorical funding.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – decreased \$13,050, or 2.23%. This decrease is due in part to the increased amount invested in capital assets and other amounts restricted for specific purposes.

1. Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-4
Changes in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues & Transfers:							
Program revenues:							
Charges for services	\$ 737,820	612,713	287,870	308,851	1,025,690	921,564	11.30%
Operating grants and contributions and restricted interest	1,305,604	714,120	174,763	175,059	1,480,367	889,179	66.49%
Capital grants and contributions	2,145	0	3,705	0	5,850		
General revenues:							
Property tax	3,529,898	3,404,607	0	0	3,529,898	3,404,607	3.68%
Statewide sales, services and use tax	660,308	589,113	0	0	660,308	589,113	12.09%
Unrestricted state grants	4,044,555	4,124,895	0	0	4,044,555	4,124,895	-1.95%
Non-specific program federal grants	0	84,103	0	0	0	84,103	-100.00%
Unrestricted investment earnings	818	2,417	17	38	835	2,455	-65.99%
Other	27,669	72,522	0	2,208	27,669	74,730	-62.97%
Transfers	0	0	0	0	0	0	0.00%
Total revenues & transfers	10,308,817	9,604,490	466,355	486,156	10,775,172	10,090,646	6.78%
Program expenses:							
Governmental activities:							
Instructional	5,524,309	5,273,635	32,068	42,729	5,556,377	5,316,364	4.51%
Support services	2,771,953	3,134,001	37,459	35,889	2,809,412	3,169,890	-11.37%
Non-instructional programs	612	8,190	432,756	413,355	433,368	421,545	2.80%
Other expenditures	922,217	884,524	0	0	922,217	884,524	4.26%
Total expenses	9,219,091	9,300,350	502,283	491,973	9,721,374	9,792,323	-0.72%
Changes in net assets	1,089,726	304,140	(35,928)	(5,817)	1,053,798	298,323	253.24%
Beginning net assets	9,409,985	9,105,845	32,812	38,629	9,442,797	9,144,474	3.26%
Ending net assets	\$ 10,499,711	9,409,985	(3,116)	32,812	10,496,595	9,442,797	11.16%

In fiscal 2012, property tax, statewide sales, services and use tax and unrestricted state grants account for 79.88% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.99% of the revenue from business type activities.

The District's total revenues were approximately \$10.78 million of which approximately \$10.31 million was for governmental activities and approximately \$0.47 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.78% increase in revenues and a .72% decrease in expenses. Operating grants and contributions increased \$591,188 which contributed to the overall increase in revenues. Support services expenses decreased \$362,048 for governmental activities which contributed to the overall decrease in expenses.

Governmental Activities

Revenues for governmental activities were \$10,308,817 and expenses were \$9,219,091.

The following table presents the total and net cost of the District's major governmental activities: instruction, non-instructional programs, support services and other expenses, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 5,524,309	5,273,635	4.75%	3,838,042	4,292,904	-10.60%
Support services	2,771,953	3,134,001	-11.55%	2,724,541	3,123,711	-12.78%
Non-instructional programs	612	8,190	-92.53%	612	8,190	-92.53%
Other expenses	922,217	884,524	4.26%	610,327	548,712	11.23%
Totals	\$ 9,219,091	9,300,350	-0.87%	7,173,522	7,973,517	-10.03%

- The cost financed by users of the District's programs was \$737,820.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,305,604.
- The net cost of governmental activities was financed with \$3,529,898 in property tax, \$660,308 in statewide sales, services and use tax, \$4,044,555 in unrestricted state grants, \$818 in interest income and \$27,669 in other general revenues.

Business type Activities

Revenues of the District's business type activities were \$466,355 and expenses were \$502,283. The District's business type activities include the School Nutrition Fund, the Preschool Fund and the Roadrunner Childcare Center 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 Interstate 35 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 \$3,013,939, above last year's ending fund balances of \$2,483,240. The primary reason for the increase in combined fund balances in fiscal 2012 is improvement in the fund balances of the general and capital projects funds.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors. The General Fund balance increased from \$1,264,729 in fiscal 2011 to \$1,590,904 in fiscal 2012. Overall, District revenues for the General Fund during fiscal 2012 increased significantly, \$590,525, as compared to one year ago. General Fund expenses increased by \$216,915 as compared to the previous year. Revenues increased at a greater amount than expenditures, leading to an increase in the General Fund balance.
- The Management Levy Fund balance decreased from \$201,707 in fiscal 2011 to \$133,415 in fiscal 2012. Revenues increased slightly while expenses increased approximately 56% when compared with the prior year causing the decline in fund balance. This balance was reduced

in anticipation of reductions in expenditures in future years due to elimination of the district's early retirement program.

- The Capital Projects fund balance improved significantly from a balance of \$418,336 in fiscal 2011 to \$711,334 in fiscal 2012. Due to more counties coming online to the statewide sales tax, revenues increased \$83,550 in fiscal year 2012 when compared to 2011. A large portion of the Capital Projects Fund expenditures were used to satisfy principal and interest requirements of the District's revenue bonded indebtedness and the capital loan notes. Expenditures for support services and facility acquisition and construction decreased \$267,124 due to fewer projects occurring in fiscal year 2012 as compared to fiscal year 2011. The increases in revenues and the decreases in expenditures led to the overall increase in fund balance in the Capital Projects fund for fiscal 2012.
- The Debt Service Fund balance decreased slightly from \$471,510 in fiscal 2011 to \$433,465 in fiscal 2012. Fund revenues and expenses remained fairly steady as compared to the previous year causing little change in the Debt Service Fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$38,941 at June 30, 2011 to \$13,845 at June 30, 2012, representing a decrease of 64.44%.

The Preschool Fund net assets were negative \$2,065 at June 30, 2012.

BUDGETARY HIGHLIGHTS

Over the course of the year, Interstate 35 Community School District amended its budget one time for unanticipated increases in support services and non-instructional programs and for general obligation debt refunding.

The District's revenues were \$283,043 more than budgeted revenues, a variance of 2.7%. The most significant variance resulted from the District receiving more in local revenues than originally anticipated.

Total expenditures were less than budgeted, primarily due 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, 2012, the District had invested \$12,239,838, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of .43% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$602,578.

The original cost of the District's capital assets was \$19,305,131. Governmental funds account for \$18,952,381 with the remainder of \$352,750 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$629,415 at June 30, 2011, compared to \$879,033 reported at June 30, 2012.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 608,334	600,734	0	0	608,334	600,734	1.27%
Buildings	10,386,486	10,683,506	0	0	10,386,486	10,683,506	-2.78%
Land improvements	365,985	378,555	0	0	365,985	378,555	-3.32%
Machinery and equipment	857,675	598,641	21,358	30,774	879,033	629,415	39.66%
Total	\$ 12,218,480	12,261,436	21,358	30,774	12,239,838	12,292,210	-0.43%

Long-Term Debt

At June 30, 2012, the District had \$4,726,119 in general obligation bonds payable, revenue bonds payable, capital loan notes payable, computer lease payable, early retirement payable, compensated absences and other post-employment benefits. This represents a decrease of 15.28% 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 outstanding general obligation bonds of \$2,320,000 at June 30, 2012.

