

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
INDEPENDENCE, IOWA

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

JUNE 30, 2007

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INDEPENDENCE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2006 Election)		
Kevin Greenley	President	2008
Dawnye Sturtz	Vice President	2008
Robert Reiff	Board Member	2007
Martin Brown	Board Member	2007
Shelly Whited	Board Member	2006
<u>Board of Education</u>		
(After September 2006 Election)		
Dawnye Sturtz	President	2008
Robert Reiff	Vice President	2007
Kevin Robb	Board Member	2009
Kevin Greenley	Board Member	(resigned 2-19-07) 2008
Martin Brown	Board Member	(resigned 10-16-06) 2007
Charlie McCardle	Board Member	(appointed 10-16-06) 2007
John Christensen	Board Member	(appointed 3-12-07) 2007
<u>School Officials</u>		
Devin Embray	Superintendent	2007
Christopher Kimball	District Secretary/Treasurer	2007
Swisher & Cohrt	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Independence 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 Independence Community School District, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Independence Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 15, 2008 on our consideration of Independence Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The budgetary comparison information on pages 38 through 39 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information, as well as management's analytical insights on that information, that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
January 15, 2008

Basic Financial Statements

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 3,217,076	\$ 80,058	\$ 3,297,134
Receivables:			
Property tax:			
Current year	50,706	-	50,706
Succeeding year	3,480,000	-	3,480,000
Income surtax	499,996	-	499,996
Accounts	1,766	1,221	2,987
Due from other governments	776,754	3,241	779,995
Inventories	-	15,461	15,461
Restricted ISCAP assets (note 4):			
Investments	2,856,430	-	2,856,430
Accrued interest receivable	39,417	-	39,417
Prepaid expenses	15,453	154	15,607
Capital assets, net of accumulated depreciation (note 5)	<u>6,086,501</u>	<u>53,967</u>	<u>6,140,468</u>
 Total assets	 <u>17,024,099</u>	 <u>154,102</u>	 <u>17,178,201</u>
Liabilities			
Accounts payable	242,441	3,159	245,600
Salaries and benefits payable	1,310,104	36,791	1,346,895
Accrued interest payable	435	-	435
ISCAP warrants payable (note 4)	2,862,000	-	2,862,000
ISCAP accrued interest payable (note 4)	19,929	-	19,929
ISCAP unamortized premium (note 4)	16,705	-	16,705
Early retirement payable (note 6)	127,747	-	127,747
Deferred revenue:			
Succeeding year property tax	3,480,000	-	3,480,000
Other	-	3,161	3,161
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	105,000	-	105,000
Portion due after one year:			
Bonds payable	<u>710,000</u>	<u>-</u>	<u>710,000</u>
 Total liabilities	 <u>8,874,361</u>	 <u>43,111</u>	 <u>8,917,472</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2007

	<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	\$ 5,271,501	\$ 53,967	\$ 5,325,468
Restricted for:			
Management levy	120,484	-	120,484
Physical plant and equipment levy	117,211	-	117,211
Other special revenue purposes	160,066	-	160,066
Debt service	21,678	-	21,678
Capital projects	1,346,670	-	1,346,670
State grants	60,548	-	60,548
Unrestricted	<u>1,051,580</u>	<u>57,024</u>	<u>1,108,604</u>
Total net assets	<u>\$ 8,149,738</u>	<u>\$ 110,991</u>	<u>\$ 8,260,729</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 9,607,855	\$ 1,180,735	\$ 1,116,340	\$ -
Support services:				
Student services	414,230	412	187,050	-
Instructional staff services	523,291	-	-	-
Administration services	1,335,632	-	-	-
Operation and maintenance of plant services	1,071,861	13,950	-	-
Transportation services	447,939	34,891	16,414	-
	<u>3,792,953</u>	<u>49,253</u>	<u>203,464</u>	<u>-</u>
Non-instructional programs	<u>1,548</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	209,082	-	-	345,185
Long-term debt interest and fiscal charges	35,500	-	-	-
AEA flowthrough	497,369	-	497,369	-
Depreciation (unallocated) *	155,516	-	-	-
	<u>897,467</u>	<u>-</u>	<u>497,369</u>	<u>345,185</u>
Total governmental activities	<u>14,299,823</u>	<u>1,229,988</u>	<u>1,817,173</u>	<u>345,185</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (7,310,780)	\$ -	\$ (7,310,780)
(226,768)	-	(226,768)
(523,291)	-	(523,291)
(1,335,632)	-	(1,335,632)
(1,057,911)	-	(1,057,911)
(396,634)	-	(396,634)
(3,540,236)	-	(3,540,236)
(1,548)	-	(1,548)
136,103	-	136,103
(35,500)	-	(35,500)
-	-	-
(155,516)	-	(155,516)
(54,913)	-	(54,913)
(10,907,477)	-	(10,907,477)

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Business-Type Activities:				
Support services:				
Operation and maintenance of plant services	\$ 5,224	\$ -	\$ -	\$ -
Non-instructional programs:				
Food service operations	624,747	347,897	284,947	-
Total business-type activities	629,971	347,897	284,947	-
Total	\$ 14,929,794	\$ 1,577,885	\$ 2,102,120	\$ 345,185

