

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2010

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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Interstate 35 Community School District in Truro, Iowa.

The District revenues totaled \$9,642,458 for the year ended June 30, 2010, a 4.63 percent decrease over the prior year. Revenues included local taxes of \$3,713,350, charges for service of \$1,036,512, operating grants, contributions and restricted interest of \$2,015,578, unrestricted state grants of \$2,776,519, unrestricted interest of \$19,511, and other general revenues of \$80,988.

District expenditures for the year totaled \$9,679,076, a decrease of 0.32 percent over the prior year. Expenses included \$3,375,260 for regular instruction, \$1,031,015 for other instruction and \$996,784 for administration.

A copy of the audit report is available for review in the District Secretary's Office, in the Office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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Interstate 35 Community School District

<u>Name</u>	<u>Officials Title</u>	<u>Expires</u>
Board of Education (Before September 2009 Election)		
Leah Gray	President	2011
Julie Brownlee	Vice President	2011
Bruce McCuddin	Board Member	2009
Bret Smith	Board Member (Resigned)	2009
Bryan Arzani	Board Member (Appointed)	2009
Ken Stanley	Board Member	2011
Board of Education (After September 2009 Election)		
Leah Gray	President	2011
Julie Brownlee	Vice President	2011
Dan Kirkpatrick	Board Member	2013
Bryan Arzani	Board Member	2013
Ken Stanley	Board Member	2011
School Officials		
Bill Maske	Superintendent (Resigned January 2010)	2010
Dr. Randall McCaulley	Superintendent (Appointed January 2010)	2010
Lisa Brown	Board Secretary/ Business Manager	2010
Ahlers & Cooney, P.C.	Attorney	2010

Interstate 35 Community School District

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District, Truro, Iowa, as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 17, 2011 on our consideration of the Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 48 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Interstate 35 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 six years ended June 30, 2010 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by the United States 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.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$7,957,040 in fiscal 2009 to \$7,334,184 in fiscal 2010, while General Fund expenditures decreased from \$7,904,380 in fiscal 2009 to \$7,628,843 in fiscal 2010. This resulted in a decrease in the District's General Fund balance from \$1,608,705 in fiscal 2009 to a balance of \$1,313,416 in fiscal 2010.
- The decrease in General Fund revenues was attributable to a decrease in the funding received from the state due to the 10% across the board budget cut. The decrease in expenditures can be attributed to the decrease in expenditures in the instructional function.
- The District's solvency ratio (unreserved-undesignated fund balance/general fund revenues) decreased from 19.49% for fiscal year 2009 to 16.78% for fiscal year 2010. The State School Budget Review Committee recommends a solvency ratio between 5% and 10%.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Interstate 35 Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Interstate 35 Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Interstate 35 Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