The District had outstanding revenue bonded indebtedness of \$720,000 at June 30, 2012.

The district had outstanding capital loan notes payable from the Physical Plant and Equipment Levy Fund of \$1,185,000 at June 30, 2012.

The District had an outstanding computer lease payable from the Capital Project Fund of \$0 at June 30, 2012.

The District had total outstanding Early Retirement payable from the Management Levy Fund of \$96,714 at June 30, 2012.

The District had compensated absences payable from the General Fund of \$16,405 as of June 30, 2012.

The district-wide net OPEB liability as of June 30, 2012 was \$388,000.

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General Obligation Bonds	\$ 2,320,000	2,710,000	0	0	2,320,000	2,710,000	-14.39%
Revenue Bonds	720,000	940,000	0	0	720,000	940,000	-23.40%
Capital Loan Notes	1,185,000	1,360,000	0	0	1,185,000	1,360,000	-12.87%
Computer Lease	0	51,073	0	0	0	51,073	-100.00%
Early Retirement	96,714	230,391	0	0	96,714	230,391	-58.02%
Compensated Absences	16,405	15,339	0	0	16,405	15,339	6.95%
Net OPEB Liability	370,514	254,475	17,486	17,486	388,000	271,961	42.67%
Total	\$ 4,708,633	5,561,278	17,486	17,486	4,726,119	5,578,764	-15.28%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- District enrollment increased from October 2010 to October 2011 by 15.3 students, or 1.74 percent. Therefore, the regular program cost for fiscal year 2013 will increase by approximately \$154,332.
- District enrollment increased from October 2011 to October 2012 by 16.6 students, or 1.86 percent. The impact on regular program cost for fiscal year 2014 is not known at this time as allowable growth has not yet been established by the legislature. Speculation surrounding zero percent allowable growth and the governor's intent for the state to fully fund it with 100 percent state aid, leave management with many unknowns heading into budget planning for fiscal year 2014.
- It is a concern that certain costs will continue to increase, such as negotiated agreements with unions, i.e. salaries and benefits, and increased minimum teacher pay. Other uncontrolled costs such as fuel and natural gas also continue to be monitored. With the legislature's hesitancy to increase funding, knowing that these costs will continue to rise, the District remains vigilant to use completely and efficiently all the resources it has at its disposal.
- In an effort to ensure the efficient use of all resources, the District maintains a conservative approach to budgeting. It may also be worth noting that no matter the funding source, whether the state or individual taxpayers, any funds budgeted may not be fully received, hence encouraging the conservative approach.

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 Jennifer Jamison, Board Secretary/Business Manager, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

Basic Financial Statements

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 3,084,906	\$ 5,965	\$ 3,090,871
Receivables:			
Property tax:			
Current year	55,082	-	55,082
Succeeding year	3,652,726	-	3,652,726
Accounts	2,351	-	2,351
Due from other governments	472,039	-	472,039
Inventories	-	5,876	5,876
Capital assets, net of accumulated depreciation (note 5)	12,218,480	21,358	12,239,838
Total assets	19,485,584	33,199	19,518,783
Liabilities			
Accounts payable	157,055	35	157,090
Salaries and benefits payable	405,370	8,897	414,267
Accrued interest payable	24,075	-	24,075
Unearned revenue	-	9,897	9,897
Deferred revenue:			
Succeeding year property tax	3,652,726	-	3,652,726
Other	38,014	-	38,014
Long-term liabilities (note 6):			
Portion due within one year:			
General obligation bonds payable	725,000	-	725,000
Revenue bonds payable	230,000	-	230,000
Capital loan notes payable	180,000	-	180,000
Early retirement	59,468	-	59,468
Compensated absences	16,405	-	16,405
Portion due after one year:			
General obligation bonds payable	1,595,000	-	1,595,000
Revenue bonds payable	490,000	-	490,000
Capital loan notes payable	1,005,000	-	1,005,000
Early retirement	37,246	-	37,246
Net OPEB liability	370,514	17,486	388,000
Total liabilities	8,985,873	36,315	9,022,188

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 7,993,480	\$ 21,358	\$ 8,014,838
Restricted for:			
Categorical funding (note 11)	606,573	-	606,573
Debt service	409,390	-	409,390
Capital projects	693,191	-	693,191
Physical plant and equipment levy purposes	18,143	-	18,143
Management levy purposes	36,701	-	36,701
Student activities	144,821	-	144,821
Unrestricted	<u>597,412</u>	<u>(24,474)</u>	<u>572,938</u>
Total net assets	<u>\$ 10,499,711</u>	<u>\$ (3,116)</u>	<u>\$ 10,496,595</u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 5,524,309	\$ 691,111	\$ 995,156	\$ -
Support services:				
Student services	163,896	-	-	-
Instructional staff services	360,140	-	-	-
Administration services	1,044,822	-	-	-
Operation and maintenance of plant services	592,006	46,709	-	-
Transportation services	611,089	-	703	-
	<u>2,771,953</u>	<u>46,709</u>	<u>703</u>	<u>-</u>
Non-instructional programs	<u>612</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	41,159	-	-	2,145
Long-term debt interest and fiscal charges	216,969	-	-	-
AEA flowthrough	309,745	-	309,745	-
Depreciation (unallocated) *	354,344	-	-	-
	<u>922,217</u>	<u>-</u>	<u>309,745</u>	<u>2,145</u>
Total governmental activities	<u>9,219,091</u>	<u>737,820</u>	<u>1,305,604</u>	<u>2,145</u>

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (3,838,042)	\$ -	\$ (3,838,042)
(163,896)	-	(163,896)
(360,140)	-	(360,140)
(1,044,822)	-	(1,044,822)
(545,297)	-	(545,297)
(610,386)	-	(610,386)
(2,724,541)	-	(2,724,541)
(612)	-	(612)
(39,014)	-	(39,014)
(216,969)	-	(216,969)
-	-	-
(354,344)	-	(354,344)
(610,327)	-	(610,327)
(7,173,522)	-	(7,173,522)

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Business-type Activities:				
Instruction	\$ 32,068	\$ 26,392	\$ -	\$ -
Support services:				
Instructional staff services	377	-	-	-
Administration services	20,756	-	-	-
Operation and maintenance of plant services	16,326	-	-	-
	<u>37,459</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	432,756	261,478	174,763	3,705
	<u>502,283</u>	<u>287,870</u>	<u>174,763</u>	<u>3,705</u>
Total business-type activities	<u>502,283</u>	<u>287,870</u>	<u>174,763</u>	<u>3,705</u>
Total	<u>\$ 9,721,374</u>	<u>\$ 1,025,690</u>	<u>\$ 1,480,367</u>	<u>\$ 5,850</u>

General revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Statewide sales, services and use tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year, as restated (note 13)

Net assets end of year

* = This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ -	\$ (5,676)	\$ (5,676)
-	(377)	(377)
-	(20,756)	(20,756)
-	(16,326)	(16,326)
-	(37,459)	(37,459)
-	7,190	7,190
-	(35,945)	(35,945)
(7,173,522)	(35,945)	(7,209,467)
\$ 2,665,518	\$ -	\$ 2,665,518
544,358	-	544,358
320,022	-	320,022
660,308	-	660,308
4,044,555	-	4,044,555
818	17	835
27,669	-	27,669
8,263,248	17	8,263,265
1,089,726	(35,928)	1,053,798
9,409,985	32,812	9,442,797
\$ 10,499,711	\$ (3,116)	\$ 10,496,595

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
Assets					
Cash and pooled investments	\$ 1,997,562	\$ 424,971	\$ 374,880	\$ 287,493	\$ 3,084,906
Receivables:					
Property tax:					
Current year	38,080	8,494	4,994	3,514	55,082
Succeeding year	2,464,343	741,206	332,178	114,999	3,652,726
Interfund receivable (note 4)	1,958	-	-	-	1,958
Accounts	1,328	-	-	1,023	2,351
Due from other governments	138,215	-	333,824	-	472,039
Total assets	<u>\$ 4,641,486</u>	<u>\$ 1,174,671</u>	<u>\$ 1,045,876</u>	<u>\$ 407,029</u>	<u>\$ 7,269,062</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 143,096	\$ -	\$ 2,364	\$ 11,595	\$ 157,055
Salaries and benefits payable	405,129	-	-	241	405,370
Interfund payable (note 4)	-	-	-	1,958	1,958
Deferred revenue:					
Succeeding year property tax	2,464,343	741,206	332,178	114,999	3,652,726
Other	38,014	-	-	-	38,014
Total liabilities	<u>3,050,582</u>	<u>741,206</u>	<u>334,542</u>	<u>128,793</u>	<u>4,255,123</u>
Fund balances:					
Restricted for:					
Categorical funding (note 11)	606,573	-	-	-	606,573
Debt service	-	433,465	-	-	433,465
School infrastructure	-	-	693,191	-	693,191
Physical plant and equipment	-	-	18,143	-	18,143
Management levy purposes	-	-	-	133,415	133,415
Student activities	-	-	-	144,821	144,821
Assigned for special purposes	63,656	-	-	-	63,656
Unassigned	920,675	-	-	-	920,675
Total fund balances	<u>1,590,904</u>	<u>433,465</u>	<u>711,334</u>	<u>278,236</u>	<u>3,013,939</u>
Total liabilities and fund balances	<u>\$ 4,641,486</u>	<u>\$ 1,174,671</u>	<u>\$ 1,045,876</u>	<u>\$ 407,029</u>	<u>\$ 7,269,062</u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total fund balances of governmental funds	\$ 3,013,939
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,218,480
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.	(24,075)
Long-term liabilities, including bonds and notes payable, early retirement, compensated absences, and net OPEB liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,708,633)</u>
Net assets of governmental activities	<u>\$ 10,499,711</u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General	Debt Service	Capital Projects	Nonmajor	Total
Revenues:					
Local sources:					
Local tax	\$ 2,440,319	\$ 544,358	\$ 980,330	\$ 225,199	\$ 4,190,206
Tuition	376,761	-	-	-	376,761
Other	136,963	159	1,594	241,845	380,561
State sources	5,037,781	-	-	-	5,037,781
Federal sources	323,488	-	-	-	323,488
Total revenues	<u>8,315,312</u>	<u>544,517</u>	<u>981,924</u>	<u>467,044</u>	<u>10,308,797</u>
Expenditures:					
Current:					
Instruction	<u>5,200,310</u>	-	-	238,565	<u>5,438,875</u>
Support services:					
Student services	227,848	-	-	-	227,848
Instructional staff services	298,050	-	58,583	6,303	362,936
Administration services	866,187	-	-	226,021	1,092,208
Operation and maintenance of plant services	585,374	-	11,610	4,783	601,767
Transportation services	502,875	-	50,000	39,957	592,832
	<u>2,480,334</u>	-	<u>120,193</u>	<u>277,064</u>	<u>2,877,591</u>
Non-instructional programs	-	-	-	612	612
Other expenditures:					
Facilities acquisition	-	-	74,323	-	74,323
Long term debt:					
Principal	-	3,156,073	-	-	3,156,073
Interest and fiscal charges	-	240,899	-	-	240,899
AEA flowthrough	309,745	-	-	-	309,745
	<u>309,745</u>	<u>3,396,972</u>	<u>74,323</u>	-	<u>3,781,040</u>
Total expenditures	<u>7,990,389</u>	<u>3,396,972</u>	<u>194,516</u>	<u>516,241</u>	<u>12,098,118</u>
Excess (deficiency) of revenues over (under) expenditures	<u>324,923</u>	<u>(2,852,455)</u>	<u>787,408</u>	<u>(49,197)</u>	<u>(1,789,321)</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Other financing sources (uses):					
Sale of equipment	\$ 20	\$ -	\$ -	\$ -	20
Interfund transfers in (note 3)	1,232	494,410	-	-	495,642
Interfund transfers out (note 3)	-	-	(494,410)	(1,232)	(495,642)
General obligation bonds issued	-	2,320,000	-	-	2,320,000
Total other financing sources (uses)	<u>1,252</u>	<u>2,814,410</u>	<u>(494,410)</u>	<u>(1,232)</u>	<u>2,320,020</u>
Net change in fund balances	326,175	(38,045)	292,998	(50,429)	530,699
Fund balances beginning of year	<u>1,264,729</u>	<u>471,510</u>	<u>418,336</u>	<u>328,665</u>	<u>2,483,240</u>
Fund balances end of year	<u>\$ 1,590,904</u>	<u>\$ 433,465</u>	<u>\$ 711,334</u>	<u>\$ 278,236</u>	<u>\$ 3,013,939</u>

See notes to financial statements.