General Revenues:

- Property tax levied for:
 - General purposes
 - Debt service
 - Capital outlay
- Income surtax
- Local option sales and services tax
- Unrestricted state grants
- Unrestricted investment earnings
- Other

Special item - loss on demolition of building

Total general revenues and special items

Change in net assets

Net assets beginning of year

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
\$ -	\$ (5,224)	\$ (5,224)
-	8,097	8,097
-	2,873	2,873
(10,907,477)	2,873	(10,904,604)

\$ 3,519,111	\$ -	\$ 3,519,111
107,208	-	107,208
224,468	-	224,468
525,013	-	525,013
849,797	-	849,797
6,303,999	-	6,303,999
201,852	1,100	202,952
47,295	-	47,295
(78,786)	-	(78,786)
11,699,957	1,100	11,701,057
792,480	3,973	796,453
7,357,258	107,018	7,464,276
\$ 8,149,738	\$ 110,991	\$ 8,260,729

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 1,489,197	\$ 1,185,961	\$ 541,918	\$ 3,217,076
Receivables:				
Property tax:				
Current year	41,967	-	8,739	50,706
Succeeding year	2,913,000	-	567,000	3,480,000
Income surtax	499,996	-	-	499,996
Accounts	1,505	-	261	1,766
Due from other governments	594,980	181,774	-	776,754
Restricted ISCAP assets (note 4):				
Investments	2,856,430	-	-	2,856,430
Accrued interest receivable	39,417	-	-	39,417
Prepaid expenses	15,453	-	-	15,453
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	\$ <u>8,451,945</u>	\$ <u>1,367,735</u>	\$ <u>1,117,918</u>	\$ <u>10,937,598</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 218,079	\$ 21,065	\$ 3,297	\$ 242,441
Salaries and benefits payable	1,310,104	-	-	1,310,104
ISCAP warrants payable (note 4)	2,862,000	-	-	2,862,000
ISCAP accrued interest payable (note 4)	19,929	-	-	19,929
ISCAP unamortized premium (note 4)	16,705	-	-	16,705
Early retirement payable (note 6)	-	-	127,747	127,747
Deferred revenue:				
Succeeding year property tax	2,913,000	-	567,000	3,480,000
Other	499,996	-	-	499,996
Total liabilities	<u>7,839,813</u>	<u>21,065</u>	<u>698,044</u>	<u>8,558,922</u>
Fund balance:				
Reserved for:				
Prepaid expenses	15,453	-	-	15,453
State grants	60,548	-	-	60,548
Debt service	-	-	22,113	22,113
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	397,761	397,761
Undesignated	536,131	1,346,670	-	1,882,801
Total fund balances	<u>612,132</u>	<u>1,346,670</u>	<u>419,874</u>	<u>2,378,676</u>
 Total liabilities and fund balances	 <u>\$ 8,451,945</u>	 <u>\$ 1,367,735</u>	 <u>\$ 1,117,918</u>	 <u>\$ 10,937,598</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2007

Total fund balances of governmental funds	\$ 2,378,676
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.	6,086,501
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	499,996
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.	(435)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(815,000)</u>
Net assets of governmental activities	<u><u>\$ 8,149,738</u></u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 3,755,475	\$ 849,797	\$ 655,191	\$ 5,260,463
Tuition	739,581	-	-	739,581
Other	318,421	28,415	465,439	812,275
State sources	7,438,875	-	917	7,439,792
Federal sources	612,082	339,185	-	951,267
Total revenues	<u>12,864,434</u>	<u>1,217,397</u>	<u>1,121,547</u>	<u>15,203,378</u>
Expenditures:				
Current:				
Instruction	<u>9,103,595</u>	-	<u>579,841</u>	<u>9,683,436</u>
Support services:				
Student services	414,230	-	-	414,230
Instructional staff services	458,184	-	72,515	530,699
Administration services	1,306,113	-	26,266	1,332,379
Operation and maintenance of plant services	952,456	-	115,803	1,068,259
Transportation services	365,454	-	211,750	577,204
	<u>3,496,437</u>	-	<u>426,334</u>	<u>3,922,771</u>
Non-instructional programs	<u>1,548</u>	-	<u>7,185</u>	<u>8,733</u>
Other expenditures:				
Facilities acquisition	-	1,449,724	-	1,449,724
Long term debt:				
Principal	-	-	235,000	235,000
Interest and fiscal charges	-	-	40,470	40,470
AEA flowthrough	497,369	-	-	497,369
	<u>497,369</u>	<u>1,449,724</u>	<u>275,470</u>	<u>2,222,563</u>
Total expenditures	<u>13,098,949</u>	<u>1,449,724</u>	<u>1,288,830</u>	<u>15,837,503</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(234,515)</u>	<u>(232,327)</u>	<u>(167,283)</u>	<u>(634,125)</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 950	\$ -	\$ -	\$ 950
Compensation for loss of capital assets	5,474	-	-	5,474
Interfund transfers in	-	-	168,183	168,183
Interfund transfers out	-	(168,183)	-	(168,183)
Total other financing sources (uses)	<u>6,424</u>	<u>(168,183)</u>	<u>168,183</u>	<u>6,424</u>
Net change in fund balances	(228,091)	(400,510)	900	(627,701)
Fund balances beginning of year	<u>840,223</u>	<u>1,747,180</u>	<u>418,974</u>	<u>3,006,377</u>
Fund balances end of year	<u>\$ 612,132</u>	<u>\$ 1,346,670</u>	<u>\$ 419,874</u>	<u>\$ 2,378,676</u>

See notes to financial statements.

