

INDIANOLA COMMUNITY SCHOOL DISTRICT

**Independent Auditor's Reports
Basic Financial Statements and Supplementary Information
Schedule of Findings and Questioned Costs**

June 30, 2007

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Indianola Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Grant Johnson	President	2008
Cyd Dyer	Vice President	2007
Dee Allen	Board Member	2008
Ken Bresnan	Board Member	2007
Edie Butler	Board Member	2006
Heather Hulen	Board Member	2008
Rob Miller	Board Member	2006

Board of Education (After September 2006 Election)		
Cyd Dyer	President	2007
Grant Johnson	Vice President	2008
Dee Allen	Board Member	2008
Ken Bresnan	Board Member	2007
Carolyn Langenwalter	Board Member	2009
Heather Hulen	Board Member	2008
Joe Royer	Board Member	2009

School Officials

Dr. Michael Teigland	Superintendent	2007
Darcy Moeller	District Secretary/Treasurer	2007
Ahlers, Cooney, Dorweiler, Haynie, Smith & Allbee, P.C.	Attorney	2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Indianola 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 Indianola Community School District, Indianola 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 District officials. Our responsibility is to express an opinion 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 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 Indianola Community School District as of 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 December 12, 2007 on our consideration of the Indianola Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 51 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Indianola 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 five years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 9, 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 our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

December 12, 2007

MANAGEMENT DISCUSSION & ANALYSIS

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis

The Indianola Community School District is pleased to provide this Management's Discussion and Analysis of its financial statements. This narrative overview analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

FINANCIAL HIGHLIGHTS

General Fund

- The state legislature approved a 4% increase to the general fund allowable growth rate that increased the per pupil amount \$197 from \$4,931 to \$5,128 for 2006-07.
- The 2006-07 budget enrollment (Sept 05 head count) was 3,266.7—an increase of 61 students. In 2006-07, the Indianola Community School District was the 28th largest Iowa school district out of 364 districts.
- The 2006-07 package settlement was 5.41% with the Indianola Education Association on 5.97% “new money.” Comparable increases were provided to all staff groups.
- The undesignated unreserved general fund balance increased from \$925,067 in 2005-06 to \$1,768,834 in 2006-07. The solvency ratio increased from 4.14% in 2005-06 to 7.34% in 2006-07. The solvency ratio is an indicator of a district's financial health. The Iowa Association of School Boards recommends a solvency ratio between 5% and 10%.
- Total taxable valuation of the district increased by 4.48%.
- The unspent balance of the district increased from \$2,581,583 to \$2,719,518.
- The 2006-07 special education deficit decreased from \$346,389 to \$123,349.

Other

- The overall tax levy rate increased from \$18.40 to \$18.89/\$1,000 of assessed valuation.
- Total net assets of the district increased from \$15,365,993 to \$18,666,585.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

District-wide Statements

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

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

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

The District has three kinds of funds:

- *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements.

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

- *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, school nutrition, child care program and the high school home construction program.

- *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others, such as the Elementary PTO Funds, Parent Activity Funds, and Teacher Social Funds.

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

Following is a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Condensed Statement of Net Assets							
	Governmental		Business-type		Total		Total
	Activities		Activities		District		% Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 21,479,744	19,345,362	348,642	502,574	21,828,386	19,847,936	10.0
Capital assets	33,426,341	30,629,447	335,832	84,649	33,762,173	30,714,096	9.9
Total assets	<u>54,906,085</u>	<u>49,974,809</u>	<u>684,474</u>	<u>587,223</u>	<u>55,590,559</u>	<u>50,562,032</u>	<u>9.9</u>
Long-term liabilities	21,715,930	18,327,372	-	-	21,715,930	18,327,372	18.5
Other liabilities	15,039,361	16,743,136	168,683	125,531	15,208,044	16,868,667	(9.8)
Total liabilities	<u>36,755,291</u>	<u>35,070,508</u>	<u>168,683</u>	<u>125,531</u>	<u>36,923,974</u>	<u>35,196,039</u>	<u>4.9</u>
Net assets:							
Invested in capital							
assets, net of							
related debt	14,933,341	12,489,857	-	-	14,933,341	12,489,857	19.6
Restricted	213,839	627,317	320,231	76,644	534,070	703,961	(24.1)
Unrestricted	3,003,614	1,787,127	195,560	385,048	3,199,174	2,172,175	47.3
Total net assets	<u>\$ 18,150,794</u>	<u>14,904,301</u>	<u>515,791</u>	<u>461,692</u>	<u>18,666,585</u>	<u>15,365,993</u>	<u>21.5</u>

The District's combined net assets increased by 21.5%, or \$3,300,592 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

- Invested in capital assets, net of related debt increased \$2,443,484, or 19.6% over the prior year.
- Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$169,891, or 24.1% over the prior year.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

- Unrestricted net assets—the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements increased \$1,026,999 or 47.3%.

Following shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

	Changes in Net Assets		
	Governmental Activities	Business-type Activities	Total District
Revenues			
Program revenues			
Charges for service	\$ 1,684,450	1,595,754	3,280,204
Operating grants, contributions and restricted interest	2,804,076	387,275	3,191,351
Capital grants, contributions and restricted interest	-	-	-
General revenues			
Property tax	10,626,703	-	10,626,703
Local option sales and services tax	1,881,626	-	1,881,626
Unrestricted state grants	13,134,661	-	13,134,661
Unrestricted interest on investment	550,190	3,826	554,016
Other general receipts	133,550	-	133,550
Transfers, net	7,629	(7,629)	-
Total receipts	<u>30,822,885</u>	<u>1,979,226</u>	<u>32,802,111</u>
Program expenses			
Governmental activities			
Instruction	17,434,347	-	17,434,347
Support services	7,931,674	-	7,931,674
Non-instructional programs	-	1,925,127	1,925,127
Other expenses	2,210,371	-	2,210,371
Total disbursements and transfers	<u>27,576,392</u>	<u>1,925,127</u>	<u>29,501,519</u>

Property tax, local option sales and services tax, unrestricted state grants, unrestricted interest on investments and other general fund receipts account for 80% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

Governmental Activities

Revenues for governmental activities were \$30,822,885 and expenses were \$27,576,392.

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

	Total Cost of Sevices	Net Cost of Sevices
Instruction	\$ 17,434,347	14,120,049
Support services	7,931,674	7,749,767
Non-instructional programs	-	-
Other expenses	2,210,371	1,218,050
Totals	<u>\$ 27,576,392</u>	<u>23,087,866</u>

Business-Type Activities

Revenues of the District's business-type activity were \$1,979,226 and expenses were \$1,925,127. The District's business-type activities include the School Nutrition Fund, Child Care Program, and HS Home Construction Program. Revenues of these activities were comprised of charges for services, federal and state reimbursements and the sale of property.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$6,495,332; an increase from last year's ending fund balances of \$2,645,552.

Governmental Fund Highlights

The District's General Fund financial position is the product of many factors. The overall general fund balance increased by \$918,498.

The Governmental Funds include a \$3,254,097 fund balance from the Local Option Sales Tax. This was the third year that the district collected revenues from the Local Option Sales Tax. The Governmental Funds also includes a \$1,098,292 fund balance from the Elementary School Bond Issue.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

Business-Type Fund Highlight

The School Nutrition Fund net assets increased from \$246,916 to \$284,221.

BUDGETARY HIGHLIGHTS

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 blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget was set on the cash basis. Over the course of the year, the District amended its certified budget one time as the district converted to budgeting in accordance with generally accepted accounting principals.