INTERSTATE 35 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, 2012

Net change in fund balances - total governmental funds \$ 530,699

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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

	Expenditures for capital assets	\$ 271,909	
	Depreciation expense	<u>(589,457)</u>	(317,548)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities. (2,320,000)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 3,156,073

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 23,930

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	133,677	
	Compensated absences	(1,066)	
	Net OPEB liability	<u>(116,039)</u>	<u>16,572</u>

Change in net assets of governmental activities \$ 1,089,726

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	<u>Nonmajor Enterprise Funds</u>
Assets	
Cash and cash equivalents	\$ 5,965
Inventories	5,876
Capital assets, net of accumulated depreciation (note 5)	<u>21,358</u>
Total assets	<u>33,199</u>
Liabilities	
Accounts payable	35
Salaries and benefits payable	8,897
Unearned revenue	9,897
Net OPEB liability	<u>17,486</u>
Total liabilities	<u>36,315</u>
Net Assets	
Invested in capital assets	21,358
Unrestricted	<u>(24,474)</u>
Total net assets	\$ <u><u>(3,116)</u></u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	<u>Nonmajor Enterprise Funds</u>
Operating revenues:	
Local sources:	
Charges for services	\$ <u>287,870</u>
Operating expenses:	
Instruction	32,068
Support services:	
Instructional staff services	377
Administration services	20,756
Operation and maintenance of plant services	16,326
Non-instructional programs	<u>432,756</u>
	<u>502,283</u>
Operating loss	(214,413)
Non-operating revenues:	
Interest on investments	17
Capital contributions	3,705
State sources	3,942
Federal sources	<u>170,821</u>
Total non-operating revenues	<u>178,485</u>
Change in net assets	(35,928)
Net assets beginning of year	<u>32,812</u>
Net assets end of year	\$ <u><u>(3,116)</u></u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	<u>Nonmajor Enterprise Funds</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 258,878
Cash received from miscellaneous operating activities	31,525
Cash payments to employees for services	(260,628)
Cash payments to suppliers for goods or services	<u>(197,053)</u>
Net cash used by operating activities	<u>(167,278)</u>
Cash flows from non-capital financing activities:	
State grants received	3,942
Federal grants received	<u>149,083</u>
Net cash provided by non-capital financing activities	<u>153,025</u>
Cash flows from investing activities:	
Interest on investments	<u>17</u>
Net decrease in cash and cash equivalents	(14,236)
Cash and cash equivalents beginning of year	<u>20,201</u>
Cash and cash equivalents end of year	<u>\$ 5,965</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2012

	<u>Nonmajor Enterprise Funds</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (214,413)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	13,121
Commodities used	21,738
Decrease in accounts receivable	84
Decrease in due from other funds	28
Decrease in inventories	811
Increase in accounts payable	35
Increase in salaries and benefits payable	8,897
Increase in unearned revenue	<u>2,421</u>
Net cash used by operating activities	<u>\$ (167,278)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$21,738 of federal commodities and \$3,705 of contributed equipment.

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2012

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Assets:		
Cash and pooled investments	\$	<u>8,104</u>
Liabilities:		
None		<u>-</u>
Net assets:		
Reserved for scholarships	\$	<u><u>8,104</u></u>

See notes to financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2012

	<u>Private Purpose</u>	<u>Trust</u>
	<u>Scholarship</u>	
Additions:		
Local sources:		
Gifts and contributions	\$	17,090
Interest		<u>4</u>
Total additions		<u>17,094</u>
Deductions:		
Instruction:		
Scholarships awarded		<u>17,000</u>
Change in net assets		94
Net assets beginning of year		<u>8,010</u>
Net assets end of year	\$	<u><u>8,104</u></u>
See notes to financial statements.		

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies

Interstate 35 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 and regular pre-kindergarten. The geographic area served includes the Cities of Truro, New Virginia, and St. Charles, Iowa, and agricultural territory in Madison, Clarke, and Warren 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, Interstate 35 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. Interstate 35 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Madison, Clarke, and Warren County Assessor's Conference Boards.

B. Basis of Presentation

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

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

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

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

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

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

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

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund, Roadrunner Childcare Center Fund, and Preschool Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Roadrunner Childcare Center Fund is used to account for the daycare services previously provided to the community by the District. The Preschool Fund is used to account for the educational preschool services provided by the District.

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

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the 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 funds of the District apply 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.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2011.

Interfund Receivables and Payables – During the course of its operations, the District may have certain transactions between funds or pooled cash balances. To the extent that these transactions between funds had not been paid or received as of June 30, 2012, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

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

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

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

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

Asset Class	Estimated Useful Lives
Buildings	15-50 years
Improvements other than buildings	20-25 years
Furniture and equipment	5-20 years

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible 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 represents 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, unearned registration fees, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, unearned registration fees, and the succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the District-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.

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 District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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 are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Board of Education intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

Restricted Net Assets – In the District-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. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the amount budgeted prior to the amendment of the budget.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2012 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, 2012, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 481,635

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk – The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue - Student Activity	\$ 1,232
Debt Service	Capital Projects	494,410
Total		\$ 495,642

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 4. Interfund Receivables and Payables

At June 30, 2012, interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Interfund balances between governmental funds:		
Other receivables:		
General	Special Revenue - Student Activity	\$ <u>1,958</u>

The interfund balance is due to timing differences involved in reimbursements at year end. The balance between governmental funds is not included on the District-wide Statement of Net Assets.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 600,734	\$ -	\$ -	\$ 600,734
Construction in progress	-	7,600	-	7,600
Total capital assets not being depreciated	600,734	7,600	-	608,334
Capital assets being depreciated:				
Buildings	15,084,843	28,739	-	15,113,582
Improvements other than buildings	696,782	14,609	-	711,391
Furniture and equipment	2,310,604	220,961	12,491	2,519,074
Total capital assets being depreciated	18,092,229	264,309	12,491	18,344,047
Less accumulated depreciation for:				
Buildings	4,401,337	325,759	-	4,727,096
Improvements other than buildings	318,227	27,179	-	345,406
Furniture and equipment	1,437,371	236,519	12,491	1,661,399
Total accumulated depreciation	6,156,935	589,457	12,491	6,733,901
Total capital assets being depreciated, net	11,935,294	(325,148)	-	11,610,146
Governmental activities capital assets, net	\$ 12,536,028	\$ (317,548)	\$ -	\$ 12,218,480
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 351,745	\$ 3,705	\$ 2,700	\$ 352,750
Less accumulated depreciation	320,971	13,121	2,700	331,392
Business-type activities capital assets, net	\$ 30,774	\$ (9,416)	\$ -	\$ 21,358

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 5. Capital Assets (continued)

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction	\$ 133,626
Support services:	
Student services	122
Administration	3,542
Operation and maintenance of plant services	6,767
Transportation	<u>91,056</u>
	235,113
Unallocated depreciation	<u>354,344</u>
 Total governmental activities depreciation expense	 <u>\$ 589,457</u>

Business-type activities:

Food service operations	<u>\$ 13,121</u>
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Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 2,710,000	\$ 2,320,000	\$ 2,710,000	\$ 2,320,000	\$ 725,000
Revenue bonds	940,000	-	220,000	720,000	230,000
Capital loan notes	1,360,000	-	175,000	1,185,000	180,000
Computer lease	51,073	-	51,073	-	-
Early retirement	230,391	-	133,677	96,714	59,468
Compensated absences	15,339	16,405	15,339	16,405	16,405
Net OPEB liability	<u>254,475</u>	<u>116,039</u>	<u>-</u>	<u>370,514</u>	<u>-</u>
 Total	 <u>\$ 5,561,278</u>	 <u>\$ 2,452,444</u>	 <u>\$ 3,305,089</u>	 <u>\$ 4,708,633</u>	 <u>\$ 1,210,873</u>
	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
Business-type activities:					
Net OPEB liability	<u>\$ 17,486</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,486</u>	<u>\$ -</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 6. Long-Term Liabilities (continued)

General Obligation Bonds

On April 24, 2012, the District issued \$2,320,000 of refunding bonds with interest rates from 0.4% to 1.2% to refund the December 1, 2002 bonds with interest rates from 3.7% to 4.3%. As a result of the refunding, the District reduced its total debt service requirements over the life of the bonds by \$136,089, which resulted in a net present value economic gain of \$127,038.