INDEPENDENCE 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, 2007

Net change in fund balances - total governmental funds \$ (627,701)

Amounts reported for governmental activities in the Statement of Activities
are different because:

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

Expenditures for capital assets	\$ 1,424,692	
Depreciation expense	<u>(240,376)</u>	1,184,316

In the Statement of Activities, the loss on disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. (78,786)

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. (38,713)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 235,000

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. 4,970

Some expenses reported in the Statement of Activities, including early retirement, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 113,394

Change in net assets of governmental activities \$ 792,480

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007

	Nonmajor Enterprise - School Nutrition	Internal Service - Flexible Benefits
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 80,058	\$ 5,360
Accounts receivable	1,221	-
Due from other governments	3,241	-
Inventories	15,461	-
Prepaid expenses	154	-
Capital assets, net of accumulated depreciation	53,967	-
Total assets	<u>154,102</u>	<u>5,360</u>
Liabilities		
Accounts payable	3,159	-
Salaries and benefits payable	36,791	-
Deferred revenue	3,161	-
Total liabilities	<u>43,111</u>	<u>-</u>
Net Assets		
Invested in capital assets	53,967	-
Unrestricted	57,024	5,360
Total net assets	<u>\$ 110,991</u>	<u>\$ 5,360</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Nonmajor Enterprise - School Nutrition	Internal Service - Flexible Benefits
Operating revenues:		
Local sources:		
Charges for services	\$ 347,897	\$ 94,650
Operating expenses:		
Support services:		
Operation and maintenance of plant services	5,224	-
Non-instructional programs	624,747	101,666
	<u>629,971</u>	<u>101,666</u>
Operating loss	<u>(282,074)</u>	<u>(7,016)</u>
Non-operating revenues:		
Interest on investments	1,100	111
State sources	7,441	-
Federal sources	277,506	-
Total non-operating revenues	<u>286,047</u>	<u>111</u>
Change in net assets	3,973	(6,905)
Net assets beginning of year	<u>107,018</u>	<u>12,265</u>
Net assets end of year	<u>\$ 110,991</u>	<u>\$ 5,360</u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Nonmajor Enterprise - School Nutrition	Internal Service - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 344,210	\$ -
Cash received from miscellaneous operating activities	5,627	94,650
Cash payments to employees for services	(274,351)	-
Cash payments to suppliers for goods or services	<u>(303,594)</u>	<u>(101,666)</u>
Net cash used by operating activities	<u>(228,108)</u>	<u>(7,016)</u>
Cash flows from non-capital financing activities:		
State grants received	7,441	-
Federal grants received	<u>237,192</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>244,633</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(11,558)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>1,100</u>	<u>111</u>
Net increase (decrease) in cash and cash equivalents	6,067	(6,905)
Cash and cash equivalents beginning of year	<u>73,991</u>	<u>12,265</u>
Cash and cash equivalents end of year	<u>\$ 80,058</u>	<u>\$ 5,360</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2007

	Nonmajor Enterprise - School Nutrition	Internal Service - Flexible Benefits
	<u> </u>	<u> </u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (282,074)	\$ (7,016)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	8,874	-
Commodities used	37,073	-
(Increase) in accounts receivable	(1,221)	-
(Increase) in inventories	(3,836)	-
(Increase) in prepaid expenses	(154)	-
Increase in accounts payable	3,159	-
Increase in salaries and benefits payable	6,910	-
Increase in deferred revenue	<u>3,161</u>	<u>-</u>
Net cash used by operating activities	<u>\$ (228,108)</u>	<u>\$ (7,016)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$37,073 of federal commodities.

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2007

	<u>Agency</u>
Assets:	
Cash	\$ <u>4,264</u>
Liabilities:	
Other payables	<u>4,264</u>
Net assets	\$ <u><u>-</u></u>

See notes to financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

Independence Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Independence, Iowa, and agricultural territory in Buchanan County. 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, Independence 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. Independence 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 Buchanan County Assessor's Conference Board.

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.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 other nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The District reports the following proprietary funds:

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

The Internal Service, Flexible Benefits Fund is used to account for the flexible health and childcare benefits program offered 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 Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

All 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.

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

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

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

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 non-negotiable certificates of deposit, which are stated at cost.

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2007 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund Equipment	5,000
Other furniture and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 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.

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 in the governmental funds consists of 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 for governmental activities consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Deferred revenue for proprietary funds and business-type activities consists of unearned meal revenues.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District’s policy is not to reimburse for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2007.

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.