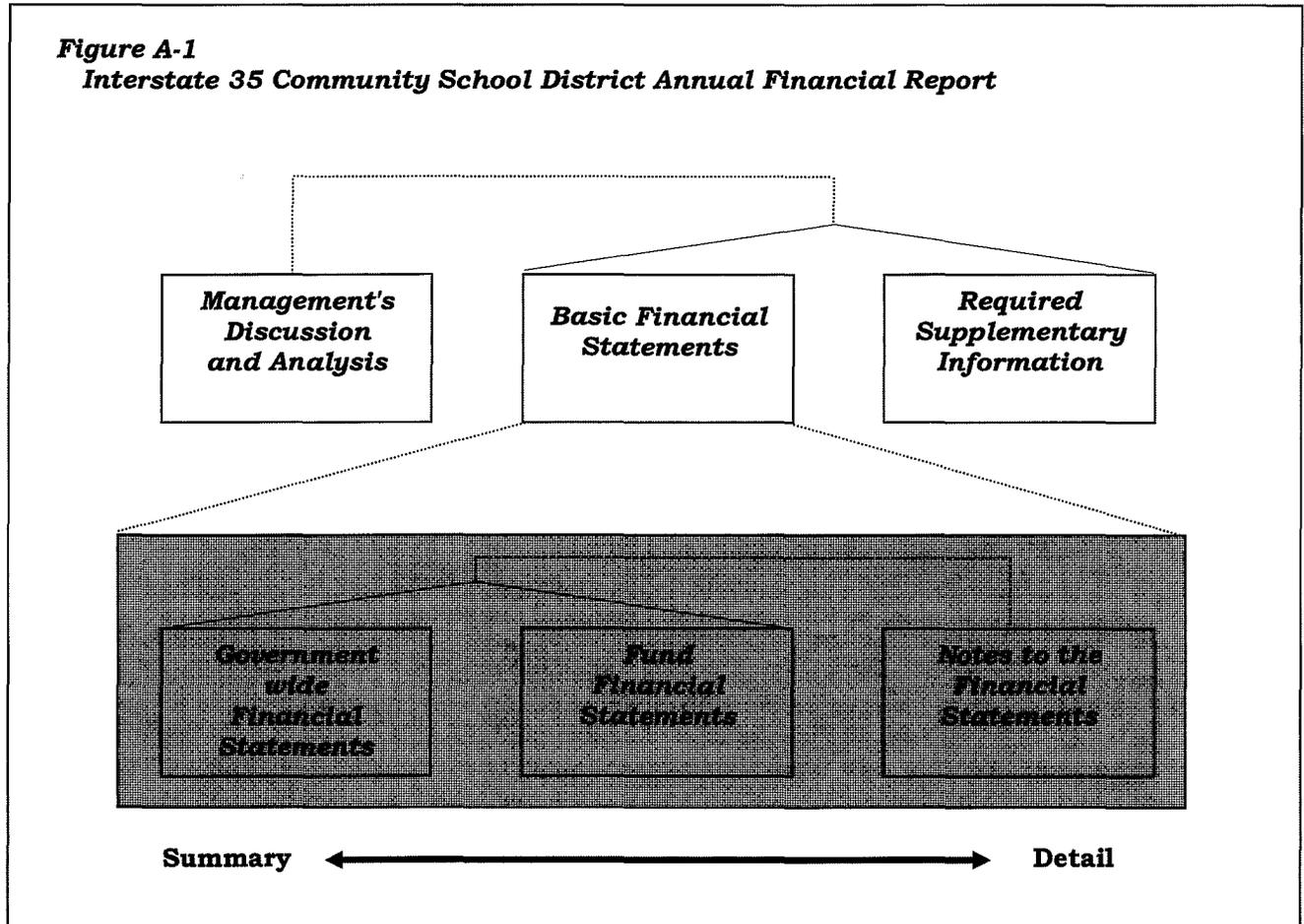


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2010 compared to June 30, 2009.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Current and other assets	\$ 6,712,162	8,666,428	19,973	37,547	6,732,135	8,703,975	-22.65%
Capital assets	12,453,464	12,170,656	49,583	70,985	12,503,047	12,241,641	2.14%
Total assets	19,165,626	20,837,084	69,556	108,532	19,235,182	20,945,616	-8.17%
Long-term liabilities	6,032,330	6,648,445	9,129	0	6,041,459	6,648,445	-9.13%
Other liabilities	4,302,043	5,367,663	21,798	23,008	4,323,841	5,390,671	-19.79%
Total liabilities	10,334,373	12,016,108	30,927	23,008	10,365,300	12,039,116	-13.90%
Net assets:							
Invested in capital assets, net of related debt	6,638,464	6,017,762	49,583	70,985	6,688,047	6,088,747	9.84%
Restricted	1,148,713	1,332,060	0	0	1,148,713	1,332,060	-13.76%
Unrestricted	1,044,076	1,471,154	(10,954)	14,539	1,033,122	1,485,693	-30.46%
Total net assets	\$ 8,831,253	8,820,976	38,629	85,524	8,869,882	8,906,500	-0.41%

The District's combined net assets decreased by 0.41%, or \$36,618, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$183,347, or 13.76% from the prior year. The increase in restricted net assets is primarily due to the decrease in fund balances of the Capital Projects Fund and the Management Levy Fund.

Unrestricted net assets – are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$452,571, or 30.46%. This decrease in unrestricted net assets was primarily a result of the decrease in fund balance of the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2010	2009	2010	2009	2010	2009	2009-10
Revenues & Transfers:							
Program revenues:							
Charges for services	\$ 708,656	728,505	327,856	276,886	1,036,512	1,005,391	3.10%
Operating grants and contributions and restricted interest	1,849,625	1,425,701	165,953	135,789	2,015,578	1,561,490	29.08%
General revenues:							
Property tax	3,198,655	3,169,661	0	0	3,198,655	3,169,661	0.91%
Statewide sales, services and use tax	514,695	459,815	0	0	514,695	459,815	11.94%
Unrestricted state grants	2,776,519	3,743,784	0	0	2,776,519	3,743,784	-25.84%
Unrestricted investment earnings	19,468	76,253	43	224	19,511	76,477	-74.49%
Other	80,988	93,975	0	0	80,988	93,975	-13.82%
Transfers	(6,974)	0	6,974	0	0	0	0.00%
Total revenues & transfers	<u>9,141,632</u>	<u>9,697,694</u>	<u>500,826</u>	<u>412,899</u>	<u>9,642,458</u>	<u>10,110,593</u>	<u>-4.63%</u>
Program expenses:							
Governmental activities:							
Instructional	5,392,143	5,721,646	0	0	5,392,143	5,721,646	-5.76%
Support services	2,715,089	2,525,109	35,162	38,452	2,750,251	2,563,561	7.28%
Non-instructional programs	0	0	512,559	441,636	512,559	441,636	16.06%
Other expenditures	1,024,123	983,542	0	0	1,024,123	983,542	4.13%
Total expenses	<u>9,131,355</u>	<u>9,230,297</u>	<u>547,721</u>	<u>480,088</u>	<u>9,679,076</u>	<u>9,710,385</u>	<u>-0.32%</u>
Changes in net assets	10,277	467,397	(46,895)	(67,189)	(36,618)	400,208	-109.15%
Beginning net assets	<u>8,820,976</u>	<u>8,353,579</u>	<u>85,524</u>	<u>152,713</u>	<u>8,906,500</u>	<u>8,506,292</u>	<u>4.70%</u>
Ending net assets	<u>\$ 8,831,253</u>	<u>8,820,976</u>	<u>38,629</u>	<u>85,524</u>	<u>8,869,882</u>	<u>8,906,500</u>	<u>-0.41%</u>