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of April 24, 2012			
	Interest Rates	Principal	Interest	Total
2013	0.40-0.50 %	\$ 725,000	\$ 15,706	\$ 740,706
2014	0.55-0.60	445,000	12,242	457,242
2015	0.65-0.80	450,000	9,556	459,556
2016	0.85-1.00	455,000	6,048	461,048
2017	1.10-1.20	245,000	2,160	247,160
		<u>\$ 2,320,000</u>	<u>\$ 45,712</u>	<u>\$ 2,365,712</u>

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of May 1, 2008			
	Interest Rates	Principal	Interest	Total
2013	3.65 %	\$ 230,000	\$ 22,823	\$ 252,823
2014	3.75	240,000	14,125	254,125
2015	3.85	250,000	4,812	254,812
		<u>\$ 720,000</u>	<u>\$ 41,760</u>	<u>\$ 761,760</u>

The District pledged future statewide sales, services and use tax revenues to repay the \$1,345,000 bonds issued on May 1, 2008. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitution debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 40 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the bonds is \$761,760. For the current year, \$220,000 in principal and \$30,870 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$660,308.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 6. Long-Term Liabilities (continued)

Revenue Bonds (continued)

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

- a) \$134,500 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds, if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Sufficient monthly deposits amounting to one twelfth of the next principal payment and one sixth of the next interest payment shall be made to the sinking account for the purpose of making the bond principal and interest payments when due.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Capital Loan Notes

During the year ended June 30, 2008, the District issued \$1,850,000 of Capital Loan Notes, which are payable from the Capital Projects, Physical Plant and Equipment Levy Fund. Details of the District's June 30, 2012 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital loan note issue of May 1, 2008			
	Interest Rates	Principal	Interest	Total
2013	3.50 %	\$ 180,000	\$ 45,570	\$ 225,570
2014	3.70	185,000	39,270	224,270
2015	3.80	195,000	32,425	227,425
2016	3.90	200,000	25,015	225,015
2017	4.00	210,000	17,215	227,215
2018	4.10	215,000	8,815	223,815
		<u>\$ 1,185,000</u>	<u>\$ 168,310</u>	<u>\$ 1,353,310</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 6. Long-Term Liabilities (continued)

Early Retirement

The District previously offered a voluntary early retirement plan to its employees. Eligible employees must have been at least age fifty-five but not more than age sixty-five and must have completed fifteen years of continuous service to the District. Employees had to complete an application which was required to be approved by the Board of Education.

The early retirement benefit for each eligible employee is equal to 1% of the employee's contract the final year of employment times the number of years of employment. The District also pays \$25 for each unused sick leave day. In addition, the District pays a monthly contribution to the retiree's health and dental insurance at a rate equal to the amount paid by the District in the final year of employment. This insurance benefit is provided for the lesser of three years or until the retiree is eligible for Medicare.

At June 30, 2012, the District has obligations to eight participants with a total liability of \$96,714. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$133,677. The cost of early retirement payments is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description – The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 134 active and 7 retired members in the plan. Retired participants must be age 55 or older at retirement.

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

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

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 7. Other Postemployment Benefits (OPEB) (continued)

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$	197,000
Interest on net OPEB obligation		12,000
Adjustment to annual required contribution		<u>(9,961)</u>
Annual OPEB cost		199,039
Contributions made		<u>(83,000)</u>
Increase in net OPEB obligation		116,039
Net OPEB obligation beginning of year		<u>271,961</u>
 Net OPEB obligation end of year	 \$	 <u><u>388,000</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, 2012.

For the year ended June 30, 2012, the District contributed \$83,000 to the medical plan.

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, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 199,039	41.7%	\$ 388,000

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1,491,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,491,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4,373,000, and the ratio of the UAAL to covered payroll was 34.1%. As of June 30, 2012, there were no trust fund assets.

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 7. Other Postemployment Benefits (OPEB) (continued)

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 actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the IPERS Actuarial Valuation Report as of June 30, 2008.

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years. Projected claim costs of the medical plan per month for retirees age 60 are illustrated below for the three plan options.

PPO 100	PPO 250	PPO 500
\$ 942.08	\$ 880.58	\$ 832.17

Note 8. Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual covered salary and the District is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$340,760, \$344,139, and \$294,272, respectively, equal to the required contributions for each year.

Note 9. Risk Management

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

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 9. Risk Management (continued)

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2012 were \$1,078,466.

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

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

Note 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 \$309,745 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 11. Categorical Funding

The District's fund balance restricted for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Limited English proficient program	\$ 1,294
Home school assistance program	3,847
At-risk programs	34,556
Gifted and talented programs	27,373
Returning dropouts and dropout prevention programs	306,379
Four year old preschool state aid	95,560
Teacher salary supplement	27,680
Market factor	1,358
Iowa early intervention block grant	13,707
Professional development for model core curriculum	39,464
Professional development	55,242
Market factor incentives	113
	<hr/>
Total	\$ <u><u>606,573</u></u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2012

Note 12. Deficit Fund Balances

At June 30, 2012, the School Nutrition, Roadrunner Childcare Center and Preschool Funds within the nonmajor Enterprise Funds had deficit unrestricted net assets of \$7,513, \$14,896, and \$2,065, respectively.

Note 13. Restatement of Beginning Balances

The following beginning balances have been restated to properly reflect the accumulated depreciation of furniture and equipment as of July 1, 2011.

	<u>Accumulated Depreciation - Furniture and Equipment</u>	<u>Capital Assets, Net</u>	<u>Governmental Activities Net Assets</u>
Beginning balance, as previously reported	\$ 1,711,963	\$ 12,261,436	\$ 9,135,393
Adjustments:			
Accumulated depreciation for furniture and equipment	<u>(274,592)</u>	<u>274,592</u>	<u>274,592</u>
Beginning balance, as restated	<u>\$ 1,437,371</u>	<u>\$ 12,536,028</u>	<u>\$ 9,409,985</u>

Note 14. Contingency

The District has one ongoing lawsuit alleging wrongful termination. The District's insurance carrier is providing coverage for the lawsuit. The outcome of the case cannot be determined at this time.