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

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

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, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

Note 2. Cash and Pooled Investments

The District’s deposits in banks at June 30, 2007 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.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u>168,183</u>

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

Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2006-07A	6/28/2006	6/28/2007	-	14,571	-	-	-
2006-07B	1/26/2007	1/25/2008	1,077,246	24,314	1,080,000	19,491	3,483
2007-08A	6/27/2007	6/27/2008	1,779,184	532	1,782,000	438	13,222
Total			<u>\$ 2,856,430</u>	<u>\$ 39,417</u>	<u>\$ 2,862,000</u>	<u>\$ 19,929</u>	<u>\$ 16,705</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	-	200,000	200,000	-

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Iowa Schools Cash Anticipation Program (ISCAP) (continued)

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.50%	5.676%
2006-07B	4.25%	5.315%
2007-08A	4.50%	5.455%

Note 5. Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,100,190	\$ 59,500	\$ -	\$ 1,159,690
Construction in progress	275,903	1,060,494	-	1,336,397
Total capital assets not being depreciated	<u>1,376,093</u>	<u>1,119,994</u>	<u>-</u>	<u>2,496,087</u>
Capital assets being depreciated:				
Buildings	6,666,729	43,825	229,075	6,481,479
Improvements other than buildings	1,063,783	-	-	1,063,783
Furniture and equipment	1,239,710	260,873	111,245	1,389,338
Total capital assets being depreciated	<u>8,970,222</u>	<u>304,698</u>	<u>340,320</u>	<u>8,934,600</u>
Less accumulated depreciation for:				
Buildings	3,700,448	119,147	150,289	3,669,306
Improvements other than buildings	737,927	47,316	-	785,243
Furniture and equipment	926,969	73,913	111,245	889,637
Total accumulated depreciation	<u>5,365,344</u>	<u>240,376</u>	<u>261,534</u>	<u>5,344,186</u>
Total capital assets being depreciated, net	<u>3,604,878</u>	<u>64,322</u>	<u>78,786</u>	<u>3,590,414</u>
Governmental activities capital assets, net	<u>\$ 4,980,971</u>	<u>\$ 1,184,316</u>	<u>\$ 78,786</u>	<u>\$ 6,086,501</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 197,791	\$ 11,558	\$ -	\$ 209,349
Less accumulated depreciation	146,508	8,874	-	155,382
Business-type activities capital assets, net	\$ 51,283	\$ 2,684	\$ -	\$ 53,967

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

Governmental activities:

Instruction	
Support services:	\$ 23,467
Administration	3,253
Operation and maintenance of plant services	3,602
Transportation	54,538
	84,860
Unallocated depreciation	155,516
Total governmental activities depreciation expense	\$ 240,376

Business-type activities:

Food service operations	\$ 8,874
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INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Total
Balance beginning of year	\$ 113,394	\$ 290,000	\$ 760,000	\$ 1,163,394
Additions	-	-	-	-
Reductions	113,394	100,000	135,000	348,394
Balance end of year	\$ -	\$ 190,000	\$ 625,000	\$ 815,000
Due within one year	\$ -	\$ 105,000	\$ -	\$ 105,000

Early Retirement

The District offers a voluntary early retirement plan to its certified employees and support staff. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible certified employee is equal to \$25,000. The early retirement incentive for each eligible support staff employee is equal to 50% of the employee's current salary, less any overtime or other additional pay. Early retirement benefits will be paid in July following the start of retirement.

At June 30, 2007, the District has obligations to six participants with a total liability of \$127,747. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$113,394. The current portion of early retirement is recorded as a liability of the Special Revenue, Management Levy Fund in the fund financial statements and the Governmental Activities in the District-wide financial statements.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 6. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2008	2.75 %	\$ 105,000	\$ 4,537	\$ 109,537
2009	2.75	85,000	1,581	86,581
		<u>\$ 190,000</u>	<u>\$ 6,118</u>	<u>\$ 196,118</u>

Local Option Sales and Services Tax Revenue Bonds

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2008	3.70 %	\$ -	\$ 11,724	\$ 11,724
2009	3.70	145,000	20,765	165,765
2010	3.75	155,000	15,176	170,176
2011	3.75	160,000	9,270	169,270
2012	3.80	165,000	3,135	168,135
		<u>\$ 625,000</u>	<u>\$ 60,070</u>	<u>\$ 685,070</u>

The local option sales and services tax revenue bonds were issued for school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District in accordance with Chapter 423E.5 of the Code of Iowa. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provision:

- (a) The bonds will only be redeemed from the future earnings of the local option sales and services tax revenues received by the District and the bond holders hold a lien on the future revenues received.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006, and 2005. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$447,384, \$429,555, and \$412,014, respectively, equal to the required contributions for each year.

Note 8. Risk Management

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

Note 9. 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 \$497,369 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Construction Commitments

The District entered into a contract totaling \$1,224,542 for construction of an early childhood center. As of June 30, 2007, costs of \$1,219,542 had been incurred against the contracts. The balance of \$5,000 remaining at June 30, 2007 will be paid as work on the project finishes.