School districts have two levels of budgetary control. One form of budgetary control exists through the "certified budget", which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal 2007, the District had invested \$46.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, and transportation equipment. This amount represents a net increase of 9.4% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$1,135,370.

	Capital Assets						Total % Change June 30, 2006-2007
	Governmental Activities		Business-type Activities		Total District		
	June 30, 2007	2006	June 30, 2007	2006	June 30, 2007	2006	
Land	\$ 1,413,496	905,000	-	-	1,413,496	905,000	56.2
Construction in progress	2,468,972	36,944	229,390	-	2,698,362	36,944	7,203.9
Buildings	35,479,187	35,213,013	-	-	35,479,187	35,213,013	0.8
Improvements other than buildings	2,302,138	2,253,870	-	-	2,302,138	2,253,870	2.1
Furniture and equipment	4,586,894	4,087,976	228,485	193,425	4,815,379	4,281,401	12.5
Total assets	<u>\$ 46,250,687</u>	<u>42,496,803</u>	<u>457,875</u>	<u>193,425</u>	<u>46,708,562</u>	<u>42,690,228</u>	<u>9.4</u>

Long-Term Debt

At year-end, the district had \$21,690,544 in general obligation debt and other long-term debt outstanding. This represents an increase of \$3,305,653 from last year. More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

	Outstanding Long-term Obligations		
	Total District		Total % Change
	June 30,		June 30,
	2007	2006	2006-2007
General obligation bonds	\$ 17,175,000	15,460,000	11.1
Discounts	(72,000)	(100,410)	(28.3)
Capital loan notes	1,390,000	2,040,000	(31.9)
Revenue Bonds	2,940,000	-	-
Premium	70,439	-	-
Revenue Bond Anticipation Notes	-	740,000	(100.0)
Street assessments	-	11,458	(100.0)
Early retirement	112,491	176,324	(36.2)

INDIANOLA COMMUNITY SCHOOL DISTRICT

Management Discussion & Analysis (Continued)

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The Iowa legislature set 2007-08 and 2008-09 allowable growth at 4%.
- The 2007-08 budget enrollment (Sept 06 head count) increased by 69.6 students to 3,336.3. The 2008-07 budget enrollment (Sept 07 head count) decreased by 47.8 students to 3,288.5.
- In 2005-06, the District successfully negotiated a two-year settlement with the Indianola Education Association. The total package settlement for 2006-07 was 5.2%; the total package settlement for 2007-08 was 5.75%. The District extended the two year settlement to a three year settlement to include 2008-09. The total package settlement for 2008-09 will be 5%.
- In November 2006, the Board approved a three-year phase-out of the early retirement plan for then eligible employees.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Darcy Moeller, Business Manager, 1304 East 2nd Avenue, Indianola, IA 50125.

BASIC FINANCIAL STATEMENTS

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit A

Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments			
ISCAP	\$ -	-	-
Other	8,440,113	247,279	8,687,392
Receivables			
Property tax:			
Current year delinquent	127,243	-	127,243
Succeeding year	11,595,528	-	11,595,528
Accounts	72,860	1,560	74,420
Accrued interest - ISCAP	-	-	-
Due from other governments	977,423	3,200	980,623
Prepaid expense	167,739	5,762	173,501
Inventories	-	90,841	90,841
Bond issue costs, net of accumulated amortization of \$49,291	98,838	-	98,838
Capital assets, net of accumulated depreciation	<u>33,426,341</u>	<u>335,832</u>	<u>33,762,173</u>
 Total assets	 <u>54,906,085</u>	 <u>684,474</u>	 <u>55,590,559</u>
Liabilities			
Accounts payable	765,488	7,829	773,317
Excess of warrants over bank balance	55,146	34,415	89,561
Salaries and benefits payable	2,369,412	121,481	2,490,893
Accrued interest payable	184,131	-	184,131
ISCAP warrants payable	-	-	-
ISCAP accrued interest payable	-	-	-
Deferred revenue			
Succeeding year property tax	11,595,528	-	11,595,528
Compensated absences	69,656	4,958	74,614

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit A
(Continued)

Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities (Continued)			
Long-term liabilities:			
Portion due within one year:			
Bonds payable	1,225,000	-	1,225,000
Capital loan notes payable	680,000	-	680,000
Revenue bond anticipation notes	-	-	-
Other long-term debt payable	112,491	-	112,491
Portion due after one year:			
Bonds payable (net of unamortized discounts)	15,978,000	-	15,978,000
Capital loan notes payable	710,000	-	710,000
Revenue bonds payable (net of unamortized premium)	<u>3,010,439</u>	-	<u>3,010,439</u>
Total liabilities	<u>36,755,291</u>	<u>168,683</u>	<u>36,923,974</u>
Net assets			
Invested in capital assets, net of related debt	14,933,341	-	14,933,341
Fund balances			
Restricted for			
Inventories	-	320,231	320,231
Management levy	120,903	-	120,903
Physical plant and equipment levy	(38,981)	-	(38,981)
Other special revenue purposes	131,917	-	131,917
Undesignated	<u>3,003,614</u>	<u>195,560</u>	<u>3,199,174</u>
Total net assets	<u>\$ 18,150,794</u>	<u>515,791</u>	<u>18,666,585</u>

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Statement of Activities
June 30, 2007

	<u>Expenses</u>	<u>Charges for Service</u>	<u>Program Operating Grants, Contributions and Restricted Interest</u>
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 11,481,927	913,225	988,329
Special education instruction	2,912,760	215,215	430,443
Vocational instruction	654,121	4,180	33,790
Other instruction	694,564	-	188,396
Co-curricular instruction	<u>1,690,975</u>	<u>486,959</u>	<u>53,761</u>
	<u>17,434,347</u>	<u>1,619,579</u>	<u>1,694,719</u>
Support services:			
Student support services	973,091	-	-
Instructional staff support services	813,556	-	110,997
General administration services	387,412	-	-
Building administration services	1,444,421	-	-
Operation and maintenance of plant services	2,584,980	62,021	-
Transportation services	1,074,821	2,850	6,039
Central services	<u>653,393</u>	<u>-</u>	<u>-</u>
	<u>7,931,674</u>	<u>64,871</u>	<u>117,036</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:			
Facilities acquisition	85,171	-	-
Long-term debt:			
Interest and fiscal charges	962,566	-	-
AEA flowthrough	992,321	-	992,321
Depreciation (unallocated)*	<u>170,313</u>	<u>-</u>	<u>-</u>
	<u>2,210,371</u>	<u>-</u>	<u>992,321</u>
 Total governmental activities	 27,576,392	 1,684,450	 2,804,076

Revenues	Net (Expense) Revenue and Changes in Net Assets		
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
-	(9,580,373)	-	(9,580,373)
-	(2,267,102)	-	(2,267,102)
-	(616,151)	-	(616,151)
-	(506,168)	-	(506,168)
-	(1,150,255)	-	(1,150,255)
-	(14,120,049)	-	(14,120,049)
-	(973,091)	-	(973,091)
-	(702,559)	-	(702,559)
-	(387,412)	-	(387,412)
-	(1,444,421)	-	(1,444,421)
-	(2,522,959)	-	(2,522,959)
-	(1,065,932)	-	(1,065,932)
-	(653,393)	-	(653,393)
-	(7,749,767)	-	(7,749,767)
-	-	-	-
-	(85,171)	-	(85,171)
-	(962,566)	-	(962,566)
-	-	-	-
-	(170,313)	-	(170,313)
-	(1,218,050)	-	(1,218,050)
-	(23,087,866)	-	(23,087,866)

INDIANOLA COMMUNITY SCHOOL DISTRICT

Statement of Activities
June 30, 2007

	Expenses	Charges for Service	Program Operating Grants, Contributions and Restricted Interest
Functions/Programs (Continued)			
Business-Type activities:			
Non-instructional programs:			
Nutrition and child care services	1,925,127	1,595,754	387,275
 Total	 \$ 29,501,519	 3,280,204	 3,191,351
 General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investments earnings			
Other			
Transfers			
 Total general revenues			
 Change in net assets			
 Net assets beginning of year			
 Net assets end of year			

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

See notes to financial statements.