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Required Supplementary Information

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year Ended June 30, 2012

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 4,947,528	\$ 291,592	\$ 5,239,120	\$ 4,987,412	\$ 4,987,412	\$ 251,708
Intermediate sources	-	-	-	2,000	2,000	(2,000)
State sources	5,037,781	3,942	5,041,723	5,169,697	5,169,697	(127,974)
Federal sources	323,488	170,821	494,309	333,000	333,000	161,309
Total revenues	10,308,797	466,355	10,775,152	10,492,109	10,492,109	283,043
EXPENDITURES/EXPENSES:						
Instruction	5,438,875	32,068	5,470,943	6,005,983	6,005,983	535,040
Support services	2,877,591	37,459	2,915,050	2,866,000	3,050,000	134,950
Non-instructional programs	612	432,756	433,368	422,229	470,000	36,632
Other expenditures	3,781,040	-	3,781,040	1,531,605	3,851,605	70,565
Total expenditures/expenses	12,098,118	502,283	12,600,401	10,825,817	13,377,588	777,187
Excess (deficiency) of revenues over (under) expenditures/ expenses	(1,789,321)	(35,928)	(1,825,249)	(333,708)	(2,885,479)	1,060,230
Other financing sources, net	2,320,020	-	2,320,020	5,000	5,000	2,315,020
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	530,699	(35,928)	494,771	(328,708)	(2,880,479)	3,375,250
Balance beginning of year	2,483,240	32,812	2,516,052	1,824,305	1,824,305	691,747
Balance end of year	\$ <u>3,013,939</u>	\$ <u>(3,116)</u>	\$ <u>3,010,823</u>	\$ <u>1,495,597</u>	\$ <u>(1,056,174)</u>	\$ <u>4,066,997</u>

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
Year Ended June 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$2,551,771.

During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the amount budgeted prior to the amendment of the budget.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information
Year Ended June 30, 2012

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 1,491	\$ 1,491	0.0%	\$ 4,103	36.3%
2011	July 1, 2009	-	1,491	1,491	0.0%	3,894	38.3%
2012	July 1, 2009	-	1,491	1,491	0.0%	4,373	34.1%

See note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	Special Revenue		Total
	Management Levy	Student Activity	
Assets			
Cash and pooled investments	\$ 137,058	\$ 150,435	\$ 287,493
Receivables:			
Property tax:			
Current year	3,514	-	3,514
Succeeding year	114,999	-	114,999
Accounts	1,023	-	1,023
Total assets	\$ 256,594	\$ 150,435	\$ 407,029
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 7,939	\$ 3,656	\$ 11,595
Salaries and benefits payable	241	-	241
Interfund payable	-	1,958	1,958
Deferred revenue:			
Succeeding year property tax	114,999	-	114,999
Total liabilities	123,179	5,614	128,793
Fund balances:			
Restricted for:			
Management levy purposes	133,415	-	133,415
Student activities	-	144,821	144,821
Total fund balances	133,415	144,821	278,236
Total liabilities and fund balances	\$ 256,594	\$ 150,435	\$ 407,029

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2012

	Special Revenue		Total
	Management Levy	Student Activity	
Revenues:			
Local sources:			
Local tax	\$ 225,199	\$ -	\$ 225,199
Other	8,954	232,891	241,845
Total revenues	234,153	232,891	467,044
Expenditures:			
Current:			
Instruction	27,033	211,532	238,565
Support services:			
Instructional staff services	6,303	-	6,303
Administration services	226,021	-	226,021
Operation and maintenance of plant services	2,519	2,264	4,783
Transportation services	39,957	-	39,957
Non instructional programs	612	-	612
Total expenditures	302,445	213,796	516,241
Excess (deficiency) of revenues over (under) expenditures	(68,292)	19,095	(49,197)
Other financing uses:			
Interfund transfers out	-	(1,232)	(1,232)
Net change in fund balances	(68,292)	17,863	(50,429)
Fund balances beginning of year	201,707	126,958	328,665
Fund balances end of year	\$ 133,415	\$ 144,821	\$ 278,236

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
CAPITAL PROJECTS ACCOUNTS
June 30, 2012

	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
Assets			
Cash and pooled investments	\$ 361,256	\$ 13,624	\$ 374,880
Receivables:			
Property tax:			
Current year	-	4,994	4,994
Succeeding year	-	332,178	332,178
Due from other governments	333,824	-	333,824
 Total assets	 \$ 695,080	 \$ 350,796	 \$ 1,045,876
 Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 1,889	\$ 475	\$ 2,364
Deferred revenue:			
Succeeding year property tax	-	332,178	332,178
Total liabilities	1,889	332,653	334,542
 Fund balances:			
Restricted for:			
School infrastructure	693,191	-	693,191
Physical plant and equipment	-	18,143	18,143
Total fund balances	693,191	18,143	711,334
 Total liabilities and fund balances	 \$ 695,080	 \$ 350,796	 \$ 1,045,876

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 CAPITAL PROJECTS ACCOUNTS
 Year Ended June 30, 2012

	<u>Statewide Sales, Services and Use Tax</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Revenues:			
Local sources:			
Local tax	\$ 660,308	\$ 320,022	\$ 980,330
Other	1,572	22	1,594
Total revenues	<u>661,880</u>	<u>320,044</u>	<u>981,924</u>
Expenditures:			
Current:			
Support services:			
Instructional staff services	58,583	-	58,583
Operation and maintenance of plant services	-	11,610	11,610
Transportation services	-	50,000	50,000
Other expenditures:			
Facilities acquisition	38,593	35,730	74,323
Total expenditures	<u>97,176</u>	<u>97,340</u>	<u>194,516</u>
Excess of revenues over expenditures	564,704	222,704	787,408
Other financing uses:			
Interfund transfers out	<u>(267,740)</u>	<u>(226,670)</u>	<u>(494,410)</u>
Net change in fund balances	296,964	(3,966)	292,998
Fund balances beginning of year	<u>396,227</u>	<u>22,109</u>	<u>418,336</u>
Fund balances end of year	<u>\$ 693,191</u>	<u>\$ 18,143</u>	<u>\$ 711,334</u>

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS

June 30, 2012

	School Nutrition	Roadrunner Childcare Center	Preschool	Total
Assets				
Cash and cash equivalents	\$ 12,430	\$ (14,896)	\$ 8,431	\$ 5,965
Inventories	5,876	-	-	5,876
Capital assets, net of accumulated depreciation	21,358	-	-	21,358
Total assets	<u>39,664</u>	<u>(14,896)</u>	<u>8,431</u>	<u>33,199</u>
Liabilities				
Accounts payable	-	-	35	35
Salaries and benefits payable	2,821	-	6,076	8,897
Unearned revenue	7,657	-	2,240	9,897
Net OPEB liability	15,341	-	2,145	17,486
Total liabilities	<u>25,819</u>	<u>-</u>	<u>10,496</u>	<u>36,315</u>
Net Assets				
Invested in capital assets	21,358	-	-	21,358
Unrestricted	<u>(7,513)</u>	<u>(14,896)</u>	<u>(2,065)</u>	<u>(24,474)</u>
Total net assets	<u>\$ 13,845</u>	<u>\$ (14,896)</u>	<u>\$ (2,065)</u>	<u>\$ (3,116)</u>