Required Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
 Budget and Actual – All Governmental Funds
 and Proprietary Fund
 Required Supplementary Information
 Year Ended June 30, 2007

	Governmental Funds - Actual	Proprietary Fund - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
REVENUES:					
Local sources	\$ 6,812,319	\$ 348,997	\$ 7,161,316	\$ 6,765,205	\$ 396,111
State sources	7,439,792	7,441	7,447,233	7,283,340	163,893
Federal sources	951,267	277,506	1,228,773	940,000	288,773
Total revenues	15,203,378	633,944	15,837,322	14,988,545	848,777
EXPENDITURES:					
Instruction	9,683,436	-	9,683,436	9,835,000	151,564
Support services	3,922,771	5,224	3,927,995	3,680,500	(247,495)
Non-instructional programs	8,733	624,747	633,480	619,500	(13,980)
Other expenditures	2,222,563	-	2,222,563	2,263,513	40,950
Total expenditures	15,837,503	629,971	16,467,474	16,398,513	(68,961)
Excess (deficiency) of revenues over (under) expenditures	(634,125)	3,973	(630,152)	(1,409,968)	779,816
Other financing sources, net	6,424	-	6,424		6,424
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(627,701)	3,973	(623,728)	(1,409,968)	786,240
Balance beginning of year	3,006,377	107,018	3,113,395	2,631,887	481,508
Balance end of year	\$ <u>2,378,676</u>	\$ <u>110,991</u>	\$ <u>2,489,667</u>	\$ <u>1,221,919</u>	\$ <u>1,267,748</u>

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2007

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 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 ended June 30, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

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Other Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2007

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Assets					
Cash and pooled investments	\$ 244,009	\$ 159,805	\$ 117,439	\$ 20,665	\$ 541,918
Receivables:					
Property tax:					
Current year	4,262	-	3,029	1,448	8,739
Succeeding year	277,000	-	197,000	93,000	567,000
Accounts	-	261	-	-	261
Total assets	<u>\$ 525,271</u>	<u>\$ 160,066</u>	<u>\$ 317,468</u>	<u>\$ 115,113</u>	<u>\$ 1,117,918</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 40	\$ -	\$ 3,257	\$ -	\$ 3,297
Early retirement payable	127,747	-	-	-	127,747
Deferred revenue:					
Succeeding year property tax	277,000	-	197,000	93,000	567,000
Total liabilities	<u>404,787</u>	<u>-</u>	<u>200,257</u>	<u>93,000</u>	<u>698,044</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	22,113	22,113
Unreserved:					
Undesignated	120,484	160,066	117,211	-	397,761
Total fund equity	<u>120,484</u>	<u>160,066</u>	<u>117,211</u>	<u>22,113</u>	<u>419,874</u>
Total liabilities and fund equity	<u>\$ 525,271</u>	<u>\$ 160,066</u>	<u>\$ 317,468</u>	<u>\$ 115,113</u>	<u>\$ 1,117,918</u>

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 324,134	\$ -	\$ 223,944	\$ 107,113	\$ 655,191
Other	13,260	440,524	11,655	-	465,439
State sources	298	-	524	95	917
Total revenues	<u>337,692</u>	<u>440,524</u>	<u>236,123</u>	<u>107,208</u>	<u>1,121,547</u>
Expenditures:					
Current:					
Instruction	194,388	376,949	8,504	-	579,841
Support services:					
Instructional staff services	-	7,408	65,107	-	72,515
Administration services	25,746	-	520	-	26,266
Operation and maintenance of plant services	115,803	-	-	-	115,803
Transportation services	29,256	-	182,494	-	211,750
Non instructional programs	7,185	-	-	-	7,185
Other expenditures:					
Long term debt:					
Principal	-	-	-	235,000	235,000
Interest and fiscal charges	-	-	-	40,470	40,470
Total expenditures	<u>372,378</u>	<u>384,357</u>	<u>256,625</u>	<u>275,470</u>	<u>1,288,830</u>
Excess (deficiency) of revenues over (under) expenditures	(34,686)	56,167	(20,502)	(168,262)	(167,283)
Other financing sources:					
Interfund transfers in	-	-	-	168,183	168,183

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	<u>Special Revenue</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
Net change in fund balances	\$ (34,686)	\$ 56,167	\$ (20,502)	\$ (79)	\$ 900
Fund balances beginning of year	<u>155,170</u>	<u>103,899</u>	<u>137,713</u>	<u>22,192</u>	<u>418,974</u>
Fund balances end of year	<u>\$ 120,484</u>	<u>\$ 160,066</u>	<u>\$ 117,211</u>	<u>\$ 22,113</u>	<u>\$ 419,874</u>