Revenues	Net (Expense) Revenue and Changes in Net Assets		
Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business-type Activities	Total
-	-	57,902	57,902
-	(23,087,866)	57,902	(23,029,964)
	\$ 7,507,296	-	7,507,296
	1,545,194	-	1,545,194
	1,574,213	-	1,574,213
	1,881,626	-	1,881,626
	13,134,661	-	13,134,661
	550,190	3,826	554,016
	133,750	-	133,750
	7,629	(7,629)	-
	26,334,559	(3,803)	26,330,756
	3,246,693	54,099	3,300,792
	14,904,301	461,692	15,365,993
	\$ 18,150,994	515,791	18,666,785

INDIANOLA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds
June 30, 2007

Assets	General	Debt Service
Cash and pooled investments		
Other	\$ 3,980,787	77,603
Receivables		
Property tax:		
Current year delinquent	89,675	18,647
Succeeding year	7,819,467	2,136,726
Accounts	42,478	1,142
Due from other governments	166,519	-
Prepaid expense	156,225	-
Total assets	\$ 12,255,151	2,234,118
Liabilities and Fund Balances		
Liabilities		
Accounts payable	\$ 223,641	-
Excess of warrants over bank balance	-	11,852
Salaries and benefits payable	2,368,479	-
Other payables	-	-
Deferred revenue		
Succeeding year property tax	7,819,467	2,136,726
Total liabilities	10,411,587	2,148,578
Fund balances		
Reserved for		
Debt service	-	85,540
Unreserved		
Undesignated	1,843,564	-
Total fund equity	1,843,564	85,540
Total liabilities and fund balances	\$ 12,255,151	2,234,118

See notes to financial statements.

Exhibit C

<u>Elementary School Bond Issue</u>	<u>Local Option Sales Tax</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
1,524,353	2,607,724	249,646	8,440,113
-	-	18,921	127,243
-	-	1,639,335	11,595,528
9,108	-	20,132	72,860
-	810,789	115	977,423
-	-	11,514	167,739
<u>1,533,461</u>	<u>3,418,513</u>	<u>1,939,663</u>	<u>21,380,906</u>
335,169	164,416	42,262	765,488
-	-	43,294	55,146
-	-	933	2,369,412
100,000	-	-	100,000
-	-	1,639,335	11,595,528
<u>435,169</u>	<u>164,416</u>	<u>1,725,824</u>	<u>14,885,574</u>
-	-	-	85,540
<u>1,098,292</u>	<u>3,254,097</u>	<u>213,839</u>	<u>6,409,792</u>
<u>1,098,292</u>	<u>3,254,097</u>	<u>213,839</u>	<u>6,495,332</u>
<u>1,533,461</u>	<u>3,418,513</u>	<u>1,939,663</u>	<u>21,380,906</u>

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit D

Reconciliation of the Balance Sheet – Governmental Funds
to the Statement of Net Assets
June 30, 2007

Total fund balances of governmental funds	\$	6,495,332
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.		33,426,341
Bond issue costs are not available to pay current period expenditures and, therefore, are not reported as assets in the governmental funds.		98,838
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.		(184,131)
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(21,685,586)</u>
Net assets of governmental activities	\$	<u>18,150,794</u>

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 Year ended June 30, 2007

	General	Debt Service	Elementary School Bond Issue	Local Option Sales Tax	Nonmajor Special Revenue	Total
Revenues						
Local sources:						
Local tax	\$ 7,507,296	1,545,194	-	1,881,626	1,574,213	12,508,329
Tuition	913,613	-	-	-	-	913,613
Other	798,334	632	63,256	91,148	543,186	1,496,556
State sources	15,384,782	1,083	-	-	1,111	15,386,976
Federal sources	495,465	-	-	-	-	495,465
Total revenues	<u>25,099,490</u>	<u>1,546,909</u>	<u>63,256</u>	<u>1,972,774</u>	<u>2,118,510</u>	<u>30,800,939</u>
Expenditures						
Current:						
Instruction:						
Regular instruction	10,647,751	-	-	-	469,184	11,116,935
Special education instruction	2,837,181	-	-	-	-	2,837,181
Vocational instruction	623,506	-	-	-	-	623,506
Other instruction	694,564	-	-	-	-	694,564
Co-curricular instruction	1,197,686	-	-	-	492,857	1,690,543
	<u>16,000,688</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>962,041</u>	<u>16,962,729</u>
Support services:						
Student support services	927,896	-	-	-	-	927,896
Instructional staff support services	679,735	-	-	173,535	1,411	854,681
General administration services	328,704	-	-	-	-	328,704
Building administration services	1,368,516	-	-	-	33,101	1,401,617
Operation and maintainance of plant services	2,345,524	-	-	-	219,205	2,564,729
Transportation services	906,163	-	-	-	507,820	1,413,983
Central services	653,393	-	-	-	-	653,393
	<u>7,209,931</u>	<u>-</u>	<u>-</u>	<u>173,535</u>	<u>761,537</u>	<u>8,145,003</u>

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit E
(Continued)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2007

	General	Debt Service	Elementary School Bond Issue	Local Option Sales Tax	Nonmajor Special Revenue	Total
Expenditures (Continued)						
Non-instructional programs	-	-	-	-	-	-
Other expenditures:						
Facilities acquisition and construction	-	-	1,764,964	1,167,886	472,785	3,405,635
Long-term debt:						
Principal	-	2,486,458	-	-	-	2,486,458
Interest and fiscal charges	-	806,177	-	-	-	806,177
AEA flowthrough	992,321	-	-	-	-	992,321
	<u>992,321</u>	<u>3,292,635</u>	<u>1,764,964</u>	<u>1,167,886</u>	<u>472,785</u>	<u>7,690,591</u>
Total expenditures	<u>24,202,940</u>	<u>3,292,635</u>	<u>1,764,964</u>	<u>1,341,421</u>	<u>2,196,363</u>	<u>32,798,323</u>
Excess (deficiency) of revenues over (under) expenditures	<u>896,550</u>	<u>(1,745,726)</u>	<u>(1,701,708)</u>	<u>631,353</u>	<u>(77,853)</u>	<u>(1,997,384)</u>
Other financing sources (uses)						
General obligation bonds issued	-	7,250	2,800,000	-	-	2,807,250
Revenue bonds issued	-	-	-	3,017,768	-	3,017,768
Sale of assets	14,517	-	-	-	-	14,517
Interfund transfers	7,431	1,815,161	-	(1,479,338)	(335,625)	7,629
Total other financing sources (uses)	<u>21,948</u>	<u>1,822,411</u>	<u>2,800,000</u>	<u>1,538,430</u>	<u>(335,625)</u>	<u>5,847,164</u>
Net change in fund balances	918,498	76,685	1,098,292	2,169,783	(413,478)	3,849,780
Fund balances, beginning of year	<u>925,066</u>	<u>8,855</u>	<u>-</u>	<u>1,084,314</u>	<u>627,317</u>	<u>2,645,552</u>
Fund balances, end of year	<u>\$ 1,843,564</u>	<u>85,540</u>	<u>1,098,292</u>	<u>3,254,097</u>	<u>213,839</u>	<u>6,495,332</u>

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit F

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 \$ 3,849,780

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

Capital outlays to purchase or build 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:

Capital outlays	\$ 3,932,064	
Depreciation expense	<u>(1,135,370)</u>	2,796,694

Outlays associated with the issuance of long-term liabilities 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 amortization expense in the Statement of Activities. The amounts of discounts and bond issue costs and amortization expense in the year are as follows:

Bond issue costs	\$ 48,628	
Amortization of discounts and bond issue costs	<u>(44,230)</u>	4,398

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

Current year issues exceeded repayments, as follows:

Issued	\$ (5,810,439)	
Repaid	<u>2,486,458</u>	(3,323,981)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due.