Property tax, statewide sales, services and use tax, and unrestricted state grants account for 70.99% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 98.60% of the revenue from business type activities.

The District's total revenues were approximately \$9.64 million of which \$9.14 million was for governmental activities and \$0.50 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.63% decrease in revenues and a 0.32% decrease in expenses. The decrease in revenues can be attributed to the 10% across the board cut in funding received from the state. The decrease in expenses is attributable to a decrease in expenses relating to the instructional function.

Governmental Activities

Revenues for governmental activities were \$9,141,632 and expenses were \$9,131,355 for the year ended June 30, 2010.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses, for the year ended June 30, 2010 compared to the year ended June 30, 2009.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2010	2009	Change	2010	2009	Change
			2009-10			2009-10
Instruction	\$ 5,392,143	5,721,646	-5.76%	3,166,105	3,877,471	-18.35%
Support services	2,715,089	2,525,109	7.52%	2,714,759	2,524,914	7.52%
Other expenses	1,024,123	983,542	4.13%	692,210	673,706	2.75%
Totals	<u>\$ 9,131,355</u>	<u>9,230,297</u>	<u>-1.07%</u>	<u>6,573,074</u>	<u>7,076,091</u>	<u>-7.11%</u>

For the year ended June 30, 2010:

- The cost financed by users of the District's programs was \$708,656.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,849,625.
- The net cost of governmental activities was financed with \$3,198,655 in property tax, \$514,695 in statewide sales, services and use tax, \$2,776,519 in unrestricted state grants, \$19,468 in interest income, and other general revenues of \$80,988.

Business-Type Activities

Revenues of the District's business type activities were \$500,826 and expenses were \$547,721. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Interstate 35 Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,460,947, below last year's ending fund balances of \$3,363,597. The main reason for the decline in combined fund balances can be attributed to the decline in fund balance for the Capital Projects Fund and the Management Levy Fund.

Governmental Fund Highlights

- The District's declining General Fund financial position from \$1,608,075 to a balance of \$1,313,416 is the product of many factors. Fund revenues decreased mainly as a result of the 10% across the board budget cut by the state during the year. The decrease in expenditures was mainly a reduction in expenditures in the instructional function. Fund revenues decreased \$622,856 and expenses decreased \$275,537 as compared to the previous year. As a result, this ensured the decline in General Fund carryover balance.
- The District's Capital Projects Fund decreased to \$394,559 at June 30, 2010 as compared to \$924,164 at June 30, 2009. The decrease in the Capital Projects fund balance is due to the completion of construction projects that were ongoing the past couple of years.
- The Debt Service Fund increased from a balance of \$444,883 at June 30, 2009 to a balance of \$462,229 at June 30, 2010, representing a 3.90% increase.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$85,524 at June 30, 2009 to \$54,643 at June 30, 2010, representing a decrease of 36.11%. Part of the decline in fund balance for the Nutrition Fund can be attributed to the implementation of GASB 45(Other Postemployment Benefits).

The Roadrunner Childcare Center Fund was new to the District for the year ended June 30, 2010. Revenues were \$58,205 and expenditures were \$74,219 leaving an ending fund balance of a deficit \$16,014.

BUDGETARY HIGHLIGHTS

The District's revenues were \$993,843 less than budgeted revenues, a variance of 9.34%. The most significant variance other than intermediate sources resulted from the District receiving less in state source revenues than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had invested \$12,503,047, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents an increase of 2.14% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$546,083.