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	\$ 1,679	\$ 1,435	\$ 182	\$ 2,932
High School:				
AFS	2,248	1,964	1,333	2,879
Activity Tickets	1,086	17,280	18,138	228
Art Resale	1,926	12	2,288	(350)
Auto Restoration	(13,906)	240	1,628	(15,294)
A.V. Club	489	47	38	498
Band Resale	(598)	35,172	32,845	1,729
Band Trip	7,617	107,075	35,218	79,474
Buildings and Trades	1,827	2,023	1,958	1,892
Cheerleaders	450	3,748	3,655	543
Class of:				
2006	323	-	323	-
2007	827	3,074	3,340	561
2008	-	323	-	323
Coke	1,188	501	682	1,007
Color Guard	(1,650)	-	-	(1,650)
Concessions	-	25,764	26,546	(782)
Drama	1,270	420	1,386	304
Explore the World	1,256	-	-	1,256
Faculty Scholarship	942	2,538	2,566	914
French Club	32	3,688	2,187	1,533
General Athletics	16,286	126,839	126,757	16,368
Hall of Fame	209	-	56	153
Home Economics Resale	1,064	49	169	944
Industrial Arts	(10,299)	6,793	7,897	(11,403)
Letter Club	8,776	8,118	11,178	5,716
Library	1,597	212	421	1,388
Math Resale	897	-	1,005	(108)
Model U.N.	(382)	-	-	(382)
Music Rental Fees	3,086	1,100	640	3,546
Musical	557	5,974	6,980	(449)
National Honor Society	208	-	212	(4)
Newspaper	1,034	-	-	1,034
P.E. Resale	1,160	-	123	1,037
Pictures	463	455	849	69
Prom	2,204	2,488	2,847	1,845
Rebound Club	1,212	-	-	1,212

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
High School (continued):				
Science Resale	\$ 340	\$ 1	\$ 119	\$ 222
Spanish Club	156	83	83	156
Speech	1,756	720	384	2,092
Stop and Shop	974	-	158	816
Student Council	4,834	5,516	3,706	6,644
Student Supplies	230	683	852	61
Vocal Music	9,175	7,067	11,341	4,901
Weight Equipment	702	50	131	621
Yearbook	(1,934)	13,458	28,349	(16,825)
Middle School:				
Art Resale	3,957	-	-	3,957
Book Fare	767	1,137	811	1,093
Concessions	2,119	-	-	2,119
Eclipse/TAG	2,806	155	117	2,844
General Athletics	1,748	6,559	10,390	(2,083)
Industrial Arts	4,965	13	676	4,302
Instrumental Music	(11,685)	9,546	6,067	(8,206)
Library	(316)	-	-	(316)
Magazines	13,789	38,271	26,547	25,513
Pictures	374	357	-	731
Social Studies	1,878	-	-	1,878
Staff Flowers	1,486	123	384	1,225
Student Supplies	6,838	477	0	7,315
FCS	(11)	506	503	(8)
Vocal Music	12	-	-	12
East Elementary:				
E.L.L.	1,391	7,353	4,833	3,911
Instrumental Music	350	460	236	574
Library	3,817	7,816	5,900	5,733
Pictures	197	5,458	2,901	2,754
Playground	1,020	-	-	1,020
West Elementary:				
Library	1,574	3,108	3,480	1,202
P.E. Resale	198	-	-	198
Pictures	(192)	6,992	2,586	4,214
Student Council	1,306	697	3,788	(1,785)

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
South Elementary:				
E.L.L.	\$ 3,474	\$ -	\$ 3,474	\$ -
Library	2,788	-	2,788	-
Pictures	2,422	-	2,422	-
Independence P.T.A.s	5,516	3,207	4,543	4,180
ECSE Center Pictures	-	38	-	38
Budget Fund Balance	-	98	98	-
Intrafund Transfers	-	(36,757)	(36,757)	-
Total	<u>\$ 103,899</u>	<u>\$ 440,524</u>	<u>\$ 384,357</u>	<u>\$ 160,066</u>

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2007

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>3,732</u>	\$ <u>1,911</u>	\$ <u>1,379</u>	\$ <u>4,264</u>
Liabilities				
Other payables	\$ <u>3,732</u>	\$ <u>1,911</u>	\$ <u>1,379</u>	\$ <u>4,264</u>

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,260,463	\$ 5,011,553	\$ 4,665,107	\$ 4,467,364
Tuition	739,581	662,747	606,646	640,397
Other	812,275	634,415	799,629	603,915
State sources	7,439,792	7,073,499	6,761,303	6,382,559
Federal sources	951,267	656,204	685,363	919,975
Total revenues	\$ 15,203,378	\$ 14,038,418	\$ 13,518,048	\$ 13,014,210
Expenditures:				
Instruction	\$ 9,683,436	\$ 8,905,082	\$ 9,099,199	\$ 8,900,972
Support services:				
Student services	414,230	429,335	339,021	357,768
Instructional staff services	530,699	554,042	408,158	330,864
Administration services	1,332,379	1,099,365	1,009,887	1,023,851
Operation and maintenance of plant services	1,068,259	1,046,250	987,515	986,309
Transportation services	577,204	443,561	396,293	372,190
Non-instructional programs	8,733	1,474	-	4,220
Other expenditures:				
Facilities acquisition	1,449,724	425,213	704,941	360,022
Long-term debt:				
Principal	235,000	100,000	100,000	95,000
Interest and fiscal charges	40,470	14,836	12,787	15,557
AEA flowthrough	497,369	465,666	443,869	450,291
Total expenditures	\$ 15,837,503	\$ 13,484,824	\$ 13,501,670	\$ 12,897,044