In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. (126,738)

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

Early retirement	\$ 63,833	
Compensated absences	<u>(17,493)</u>	<u>46,340</u>

Change in net assets of governmental activities \$ 3,246,493

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit G

Balance Sheet
Proprietary Funds
June 30, 2007

	School Nutrition	Nonmajor Proprietary	Total
Assets			
Cash and pooled investments	\$ 79,232	168,047	247,279
Accounts receivable	1,560	-	1,560
Due from other governments	3,200	-	3,200
Prepaid expense	2,946	2,816	5,762
Inventories	90,841	-	90,841
Property and equipment - net	<u>106,442</u>	<u>229,390</u>	<u>335,832</u>
 Total assets	 <u>\$ 284,221</u>	 <u>400,253</u>	 <u>684,474</u>
Liabilities & Fund Balances			
Liabilities:			
Accounts payable	\$ 533	7,296	7,829
Excess of warrants over bank balance	-	34,415	34,415
Salaries and benefits payable	40,031	81,450	121,481
Compensated absences	<u>1,296</u>	<u>3,662</u>	<u>4,958</u>
Total liabilities	<u>41,860</u>	<u>126,823</u>	<u>168,683</u>
Net assets:			
Invested in capital assets	106,442	-	106,442
Reserved for inventory	90,841	229,390	320,231
Unreserved	<u>45,078</u>	<u>44,040</u>	<u>89,118</u>
Total net assets	<u>242,361</u>	<u>273,430</u>	<u>515,791</u>
 Total liabilities and net assets	 <u>\$ 284,221</u>	 <u>400,253</u>	 <u>684,474</u>

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit H

Statement of Revenues, Expenses and Changes in Net Assets
 Proprietary Funds
 Year ended June 30, 2007

	<u>School Nutrition</u>	<u>Nonmajor Proprietary</u>	<u>Total</u>
Operating revenue			
Local sources:			
Charges for services	\$ 930,251	644,119	1,574,370
Miscellaneous	<u>-</u>	<u>21,384</u>	<u>21,384</u>
Total operating revenue	<u>930,251</u>	<u>665,503</u>	<u>1,595,754</u>
Operating expenses			
Non-instructional programs			
Food service and child care operations			
Salaries	507,482	418,132	925,614
Benefits	101,349	42,548	143,897
Purchased services	17,314	132,398	149,712
Supplies	643,975	48,662	692,637
Depreciation	<u>13,267</u>	<u>-</u>	<u>13,267</u>
Total operating expenses	<u>1,283,387</u>	<u>641,740</u>	<u>1,925,127</u>
Operating income (loss)	<u>(353,136)</u>	<u>23,763</u>	<u>(329,373)</u>
Non-operating revenue			
State sources	11,171	6,504	17,675
Federal sources	369,600	-	369,600
Transfer to general fund	-	(7,629)	(7,629)
Interest income	<u>3,826</u>	<u>-</u>	<u>3,826</u>
	<u>384,597</u>	<u>(1,125)</u>	<u>383,472</u>
Change in net assets	31,461	22,638	54,099
Net assets, beginning of year	<u>210,900</u>	<u>250,792</u>	<u>461,692</u>
Net assets, end of year	<u>\$ 242,361</u>	<u>273,430</u>	<u>515,791</u>

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2007

	School Nutrition	Nonmajor Proprietary	Total
Cash flows from operating activities			
Cash received from sale of lunches and breakfasts	\$ 929,483	-	929,483
Cash received for child care fees	-	666,883	666,883
Cash payments to employees for services	(603,298)	(455,129)	(1,058,427)
Cash payments to suppliers for goods and services	(616,862)	(180,960)	(797,822)
Net cash provided (used) by operating activities	(290,677)	30,794	(259,883)
Cash flows from non-capital financing activities			
Payback to general fund	-	(7,629)	(7,629)
State grants received	11,171	-	11,171
Federal grants received	307,967	6,504	314,471
Net cash provided (used) by non-capital financing activities	319,138	(1,125)	318,013
Cash flows from capital and related financing activities			
Net change in capital assets	(35,060)	(231,875)	(266,935)
Net cash used by capital and related financing activities	(35,060)	(231,875)	(266,935)
Cash flows from investing activities			
Interest on investments	3,826	-	3,826
Net cash from investing activities	3,826	-	3,826
Net increase (decrease) in cash and cash equivalents	(2,773)	(202,206)	(204,979)
Cash and cash equivalents beginning of year	82,005	335,838	417,843
Cash and cash equivalents end of year	\$ 79,232	133,632	212,864
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (353,136)	23,763	(329,373)
Depreciation expense	13,267	-	13,267
Commodities used	58,433	-	58,433
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Decrease in accounts receivable	(768)	1,380	612
Increase in prepaid expense	(120)	273	153
Increase in inventories	(14,197)	-	(14,197)
Decrease in accounts payable	191	100	291
Increase in salaries and benefits payable	5,653	5,278	10,931
Net cash provided by (used) by operating activities	\$ (290,677)	30,794	(259,883)

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received Federal commodities valued at \$67,267 and consumed Federal commodities of \$58,433 during the year.

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Exhibit J

Statement of Fiduciary Net Assets
 Fiduciary Funds
 June 30, 2007

Assets	Agency
Cash and pooled investments	\$ 6,608
Other receivables	6,465
 Total assets	 \$ 13,073
 Liabilities & Fund Equity	
Liabilities:	
Accounts payable	\$ 12,547
Other payables	526
 Total Liabilities	 \$ 13,073

See notes to financial statements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Indianola Community School District (the "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 Indianola, Iowa, and the predominate agricultural territory in Warren 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 auditing standards generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

B. Basis of Presentation

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

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

B. Basis of Presentation – Continued

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Basis of Presentation – Continued

The Elementary School Bond Issue Capital Projects Fund is used to account for all resources used in the acquisition and construction of a new elementary facility.

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

The District reports the following major proprietary fund:

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund is the following:

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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 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 revenue (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.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Measurement Focus and Basis of Accounting - Continued

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

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

The proprietary 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.

D. Assets, Liabilities and Fund Equity

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

D. Assets, Liabilities and Fund Equity - Continued

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% 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 tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, Liabilities and Fund Equity – Continued

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

Prepaid expenses – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost where historical cost is not available. 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.

Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

D. Assets, Liabilities and Fund Equity – Continued

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets. Bond discounts and premiums, as well as issue costs, are deferred and amortized over the life of the bonds using the effective interest method.

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

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

E. Budgeting 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 instruction, noninstructional programs and other expenditures functions exceeded the amounts budgeted.

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.