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 Year Ended June 30, 2012

	School Nutrition	Roadrunner Childcare Center	Preschool	Total
Operating revenues:				
Local sources:				
Charges for services	\$ 261,478	\$ -	\$ 26,392	\$ 287,870
Operating expenses:				
Instruction	-	-	32,068	32,068
Support services:				
Instructional staff services	377	-	-	377
Administration services	20,756	-	-	20,756
Operation and maintenance of plant services	11,167	-	5,159	16,326
Non-instructional programs	432,756	-	-	432,756
	<u>465,056</u>	<u>-</u>	<u>37,227</u>	<u>502,283</u>
Operating loss	(203,578)	-	(10,835)	(214,413)
Non-operating revenues:				
Interest on investments	14	-	3	17
Capital contributions	3,705	-	-	3,705
State sources	3,942	-	-	3,942
Federal sources	170,821	-	-	170,821
Total non-operating revenues	<u>178,482</u>	<u>-</u>	<u>3</u>	<u>178,485</u>
Change in net assets	(25,096)	-	(10,832)	(35,928)
Net assets beginning of year	<u>38,941</u>	<u>(14,896)</u>	<u>8,767</u>	<u>32,812</u>
Net assets end of year	<u>\$ 13,845</u>	<u>\$ (14,896)</u>	<u>\$ (2,065)</u>	<u>\$ (3,116)</u>

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2012

	School Nutrition	Roadrunner Childcare Center	Preschool	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 258,878	\$ -	\$ -	\$ 258,878
Cash received from miscellaneous operating activities	2,893	-	28,632	31,525
Cash payments to employees for services	(234,636)	-	(25,992)	(260,628)
Cash payments to suppliers for goods or services	(191,929)	-	(5,124)	(197,053)
Net cash used by operating activities	<u>(164,794)</u>	-	<u>(2,484)</u>	<u>(167,278)</u>
Cash flows from non-capital financing activities:				
State grants received	3,942	-	-	3,942
Federal grants received	149,083	-	-	149,083
Net cash provided by non-capital financing activities	<u>153,025</u>	-	-	<u>153,025</u>
Cash flows from investing activities:				
Interest on investments	14	-	3	17
Net decrease in cash and cash equivalents	(11,755)	-	(2,481)	(14,236)
Cash and cash equivalents beginning of year	<u>24,185</u>	<u>(14,896)</u>	<u>10,912</u>	<u>20,201</u>
Cash and cash equivalents end of year	<u>\$ 12,430</u>	<u>\$ (14,896)</u>	<u>\$ 8,431</u>	<u>\$ 5,965</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2012

	School Nutrition	Roadrunner Childcare Center	Preschool	Total
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (203,578)	\$ -	\$ (10,835)	\$ (214,413)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Depreciation	13,121	-	-	13,121
Commodities used	21,738	-	-	21,738
Decrease in accounts receivable	84	-	-	84
Decrease in due from other funds	28	-	-	28
Decrease in inventories	811	-	-	811
Increase in accounts payable	-	-	35	35
Increase in salaries and benefits payable	2,821	-	6,076	8,897
Increase in unearned revenue	181	-	2,240	2,421
Net cash used by operating activities	<u>\$ (164,794)</u>	<u>\$ -</u>	<u>\$ (2,484)</u>	<u>\$ (167,278)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2012, the District received \$21,738 of federal commodities and \$3,705 of contributed equipment.

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures/ Transfer Out	Balance End of Year
Speech	\$ -	\$ 867	\$ 867	\$ -
HS Vocal	3,604	4,544	4,225	3,923
HS Band	2,640	7,383	4,133	5,890
Co-ed Athletic Gates	12,087	35,098	36,798	10,387
Cross Country	1,670	2,258	1,966	1,962
Golf	840	370	-	1,210
HS Cheerleaders	1,650	6,742	3,454	4,938
Dance Team	6,346	9,960	7,761	8,545
Boys Basketball	2,325	2,735	3,405	1,655
Football	6,640	10,305	11,896	5,049
Baseball	1,933	3,082	3,033	1,982
Boys Track	794	2,424	1,333	1,885
Wrestling	4,405	6,760	5,527	5,638
Girls Basketball	5,243	4,929	5,570	4,602
Volleyball	1,690	1,918	1,702	1,906
Softball	751	1,110	597	1,264
Girls Track	2,114	5,293	4,167	3,240
HS General Athletics	2,922	9,045	10,725	1,242
JH Athletics	649	5,857	4,869	1,637
Booster Club	26,525	70,682	66,873	30,334
AED Grant	87	-	-	87
Athletic Complex	88	-	-	88
Interest	-	51	51	-
TAG Activity Fund Balance	580	-	-	580
Honor Society	479	585	710	354
HS Student Council	4,432	4,765	5,680	3,517
FFA	5,254	26,823	19,482	12,595
HS Book Club	1,394	-	258	1,136
Senior Breakfast	234	-	139	95
Math & Science Club	264	-	-	264
Middle School Band	1,789	62	-	1,851
Vocal Entry Fees	108	-	-	108
7th & 8th Vocal	1,702	63	-	1,765
Elementary Vocal	1,057	405	1,233	229
Class of 2011	22	-	-	22
Class of 2012	717	39	373	383
Class of 2013	1,419	735	634	1,520
Class of 2014	710	1,170	190	1,690
Class of 2015	270	320	-	590

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures/ Transfer Out	Balance End of Year
High School Fundraising	\$ 1,113	\$ 425	\$ 165	\$ 1,373
Strength and Agility	-	710	698	12
Preschool Class	758	-	-	758
Elementary Classes	2,015	1,614	1,485	2,144
EL/MS Fundraising	93	-	93	-
Middle School Classes	6,066	-	666	5,400
JH Student Council	11,479	3,762	4,270	10,971
	<u>\$ 126,958</u>	<u>\$ 232,891</u>	<u>\$ 215,028</u>	<u>\$ 144,821</u>

See accompanying independent auditor's report.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST NINE YEARS

	Modified Accrual Basis Years Ended June 30,			
	2012	2011	2010	2009
Revenues:				
Local sources:				
Local tax	\$ 4,190,206	\$ 3,993,720	\$ 3,713,350	\$ 3,689,949
Tuition	376,761	377,762	409,448	430,322
Other	380,561	325,713	405,991	428,611
Intermediate sources	-	353	1,995	20,671
State sources	5,037,781	4,636,905	3,989,444	4,735,246
Federal sources	323,488	270,037	628,378	433,239
Total revenues	\$ 10,308,797	\$ 9,604,490	\$ 9,148,606	\$ 9,738,038
Expenditures:				
Instruction	\$ 5,438,875	\$ 5,270,885	\$ 5,327,859	\$ 5,719,591
Support services:				
Student services	227,848	170,644	166,748	136,504
Instructional staff services	362,936	436,885	318,651	190,381
Administration services	1,092,208	958,645	968,134	928,888
Operation and maintenance of plant services	601,767	577,505	657,582	753,379
Transportation services	592,832	519,369	715,343	519,824
Non-instructional programs	612	8,190	-	-
Other expenditures:				
Facilities acquisition	74,323	334,101	558,685	2,639,674
Long-term debt:				
Principal	3,156,073	833,311	770,000	555,000
Interest and fiscal charges	240,899	216,501	242,153	245,357
AEA flowthrough	309,745	335,812	331,913	309,836
Total expenditures	\$ 12,098,118	\$ 9,661,848	\$ 10,057,068	\$ 11,998,434