See accompanying independent auditor's report.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
U. S. Department of Education: Safe and Drug-Free Schools and Communities - National Programs	84.184	S184B020418	\$ <u>21,644</u>
Indirect:			
U. S. Department of Agriculture: Iowa Department of Education: Food Donation (non-cash)	10.550	FY 07	<u>37,073</u>
School Nutrition Cluster Programs: School Breakfast Program	10.553	FY 07	29,026
National School Lunch Program	10.555	FY 07	<u>211,407</u>
			<u>240,433</u>
U. S. Department of Education: Iowa Department of Education: Title 1 Grants to Local Educational Agencies	84.010	3105G	<u>171,710</u>
Title I Program for Neglected and Delinquent Children	84.013	3105D	<u>56,095</u>
Fund for the Improvement of Education	84.215	FY 06	<u>339,185</u>
State Grants for Innovative Programs	84.298	FY 07	<u>1,896</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 07	<u>5,783</u>
Improving Teacher Quality State Grants	84.367	FY 07	<u>68,557</u>
Grants for State Assessments and Related Activities	84.369	FY 07	<u>10,479</u>
Area Education Agency 267: Special Education - Grants to States	84.027	FY 07	<u>79,447</u>
Vocational Education - Basic Grants to States	84.048	FY 07	<u>15,204</u>
Total			<u>\$ <u>1,047,506</u></u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Independence Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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
Independence Community School District:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Independence Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Independence 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 Independence Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Independence 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 would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Independence Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of Independence Community School District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Independence Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-07, II-B-07, II-C-07, and II-D-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Independence Community School District's operations for the year ended June 30, 2007 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.

Independence Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Independence 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 Independence Community School District and other parties to whom Independence 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 Independence 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
January 15, 2008

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Independence Community School District:

Compliance

We have audited the compliance of Independence Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Independence Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Independence Community School District's management. Our responsibility is to express an opinion on Independence Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independence Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Independence Community School District's compliance with those requirements.

In our opinion, Independence Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Independence Community School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Independence Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in a District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies in internal control over compliance described in Part III of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Independence Community School District and other parties to whom Independence 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.

Oskaloosa, Iowa
January 15, 2008

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A significant deficiency in internal control over major programs was disclosed by the audit of the financial statements, which was not considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.215 – Fund for the Improvement of Education
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Community School District did not qualify as a low-risk auditee.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part II: Findings Related to the Basic Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

II-A-07 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts preparation and the posting of the cash receipts to the cash receipts journal were all done by the same person. Also, the recording, preparing and signing of checks were all done by the same person.

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

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

Conclusion – Response accepted.

II-B-07 Bank Reconciliations – We noted that bank reconciliations were not prepared timely and were not reconciled to the general ledger. In addition, bank reconciliations were not prepared for the Internal Service Fund bank account. This led to several unrecorded transactions and unreconciled cash differences. We noted \$28,676 of unrecorded interest, \$480 of unrecorded expenses, and \$13,535 of unreconciled differences. Adjusting journal entries have been made to the general ledger to record and correct these items.

Recommendation – All bank accounts should be reconciled and tied to the general ledger each month. This allows the District to timely detect and correct errors and omissions.

Response – Bank reconciliations for all accounts will be tied to the general ledger monthly in the future. Any differences will be investigated and corrected timely.

Conclusion – Response accepted.

II-C-07 Financial Reporting – During the audit, we identified material amounts of revenues and receivables not recorded in the District's financial statements. Also, the governmental activities and School Nutrition Fund capital asset records were not updated for current year changes. Adjustments were subsequently made by the District to properly include these amounts in the financial statements.

Recommendation – The District should implement procedures to ensure all revenues, receivables and capital assets changes are identified and included in the District's financial statements.

Response – We will double check these in the future to avoid missing any revenues, receivables or capital assets transactions.

Conclusion – Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part II: Findings Related to the Basic Financial Statements (continued):

Significant Deficiencies (continued):

- II-D-07 Disbursement Approval – Out of fifty-three disbursements tested, the Board had not approved nine disbursements. These disbursements were all manual checks written at the end of the month.

Recommendation – This weakens the control that the Board has over disbursements. All disbursements should be approved by the Board.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Response – We will make sure that all disbursements are properly approved by the Board in the future.

Conclusion – Response accepted.

- II-E-07 Disbursements – Out of fifty-three disbursements tested, one was not supported by a written invoice or receipt, but was paid based on an oral agreement.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation.

Response – We will make sure that all future disbursements are properly supported by written documentation prior to the check being released for payment.

Conclusion – Response accepted.

- II-F-07 Purchase Orders – Out of fifty-three disbursements tested, we noted four Student Activity Fund disbursements that had purchase orders completed and dated after the invoice date and one General Fund disbursement without a purchase order.

Recommendation – This negates the purpose of using purchase orders. All purchase orders should be completed and approved prior to the purchase of the items.

Response – We will try to make sure that purchase orders are properly completed and approved prior to the purchase of items.

Conclusion – Response accepted.