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 3,809,346

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

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

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

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

3. IOWA SCHOOL CASH ANTICIPATION PROGRAM

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 semi-annual 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 semi-annual 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. Bankers Trust Co. NA 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
2006-07A	6/28/2006	6/28/2007	\$ 3,110,670	176,196	3,115,000	144,505

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	\$ -	150,000	150,000	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

4. **CAPITAL ASSETS**

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

	Balance Beginning of Year	Increases	Decreases	Balance End Of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 905,000	508,496	-	1,413,496
Construction in progress	36,944	2,444,172	12,144	2,468,972
	<u>941,944</u>	<u>2,952,668</u>	<u>12,144</u>	<u>3,882,468</u>
Capital assets being depreciated:				
Buildings	35,213,013	266,174	-	35,479,187
Improvements other than buildings	2,253,870	48,268	-	2,302,138
Furniture and equipment	4,087,976	701,772	202,854	4,586,894
	<u>41,554,859</u>	<u>1,016,214</u>	<u>202,854</u>	<u>42,368,219</u>
Less accumulated depreciation for:				
Buildings	8,799,499	709,832	-	9,509,331
Improvements other than buildings	223,775	113,042	-	336,817
Furniture and equipment	2,844,082	312,496	178,380	2,978,198
	<u>11,867,356</u>	<u>1,135,370</u>	<u>178,380</u>	<u>12,824,346</u>
Total capital assets being depreciated, net	<u>29,687,503</u>	<u>(119,156)</u>	<u>24,474</u>	<u>29,543,873</u>
Governmental activities capital assets, net	<u>\$ 30,629,447</u>	<u>2,833,512</u>	<u>36,618</u>	<u>33,426,341</u>
Business type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	229,390	-	229,390
Capital assets being depreciated:				
Furniture and equipment	193,425	35,060	-	228,485
Less accumulated depreciation	108,776	13,267	-	122,043
	<u>84,649</u>	<u>21,793</u>	<u>-</u>	<u>106,442</u>
Business-type activities capital assets, net	<u>\$ 84,649</u>	<u>251,183</u>	<u>-</u>	<u>335,832</u>

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

4. CAPITAL ASSETS –Continued

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$ 439,271
Special	75,579
Vocational	30,615
Co-curricular	45,668

Support services:

Student support	45,195
Instructional staff	15,435
General administration	46,932
Building administration	42,804
Operation and maintenance of plant	49,996
Transportation	<u>173,562</u>

965,057

Unallocated depreciation

170,313

Total governmental activities depreciation expense

\$ 1,135,370

Business-type activities:

Food services	<u><u>\$ 13,267</u></u>
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5. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 15,460,000	2,800,000	1,085,000	17,175,000	1,125,000
Discounts	(100,410)	-	(28,410)	(72,000)	-
Capital loan notes	2,040,000	-	650,000	1,390,000	680,000
Revenue Bonds	-	2,940,000	-	2,940,000	-
Premium	-	70,439	-	70,439	-
Revenue bond anticipation notes	740,000	-	740,000	-	-
Street assessments	11,458	-	11,458	-	-
Early retirement	176,324	112,491	176,324	112,491	112,491
Compensated absences	<u>57,519</u>	<u>74,614</u>	<u>57,519</u>	<u>74,614</u>	<u>74,614</u>
Total	<u><u>\$ 18,384,891</u></u>	<u><u>5,997,544</u></u>	<u><u>2,691,891</u></u>	<u><u>21,690,544</u></u>	<u><u>1,992,105</u></u>

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

5. 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	Refunding Bond Issue of April 1, 1998			Bond Issue of January 1, 2002		
	Interest Rates	Interest	Principal	Interest Rates	Interest	Principal
2008	4.60	\$ 163,033	505,000	4.50	\$ 363,509	100,000
2009	4.65	139,802	530,000	4.50	359,009	100,000
2010	4.75	115,158	550,000	4.50	354,509	105,000
2011	4.85	89,032	575,000	4.75	349,784	120,000
2012	4.90	61,145	605,000	4.75	344,084	125,000
2013	5.00	31,500	630,000	5.00	338,146	125,000
2014		-	-	5.00	331,896	100,000
2015		-	-	5.00	326,896	790,000
2016		-	-	5.00	287,396	830,000
2017		-	-	5.05	245,896	865,000
2018		-	-	5.10	202,213	910,000
2019		-	-	5.13	155,804	955,000
2020		-	-	5.20	106,860	1,000,000
2021		-	-	5.20	54,860	1,055,000
2022		-	-		-	-
2023		-	-		-	-
2024		-	-		-	-
		<u>\$ 599,670</u>	<u>3,395,000</u>		<u>\$ 3,820,862</u>	<u>7,180,000</u>

In April 1998 the District issued \$4,350,000 of General Obligation Refunding Bonds to provide resources to purchase state and local government series securities that were placed in an irrevocable trust for the purpose of generating resources to pay all future debt service requirements on \$4,030,000 of refunded debt representing the June 2007 through June 2014 maturities of the bond issue of August 1, 1994. As a result the refunded bonds are considered to be defeased and the liability has been removed from the general long-term debt account group.

In January 2002 the District issued \$7,500,000 of General Obligation Bonds. The proceeds from the bonds were used to renovate the high school building and site.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

5. LONG-TERM LIABILITIES - CONTINUED

Bonds Payable- Continued

Year Ending June 30	Bond Issue of July 1, 2007			Total	
	Interest	Interest	Principal	Interest	Principal
	Rates				
2008		\$ 383,813	-	1,221,910	1,125,000
2009		425,000	-	1,162,971	1,180,000
2010		425,000	-	1,114,027	1,215,000
2011		425,000	-	1,061,896	1,275,000
2012		425,000	-	1,005,109	1,335,000
2013		425,000	-	945,326	1,395,000
2014	4.50	425,000	110,000	881,336	1,055,000
2015	4.50	420,326	200,000	836,422	1,100,000
2016	4.50	411,826	200,000	783,912	1,155,000
2017	4.50	403,326	225,000	728,912	1,205,000
2018	4.50	393,762	240,000	671,065	1,270,000
2019	4.50	383,562	240,000	610,016	1,325,000
2020	4.50	373,362	250,000	545,997	1,400,000
2021	4.50	362,738	265,000	477,673	1,470,000
2022	4.25	351,476	1,000,000	405,851	1,450,000
2023	4.00	308,976	1,060,000	346,026	1,510,000
2024	4.00	263,926	1,075,000	283,426	1,575,000
2025	4.00	218,238	1,645,000	218,238	1,645,000
2026	4.00	148,326	1,710,000	148,326	1,710,000
2027	4.00	75,650	1,780,000	75,650	1,780,000
		<u>\$ 7,049,307</u>	<u>10,000,000</u>	<u>\$ 13,524,089</u>	<u>27,175,000</u>

In September 2002 the District issued \$4,810,000 of General Obligation Refunding Bonds to provide resources to purchase state and local government series securities that were placed in an irrevocable trust for the purpose of generating resources to pay all future debt service requirements on \$4,615,000 of refunded debt representing the June 2006 through June 2014 maturities of the bond issue of March 1, 1995. As a result the refunded bonds are considered to be defeased.

In December 2006 the District issued \$2,800,000 of General Obligation Bonds. In July 2007 the District issued an additional \$10,000,000 of General Obligation Bonds. The proceeds from the bonds were for the purchase of land and to construct and equip a new elementary building.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

5. **LONG-TERM LIABILITIES - CONTINUED**

Capital Loan Notes

Year Ending June 30	Capital Loan Note of April 1, 1999			Capital Loan Note of September 1, 2005		
	Interest Rates	Interest	Principal	Interest Rates	Interest	Principal
2008	4.15	\$ 26,935	310,000	3.15	\$ 23,842	370,000
2009	4.20	<u>14,070</u>	<u>335,000</u>	3.25	<u>12,187</u>	<u>375,000</u>
		<u>\$ 41,005</u>	<u>645,000</u>		<u>\$ 36,029</u>	<u>745,000</u>

Year Ending June 30	Total Capital Loan Notes	
	Interest	Principal
2008	\$ 50,777	680,000
2009	<u>26,257</u>	<u>710,000</u>
	<u>\$ 77,034</u>	<u>1,390,000</u>

In April 1999 the District issued \$2,265,000 General Obligation Capital Loan Notes. Proceeds from the notes were used for repair and renovation of an elementary school building.