See accompanying independent auditor's report.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
\$	3,326,721	\$ 3,296,822	\$ 3,033,229	\$ 2,961,634	\$ 2,503,938
	355,098	322,459	283,603	230,110	188,971
	443,370	500,273	458,751	415,118	345,482
	673	9,691	3,663	180	860
	4,752,359	4,453,988	3,711,595	3,534,845	3,343,852
	635,610	169,225	172,332	172,013	125,386
	<u>\$ 9,513,831</u>	<u>\$ 8,752,458</u>	<u>\$ 7,663,173</u>	<u>\$ 7,313,900</u>	<u>\$ 6,508,489</u>
\$	5,211,380	\$ 4,874,895	\$ 4,150,579	\$ 4,174,310	\$ 3,835,990
	133,351	124,138	170,046	177,068	174,280
	79,919	55,002	48,296	37,662	73,135
	838,959	860,317	872,124	786,083	670,130
	644,583	639,872	658,572	676,195	553,359
	507,750	465,040	447,807	484,531	458,525
	-	-	-	-	-
	537,325	51,501	52,552	80,903	510
	385,000	375,000	365,000	355,000	350,000
	158,623	169,947	180,522	189,391	196,648
	300,529	282,513	233,707	222,803	216,931
	<u>\$ 8,797,419</u>	<u>\$ 7,898,225</u>	<u>\$ 7,179,205</u>	<u>\$ 7,183,946</u>	<u>\$ 6,529,508</u>

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
Interstate 35 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 Interstate 35 Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 28, 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

The management of Interstate 35 Community School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Interstate 35 Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interstate 35 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 a deficiency in internal control over financial reporting we consider to be a material weakness and another deficiency we consider to be a significant deficiency.

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 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-12 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item I-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about Interstate 35 Community School District's operations for the year ended June 30, 2012 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.

Interstate 35 Community School District's responses to the 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 Interstate 35 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 Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Interstate 35 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.

Oskaloosa, Iowa
December 28, 2012

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part I: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Internal Control Deficiencies:

I-A-12 Capital Assets – The District did not reconcile the prior year capital asset and depreciation listing, additions, and deletions to the current year listing. We also noted that the beginning balance of accumulated depreciation did not include the correct number of years depreciation on certain capital assets and was overstated by \$274,592. The beginning balances of accumulated depreciation, net capital assets, and governmental activities net assets have been restated to correct this difference.

Recommendation – The District should reconcile the capital asset and depreciation listing and all adjustments to the prior year listing. The additions, disposals, and final listing should also be reviewed each year to ensure accuracy.

Response – We will properly reconcile and ensure the accuracy of capital assets and depreciation in the future.

Conclusion – Response accepted.

I-B-12 Computer Backup – We noted that the District’s accounting system backup is not stored off-site daily or weekly.

Recommendation – All information in the District’s computer system should be backed up and stored off-site at least weekly and preferably daily. This would help to protect the District’s accounting information in case of a computer crash or natural disaster.

Response – We will investigate methods of backing up the accounting system on a regular basis and storing the information off site or virtually.

Conclusion – Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

Part II: Other Findings Related to Statutory Reporting:

II-A-12 Certified Budget – Expenditures for the year ended June 30, 2012, exceeded the amount budgeted in the other expenditures function prior to the amendment of the budget.

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

Response – We will amend our budget before expenditures exceed the budget in the future.

Conclusion – Response accepted.

II-B-12 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

II-C-12 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-12 Business Transactions – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Travis Egli, Coach Owns Egli Feed & Supply	Supplies	\$486
DeAnn Strange, Secretary Spouse owns D&L Electric and Auto	Purchased Services	\$940
Margo Bobst, Associate Spouse owns Stitched by Steve	Purchased Services	\$50
Vicki Westerly, Teacher Spouse owns Teen Driver	Purchased Services	\$6,200

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

In accordance with an Attorney General’s opinion dated November 9, 1976, the above transactions with spouses of employees do not appear to represent a conflict of interest.

II-E-12 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-12 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

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

II-G-12 Certified Enrollment – We noted variances in the basic enrollment data certified to the Iowa Department of Education. The total number of students certified was overstated by 5 students.

Recommendation – The Iowa Department of Education and the Iowa Department of Management should be contacted to resolve this matter.

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

Conclusion – Response accepted.

II-H-12 Supplementary Weighting – No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

II-I-12 Deposits and Investments – 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 were noted.

II-J-12 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-12 Categorical Funding – No instances were noted of categorical funding being used to supplant rather than supplement other funds.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

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

II-L-12 Statewide Sales and Services 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, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District’s CAR:

Beginning balance		\$	396,227
Revenues:			
Sales tax revenues	\$		660,308
Interest			72
Other local revenues		<u>1,500</u>	661,880
Expenditures/transfers out:			
School infrastructure construction			38,593
Equipment			58,583
Transfers to other funds:			
Debt Service Fund		<u>267,740</u>	<u>364,916</u>
Ending balance		\$	<u><u>693,191</u></u>

For the year ended June 30, 2012, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-12 Financial Condition – At June 30, 2012, the Enterprise, School Nutrition Fund, Roadrunner Childcare Center Fund, and Preschool Fund had deficit unrestricted net assets of \$7,513, \$14,896, and \$2,065, respectively.

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

Response – The Roadrunner Childcare Center Fund was discontinued in fiscal year 2010, after the fund’s inability to produce enough cash flow to meet its expenditures. The District will carry the deficit balance forward unless a fund transfer is approved from another fund to eliminate the deficit. We will continue to investigate alternatives to eliminate the deficits in the School Nutrition Fund and the Preschool Fund.

Conclusion – Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2012

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

- II-N-12 Student Activity Fund – During our audit issues arose about the appropriateness of certain accounts, receipts, and expenditures in the Special Revenue, Student Activity Fund. In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District’s educational program.

We noted the FFA and Booster Club accounts awarded scholarships from proceeds of fundraising during the year.

Recommendation – When fundraising takes place, the revenues should be recorded in the fund that may legally pay for the purpose of the fundraiser. Scholarships are most appropriately paid from the Private Purpose Trust Fund; therefore, proceeds from scholarship fundraising should be placed and expended from the Private Purpose Trust Fund.

Response – The District will record any funds raised by student organizations for scholarships to the District’s Trust Fund for payment in the future.

Conclusion – Response accepted.