- II-G-07 Fundraisers – We noted inadequate controls over fundraisers. Supporting documentation for fundraiser income is being kept by individual activity club sponsors. There are no set procedures in place to review this information for completeness and accuracy other than review by the activity sponsor, who is also responsible for the initial collection of fundraising income. We also noted that one fundraiser ordered too much candy, approximately 45 cases of which were eventually sold at cost or at a loss several months later.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part II: Findings Related to the Basic Financial Statements (continued):

Significant Deficiencies (continued):

II-G-07 Fundraisers (continued)

Recommendation – The District should develop some type of fundraiser summary form and procedures which would include approval for all fundraisers and review of supporting documentation in order to account for the completeness and accuracy of revenues recorded and deposited.

Response – We will review our procedures regarding fundraising activities and change our procedures as we deem necessary.

Conclusion – Response accepted.

II-H-07 Nontimely Deposits – We noted one School Nutrition Fund receipt and several Student Activity Fund receipts that were not deposited timely. The receipts were held by the recipients before being turned in to the business office for deposit.

Recommendation – Receipts should be turned in to the business office on a timely basis. All receipts should be deposited as soon as possible to safeguard the asset and avoid any possible irregularities and to earn the interest revenue on the public funds.

Response – We will try to ensure that the business office receives all receipts on a timely basis. We have stressed the importance of timely remittances of collections to our staff.

Conclusion – Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

CFDA Number 84.215: Fund for the Improvement of Education

Federal Award Year: 2006

U.S. Department of Education

Passed through the Iowa Department of Education

III-A-07 Disbursement Approval – Out of eight disbursements tested, the Board had not approved one disbursement. This disbursement was a manual check written at the end of the month.

Recommendation – This weakens the control that the Board has over disbursements. All disbursements should be approved by the Board.

Chapter 279.29 of the Code of Iowa provides that “the Board shall audit and allow all just claims against the corporation and no order shall be drawn upon the treasury until the claim therefore has been audited and allowed.” In accordance with an Attorney General’s opinion dated July 12, 1979, “no claim can be paid until the Board has taken final action on the claim. Logically, no final action can be taken on the claim until all of the specifics of the claim have been examined and verified.”

Response – We will make sure that all disbursements are properly approved by the Board in the future.

Conclusion – Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-07 Certified Budget – Expenditures for the year ended June 30, 2007, exceeded the amounts budgeted in the support services and non-instructional programs functions.
- 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.
- Conclusion – Response accepted.
- IV-B-07 Questionable Expenditures – No expenditures were noted that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-07 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-07 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-E-07 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes – Except as previously mentioned in item II-D-07, no transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-07 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-07 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.
- IV-I-07 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.
- IV-J-07 Financial Condition – We noted that the Special Revenue, Student Activity Fund had several deficit balances within the group of single activity accounts.
- Recommendation – The District needs to monitor the Student Activity accounts more closely and investigate alternatives to eliminate the deficit balances.
- Response – We are working on the Student Activity Fund deficit accounts.
- Conclusion – Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2007

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

- IV-K-07 Student Activity Fund – We noted transactions being recorded through the Special Revenue, Student Activity Fund such as resale accounts, rental fees, pictures, library, staff flowers, PTA, and scholarships that would more appropriately be accounted for in the General Fund or Trust and Agency Funds.

Recommendation – The Student Activity Fund is only to be used to account for money received from student related activities such as admissions, activity fees, student dues, fundraising events, or other student related cocurricular activities, as stated in the administrative rules of the Department of Education.

Response – We will review these accounts and transfer items to more appropriate funds.

Conclusion – Response accepted.

- IV-L-07 Scholarships – We noted a scholarship that was paid directly to the student, with no supporting documentation.

Recommendation – All scholarships should be paid directly to the college or university or require documentation to reimburse the student for actual expenses paid to a college or university.

Response – We will pay scholarships directly to the college or university or require documentation for reimbursements to students in the future.

Conclusion – Response accepted.

- IV-M-07 Sale of Equipment – The District sold two vehicles and recorded the revenues in the Special Revenue, Physical Plant and Equipment Levy (PPEL) Fund. Chapter 297.22 of the Code of Iowa requires that proceeds from the sale of equipment be recorded in the General Fund.

Recommendation – All sales of equipment should be recorded in the General Fund. The PPEL Fund should reimburse the General Fund \$650 for the equipment sales.

Response – We will properly record any future equipment sales in the General Fund and we will transfer the \$650 from the PPEL Fund to the General Fund.

Conclusion – Response accepted.

- IV-N-07 Unallowable Expenditures – The Capital Projects Fund paid rent for instructional use of a building, which is not an allowable use of local option sales and services tax (LOSST) revenues.

Recommendation – The LOSST revenues can only be spent on the purposes stated in the LOSST election ballot, which are land, infrastructure, and building repairs and improvements. The General Fund should reimburse the Capital Projects Fund \$6,239 for the rent paid during the year.

Response – We will make sure that all future LOSST expenditures comply with the Code of Iowa and the LOSST election ballot. The General Fund will repay \$6,239 to the Capital Projects Fund.

Conclusion – Response accepted.

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