In September 2005 the District issued \$1,110,000 General Obligation Capital Loan Notes. Proceeds from the notes were used for high school site improvements.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

5. **LONG-TERM LIABILITIES - Continued**

Revenue Bonds

Year Ending June 30	Revenue Bonds of December 1, 2006		
	Interest Rates	Interest	Principal
2008		\$ 142,946	-
2009	4.50	123,625	370,000
2010	4.50	106,638	385,000
2011	4.50	88,863	405,000
2012	5.00	69,250	420,000
2013	5.00	47,875	435,000
2014	4.00	27,900	455,000
2015	4.00	9,400	470,000
		\$ 616,497	2,940,000

In December 2006 the District issued \$2,940,000 of School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds from the bonds were used to construct and equip a new music addition at the high school.

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. 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 employee is equal to 20% plus 2% for each additional year of continuous service up to a maximum of 40% of the employee's base salary calculated by using the current year regular salary schedule plus up to \$50 per day for unused sick leave days not to exceed 50 days subject to a maximum of \$20,000 per individual. Early retirement benefits awarded during the year ended June 30, 2007, totaled \$119,369.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

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

Transfer to	Transfer from	Amount
General Fund	Home Building	\$ 7,629
Student Activity	General Fund	198
Debt Service	Local Option Sales Tax	1,479,338
	Physical Plant and Equipment Levy	335,823
		1,815,161
Physical Plant and Equipment Levy	Student Activity	3,000
		3,000
		\$ 1,825,988

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 salary and the District is required to contribute 5.75% of annual 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 \$978,340, \$932,620, and \$867,974 respectively, equal to the required contributions for each year.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements - Continued
June 30, 2007

8. **RISK MANAGEMENT**

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$163,029.

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

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 \$992,321 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.

10. **CONSTRUCTION COMMITMENTS**

The District entered into contracts totaling \$14,442,691 for engineering and construction related to a new elementary building, a high school music addition, an athletic field and various roof improvements. At June 30, 2007, \$2,108,611 of the contracts was completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

INDIANOLA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -
Budget to Actual - All Governmental Fund Types and Proprietary Funds
Required Supplementary Information
Year ended June 30, 2007

	<u>Governmental Fund Types Actual</u>	<u>Proprietary Funds Actual</u>
Receipts		
Local sources	\$ 14,918,498	1,599,580
State sources	15,386,976	17,675
Federal sources	495,465	369,600
Total receipts	<u>30,800,939</u>	<u>1,986,855</u>
Disbursements		
Instruction	16,962,729	-
Support services	8,145,003	-
Noninstructional programs	-	1,925,127
Other expenditures	7,690,591	-
Total disbursements	<u>32,798,323</u>	<u>1,925,127</u>
Excess (deficiency) of receipts over (under) disbursements	(1,997,384)	61,728
Other financing sources, net	<u>5,847,164</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,849,780	61,728
Balance, beginning of year	<u>2,645,552</u>	<u>461,692</u>
Balance, end of year	<u>\$ 6,495,332</u>	<u>523,420</u>

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
16,518,078	13,522,405	13,522,405	2,995,673
15,404,651	15,632,838	15,632,838	(228,187)
865,065	555,000	555,000	310,065
<u>32,787,794</u>	<u>29,710,243</u>	<u>29,710,243</u>	<u>3,077,551</u>
16,962,729	16,563,240	16,563,240	(399,489)
8,145,003	8,437,625	8,437,625	292,622
1,925,127	-	-	(1,925,127)
7,690,591	4,063,410	4,063,410	(3,627,181)
<u>34,723,450</u>	<u>29,064,275</u>	<u>29,064,275</u>	<u>(5,659,175)</u>
(1,935,656)	645,968	645,968	(2,581,624)
<u>5,847,164</u>	<u>(1,722,250)</u>	<u>(1,722,250)</u>	<u>7,569,414</u>
3,911,508	(1,076,282)	(1,076,282)	4,987,790
<u>3,107,244</u>	<u>2,396,143</u>	<u>2,396,143</u>	<u>711,101</u>
<u>7,018,752</u>	<u>1,319,861</u>	<u>1,319,861</u>	<u>5,698,891</u>

INDIANOLA COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information – Budgetary Reporting Year ended June 30, 2007

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the generally accepted accounting principles 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 functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007 expenditures in the instruction, noninstructional programs and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet
 Nonmajor Special Revenue Funds
 June 30, 2007

	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 103,926	145,720	-	249,646
Receivables				
Property tax				
Current year delinquent	7,377	-	11,544	18,921
Succeeding year	655,179	-	984,156	1,639,335
Accounts	-	20,132	-	20,132
Due from other governments	-	115	-	115
Prepaid expense	<u>11,514</u>	<u>-</u>	<u>-</u>	<u>11,514</u>
 Total assets	 <u>\$ 777,996</u>	 <u>165,967</u>	 <u>995,700</u>	 <u>1,939,663</u>
LIABILITIES & FUND BALANCES				
Liabilities				
Accounts payable	\$ 1,914	33,117	7,231	42,262
Salaries and benefits payable	-	933	-	933
Excess of warrants over bank balance	-	-	43,294	43,294
Deferred revenue:				
Succeeding year property tax	<u>655,179</u>	<u>-</u>	<u>984,156</u>	<u>1,639,335</u>
Total liabilities	<u>657,093</u>	<u>34,050</u>	<u>1,034,681</u>	<u>1,725,824</u>
Fund balances				
Unreserved fund balances	<u>120,903</u>	<u>131,917</u>	<u>(38,981)</u>	<u>213,839</u>
 Total liabilities and fund balances	 <u>\$ 777,996</u>	 <u>165,967</u>	 <u>995,700</u>	 <u>1,939,663</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
 Nonmajor Special Revenue Funds
 Year ended June 30, 2007

	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$ 617,608	-	956,605	1,574,213
Other	32,436	494,061	16,689	543,186
State sources	<u>441</u>	<u>-</u>	<u>670</u>	<u>1,111</u>
Total revenues	<u>650,485</u>	<u>494,061</u>	<u>973,964</u>	<u>2,118,510</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	469,184	-	-	469,184
Vocational instruction	-	-	-	-
Co-curricular program instruction	-	492,857	-	492,857
Support services:				
Instructional staff support services	-	-	1,411	1,411
Building administration services	33,101			33,101
Operation and maintenance of plant services	105,247	-	113,958	219,205
Transportation services	40,443	-	467,377	507,820
Other expenditures:				
Facilities acquisition and construction	<u>-</u>	<u>-</u>	<u>472,785</u>	<u>472,785</u>
Total expenditures	<u>647,975</u>	<u>492,857</u>	<u>1,055,531</u>	<u>2,196,363</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,510</u>	<u>1,204</u>	<u>(81,567)</u>	<u>(77,853)</u>
Other financing (uses):				
Interfund transfers	<u>-</u>	<u>(2,802)</u>	<u>(332,823)</u>	<u>(335,625)</u>
Net change in fund balances	2,510	(1,598)	(414,390)	(413,478)
Fund balances beginning of year	<u>118,393</u>	<u>133,515</u>	<u>375,409</u>	<u>627,317</u>
Fund balances end of year	<u>\$ 120,903</u>	<u>131,917</u>	<u>(38,981)</u>	<u>213,839</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 3

Combining Balance Sheet
 Nonmajor Proprietary Funds
 June 30, 2007

	Child Care	Home Building	Total
Assets			
Cash and pooled investments	\$ 168,047	-	168,047
Accounts receivable	-	-	-
Prepaid expense	2,816	-	2,816
Inventory	<u>-</u>	<u>229,390</u>	<u>229,390</u>
 Total assets	 <u>\$ 170,863</u>	 <u>229,390</u>	 <u>400,253</u>
Liabilities & Net Assets			
Liabilities:			
Accounts payable	\$ 5,368	1,928	7,296
Excess of warrants over bank balance	-	34,415	34,415
Salaries and benefits payable	81,344	106	81,450
Compensated absences	<u>3,662</u>	<u>-</u>	<u>3,662</u>
Total liabilities	<u>90,374</u>	<u>36,449</u>	<u>126,823</u>
Net assets:			
Reserved for inventory	-	229,390	229,390
Unreserved	<u>80,489</u>	<u>(36,449)</u>	<u>44,040</u>
Total net assets	<u>80,489</u>	<u>192,941</u>	<u>273,430</u>
 Total liabilities and net assets	 <u>\$ 170,863</u>	 <u>229,390</u>	 <u>400,253</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 4

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Proprietary Funds
Year ended June 30, 2007

	Child Care	Home Building	Total
Operating revenue:			
Other local sources:			
Charges for services	\$ 644,119	-	644,119
Miscellaneous	<u>21,384</u>	<u>-</u>	<u>21,384</u>
Total operating revenue	<u>665,503</u>	<u>-</u>	<u>665,503</u>
Operating expenses:			
Non-instructional programs:			
Child care operations			
Salaries	418,132	-	418,132
Benefits	42,548	-	42,548
Purchased services	132,398	-	132,398
Supplies	<u>48,662</u>	<u>-</u>	<u>48,662</u>
Total operating expenses	<u>641,740</u>	<u>-</u>	<u>641,740</u>
Operating income	<u>23,763</u>	<u>-</u>	<u>23,763</u>
Non-operating revenues (expenses):			
Transfer from general fund	-	(7,629)	(7,629)
Federal sources	<u>6,504</u>	<u>-</u>	<u>6,504</u>
Change in net assets	30,267	(7,629)	22,638
Net assets, beginning of year	<u>50,222</u>	<u>200,570</u>	<u>250,792</u>
Net assets, end of year	<u>\$ 80,489</u>	<u>192,941</u>	<u>273,430</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 5

Combining Schedule of Cash Flows
 Nonmajor Proprietary Funds
 Year ended June 30, 2007

	Child Care	Home Building	Total
Cash flows from operating activities:			
Cash received for child care fees	\$ 666,883	-	666,883
Cash received for sale of property	-	-	-
Cash payments to employees for services	(455,129)	-	(455,129)
Cash payments to suppliers for goods and services	(180,960)	-	(180,960)
Net cash provided by operating activities	<u>30,794</u>	<u>-</u>	<u>30,794</u>
Cash flows from non-capital financing activities:			
Payback to general fund	-	(7,629)	(7,629)
Federal grants received	6,504	-	6,504
Net cash provided by (used in) non-capital financing activities	<u>6,504</u>	<u>(7,629)</u>	<u>(1,125)</u>
Cash flows from capital and related financing activities			
Net change in capital assets	<u>-</u>	<u>(231,875)</u>	<u>(231,875)</u>
Net increase in cash and cash equivalents	37,298	(239,504)	(202,206)
Cash and cash equivalents, beginning of year	<u>130,749</u>	<u>205,089</u>	<u>335,838</u>
Cash and cash equivalents, end of year	<u>\$ 168,047</u>	<u>(34,415)</u>	<u>133,632</u>
Reconciliation of operating loss to net cash used in operating activities:			
Operating income (loss)	\$ 23,763	-	23,763
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Increase in accounts receivable	1,380	-	1,380
Increase in prepaid expense	273	-	273
Decrease in accounts payable	100	-	100
Increase in salaries and benefits payable	5,278	-	5,278
Net cash provided by (used in) operating activities	<u>\$ 30,794</u>	<u>-</u>	<u>30,794</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 6

Schedule of Changes in Individual
Student Activity Accounts
Year ended June 30, 2007

Account	Balance Beginning of Year	Receipts and Transfers In	Disbursements and Transfers Out	Intrafund Transfer	Balance End of Year
Income on investments	\$ 13	33	-	-	46
High School Drama	3,371	11,041	9,987	-	4,425
Middle School Drama	1,036	1,322	1,042	-	1,316
High School Show Choir	10,310	2,863	3,272	150	10,051
High School Chorus	5,044	9,468	6,266	-	8,246
Middle School Swing Choir	108	2,232	2,163	-	177
High School JV Show Choir	4,720	11,819	10,030	-	6,509
High School Instrumental Music	193	9,761	9,792	-	162
High School Orchestra	2,649	1,932	2,569	-	2,012
High School Athletics	20,108	216,345	234,822	(400)	1,231
Middle School Athletics	8,744	18,786	21,392	-	6,138
Middle School Yearbook	2,416	9,792	8,838	-	3,370
Middle School Student Council	1,568	4,151	3,568	-	2,151
High School Student Council	377	6,384	6,214	1,500	2,047
High School Debate	11	7,185	6,683	1,399	1,912
High School Cheerleaders	3,783	13,775	14,172	-	3,386
High School Drill Team	296	15,982	15,415	-	863
Future Farmers of America	5,373	25,688	23,184	-	7,877
Future Homemakers of America	365	70	368	-	67
High School Art Club	1,468	2,454	3,055	-	867
High School Auditorium Club	332	2,415	1,146	-	1,601
FFA Steer Show	2,097	3,056	3,058	-	2,095
High School National Honor Society	493	1,568	1,330	-	731
Middle School Builders Club	193	-	-	-	193
High School Art Club Beverage	156	487	406	-	237
High School Multi-Occu. Career Club	50	-	-	-	50
Senior Class Athletic Boosters	309	1,367	1,085	-	591
Middle School Vending Account	712	550	921	-	341
Middle School Account	10,095	28,692	24,421	-	14,366
Whittier School Account	985	6,634	5,024	-	2,595
Adult Education	2,920	-	-	-	2,920
Learning Center	6,623	487	201	-	6,909
FFA Greenhouse	473	229	130	-	572
Emerson Sunshine Account	214	60	110	-	164
Emerson Pop Fund	1,210	462	-	-	1,672

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 6
(Continued)

Schedule of Changes in Individual
Student Activity Accounts
Year ended June 30, 2007

Account	Beginning of Year	and Transfers In	and Transfers Out	Intrafund Transfer	End of Year
Emerson Library/Media	1,589	6,578	5,645	-	2,522
Emerson General Account	4,033	3,096	4,629	-	2,500
Class of 2007	2,115	440	-	(2,555)	-
Class of 2008	-	22,762	17,624	-	5,138
Class of 2009	-	248	-	-	248
High School Foreign Language	325	7,800	8,125	-	-
Emerson Mini Olympics	55	-	-	-	55
High School Peer Helpers	240	-	240	-	-
Middle School Book Fair	360	2,506	2,816	-	50
High School Administrative	22,721	33,419	35,887	(94)	20,159
High School Best Buddies	85	560	467	-	178
Middle School Special Projects	3,177	-	-	-	3,177
 Total	 <u>\$ 133,515</u>	 <u>494,499</u>	 <u>496,097</u>	 <u>-</u>	 <u>131,917</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 7

Statement of Changes in Fiduciary Assets and Liabilities
 Agency Funds
 Year ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 21,680	(5,939)	9,133	6,608
Other receivables	<u>-</u>	<u>6,465</u>	<u>-</u>	<u>6,465</u>
 Total assets	 <u>\$ 21,680</u>	 <u>526</u>	 <u>9,133</u>	 <u>13,073</u>
Liabilities				
Liabilities:				
Accounts payable	\$ 528	12,547	528	12,547
Other payables	<u>21,152</u>	<u>526</u>	<u>21,152</u>	<u>526</u>
 Total Liabilities	 <u><u>\$ 21,680</u></u>	 <u><u>13,073</u></u>	 <u><u>21,680</u></u>	 <u><u>13,073</u></u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 8

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

	Modified Accrual Basis			
	Years ended June 30,			
	2007	2006	2005	2004
Revenues				
Local sources:				
Local tax	\$ 12,508,329	11,556,719	11,155,297	9,453,400
Tuition	913,613	931,222	826,287	779,808
Other	1,496,556	1,146,837	865,680	909,707
State sources	15,386,976	14,155,617	13,333,031	12,856,297
Federal sources	<u>495,465</u>	<u>551,291</u>	<u>588,488</u>	<u>739,403</u>
Total revenues	<u>\$ 30,800,939</u>	<u>28,341,686</u>	<u>26,768,783</u>	<u>24,738,615</u>
Expenditures				
Instruction:				
Regular instruction	\$ 11,116,935	10,032,807	9,463,862	9,350,313
Special education instruction	2,837,181	3,003,149	3,832,301	3,527,195
Vocational instruction	623,506	554,621	519,396	545,547
Other instruction	694,564	789,122	-	-
Co-curricular instruction	1,690,543	1,588,161	1,144,129	873,111
Support services:				
Student support services	927,896	856,960	766,361	748,148
Instructional staff support services	854,681	712,607	1,029,274	1,074,293
General administration services	328,704	359,662	953,932	258,592
Building administration services	1,401,617	1,301,947	1,225,589	1,301,109
Operation and maintenance of plant services	2,564,729	2,641,965	2,438,104	2,416,306
Transportation services	1,413,983	1,157,978	1,131,558	766,648
Central services	653,393	585,305	-	498,009
Community service and education operations	-	-	-	5,000
Other expenditures:				
Non-instructional programs	-	34,770	23,035	-
Facilities acquisition and construction	3,405,635	2,083,922	1,247,877	3,277,738
Long-term debt:				
Principal	2,486,458	2,041,464	1,161,464	1,091,464
Interest and fiscal charges	806,177	879,809	981,063	1,017,459
AEA flowthrough	<u>992,321</u>	<u>905,900</u>	<u>859,417</u>	<u>848,257</u>
Total expenditures	<u>\$ 32,798,323</u>	<u>29,530,149</u>	<u>26,777,362</u>	<u>27,599,189</u>

See accompanying independent auditor's report.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule 9

Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

Grantor/Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution Program (non-cash)	10.550	FY06	\$ <u>67,267</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY06	32,172
National School Lunch Program	10.555	FY06	236,658
Fruit and Vegetable Pilot Program	10.556	FY06	29,772
Special Milk Program	10.556	FY06	<u>3,731</u>
			<u>302,333</u>
Child and Adult Care Food Program	10.558	FY06	<u>-</u>
			<u>369,600</u>
U.S. Department of Education:			
Iowa Department of Education:			
Grants to Local Educational Agencies (Title I)	84.010	FY06	188,396
Federal Teacher Quality Program (Title II)	84.349	FY06	84,647
Safe and Drug Free Schools and			
Communities - State Grants	84.186	FY06	8,654
Innovative Education Program Strategies (Title V)	84.298	FY06	3,782
Grants for State Assessments and			
Related Activities (Title VI)	84.369	FY06	22,568
Vocational Education - Basic Grants to States	84.048A	FY06	26,372
Heartland Area Education Agency:			
Special Education - Grants to States (Individuals with Disabilities Education Act, Part B)	84.027		<u>160,946</u>
			<u>495,365</u>
			<u>\$ 864,965</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Indianola Community School District and is presented in conformity with 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 the
Indianola 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 Indianola 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 December 12, 2007. 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 the Indianola Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Indianola Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Indianola 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 internal control over financial reporting that might be significant deficiencies or 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 the Indianola Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles of the United States of America such that there is more than a remote likelihood a misstatement of the Indianola Community School District's financial statements that is more than inconsequential will not be prevented or detected by the Indianola Community School District's internal control.

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 the Indianola 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 considered that are also considered to be material weaknesses. We did not identify any deficiencies in internal control that we consider to be significant deficiencies or material weaknesses in internal control over financial reporting.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the 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.

The Indianola 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 the Indianola 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 the Indianola Community School District and other parties to whom the Indianola 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 the Indianola 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.

December 12, 2007

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 the
Indianola Community School District

Compliance

We have audited the compliance of the Indianola Community School District with the types of compliance requirements described in the 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. Indianola 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 the District's management. Our responsibility is to express an opinion on the 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 Indianola Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion Indianola 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 Indianola Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the 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 Indianola Community School District's internal control over compliance.

Our consideration of the 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.

A control deficiency in the 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 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.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

We noted no matters involving the internal control over compliance and its operation that we consider to be significant deficiencies or material weaknesses.

The Indianola 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 the Indianola 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 the Indianola Community School District and other parties to whom the 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.

December 12, 2007

INDIANOLA 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) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (C) The audit did not disclose any noncompliance which is material to the financial statements.
- (D) The audit did not disclose any reportable conditions in internal control over major programs.
- (E) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (F) The audit did not disclose any audit findings which were 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 84.010 - Title I Grants to Local Education Agencies
 - CFDA Number 10.550 – Food Distribution Program
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - CFDA Number 10.556 – Special Milk Program for Children
- (H) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

Part II: Findings Related to the Financial Statements:

None

Part III: Findings and Questioned Costs for Federal Awards:

None

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting - Continued:

07-IV-A Certified Budget – Expenditures for the year ended June 30, 2007 exceeded the amended certified budget amounts in the instruction, noninstructional programs and other expenditures functions.

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

Response – Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion – Response accepted.

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

07-IV-C 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.

07-IV-D Business Transactions - No business transactions between the District and District officials or employees were noted.

07-IV-E Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

07-IV-F Board Minutes - No transactions were found that we believe should have been approved in the Board minutes but were not.

Certain minutes were not published timely as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The Board Secretary should furnish a copy of the Board proceedings to be published within two weeks of each meeting.

Response – Procedures will be revised to ensure the minutes are published as required.

Conclusion – Response accepted.

INDIANOLA COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs (Continued)
Year ended June 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting - Continued:

- 07-IV-G Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- 07-IV-H Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 07-IV-I Certified Annual Report - The Certified Annual Report was certified timely to the Iowa Department of Education.
- 07-IV-J Revenue Bonds – The District has not deposited collections of the local option sales and services tax in the Revenue Fund as required by the revenue bond resolution. In addition, the District has not accounted for the Sinking Fund as a debt service fund as required by the Iowa Department of Education.

Recommendation – The District should deposit local option sales and services tax collections in the Revenue Fund as required by the bond resolution and should record the activity of the Sinking Fund in the debt service fund as required by the Iowa Department of Education.

Response – We have revised our procedures to deposit collections of the local option sales and services tax in the Revenue Fund as required and our accounting for the Sinking Fund as required.

Conclusion – Response accepted.