The original cost of the District's capital assets was \$18,994,243. Governmental funds account for \$18,633,158 with the remainder of \$361,085 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$2,795,198 at June 30, 2009, compared to \$0, reported at June 30, 2010. The decrease was a result of completion of district construction projects.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
Land	\$ 600,734	600,734	0	0	600,734	600,734	0.00%
Construction in progress	0	2,795,198	0	0	0	2,795,198	-100.00%
Buildings	10,706,073	8,182,214	0	0	10,706,073	8,182,214	30.85%
Land improvements	563,069	189,326	0	0	563,069	189,326	197.41%
Machinery and equipment	583,588	403,184	49,583	70,985	633,171	474,169	33.53%
Total	\$ 12,453,464	12,170,656	49,583	70,985	12,503,047	12,241,641	2.14%

Long-Term Debt

At June 30, 2010, the District had \$6,041,459 in total long-term debt outstanding. This represents a decrease of 9.13% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$3,135,000 at June 30, 2010.

The District had \$1,150,000 outstanding in Revenue Bonds payable at June 30, 2010.

The District had \$1,530,000 outstanding in Capital Loan Notes payable at June 30, 2010.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Fund of \$81,755 at June 30, 2010.

The District had total outstanding Compensated Absences payable from the General Fund of \$2,704 at June 30, 2010.

Due to the implementation of GASB 45, the District has a net OPEB liability of \$142,000 at June 30, 2010.

Figure A-7

	Outstanding Long-Term Obligations						
	Governmental Activities		Business Type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2010	2009	2010	2009	2010	2009	2009-10
General Obligation Bonds	\$ 3,135,000	3,545,000	0	0	3,135,000	3,545,000	-11.57%
Revenue Bonds	1,150,000	1,345,000	0	0	1,150,000	1,345,000	-14.50%
Capital Loan Notes	1,530,000	1,695,000	0	0	1,530,000	1,695,000	-9.73%
Early Retirement	81,755	48,621	0	0	81,755	48,621	68.15%
Compensated Absences	2,704	14,824	0	0	2,704	14,824	-81.76%
Net OPEB Liability	132,871	0	9,129	0	142,000	0	100.00%
Total	\$ 6,032,330	6,648,445	9,129	0	6,041,459	6,648,445	-9.13%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years has an impact on the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- The IPERS employers' contribution increase to 6.95% on July 1, 2010 will increase the Interstate 35 Community Schools employer benefit costs over the following year.
- The District will need to stay abreast of political and economic data as a new governor takes office and the economy continues to waiver. Both of these factors will have an impact on future state aid payments, as well as statewide sales, services and use tax proceeds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jennifer Jamison, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments	\$ 2,713,632	6,797	2,720,429
Receivables:			
Local tax:			
Delinquent	57,360	0	57,360
Succeeding year	3,402,734	0	3,402,734
Accounts	1,099	634	1,733
Due from other governments	441,475	1,546	443,021
Inventories	0	10,996	10,996
Prepaid items	95,862	0	95,862
Capital assets, net of accumulated depreciation	12,453,464	49,583	12,503,047
TOTAL ASSETS	19,165,626	69,556	19,235,182
LIABILITIES			
Accounts payable	148,125	28	148,153
Retainage payable	19,036	0	19,036
Salaries and benefits payable	663,095	13,385	676,480
Interest payable	50,828	0	50,828
Deferred revenue:			
Succeeding year property tax	3,402,734	0	3,402,734
Other	18,225	0	18,225
Unearned revenue	0	8,385	8,385
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	425,000	0	425,000
Revenue bonds	210,000	0	210,000
Capital loan notes	170,000	0	170,000
Early retirement	23,943	0	23,943
Compensated absences	2,704	0	2,704
Portion due after one year:			
General obligation bonds	2,710,000	0	2,710,000
Revenue bonds	940,000	0	940,000
Capital loan notes	1,360,000	0	1,360,000
Early retirement	57,812	0	57,812
Net OPEB liability	132,871	9,129	142,000
TOTAL LIABILITIES	10,334,373	30,927	10,365,300
NET ASSETS			
Invested in capital assets, net of related debt	6,638,464	49,583	6,688,047
Restricted for:			
Categorical funding	82,937	0	82,937
Management levy	94,595	0	94,595
Physical plant and equipment levy	17,979	0	17,979
Capital projects	394,559	0	394,559
Debt service	462,229	0	462,229
Other special revenue purposes	96,414	0	96,414
Unrestricted	1,044,076	(10,954)	1,033,122
TOTAL NET ASSETS	\$ 8,831,253	38,629	8,869,882

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Contributions and Restricted Interest	Govern- mental Activities	Business Type Activities	Total
Functions/Programs:						
Governmental activities:						
Instruction:						
Regular	\$ 3,375,260	360,554	836,371	(2,178,335)	0	(2,178,335)
Special	985,868	81,748	226,828	(677,292)	0	(677,292)
Other	1,031,015	266,354	454,183	(310,478)	0	(310,478)
	<u>5,392,143</u>	<u>708,656</u>	<u>1,517,382</u>	<u>(3,166,105)</u>	<u>0</u>	<u>(3,166,105)</u>
Support services:						
Student	170,015	0	0	(170,015)	0	(170,015)
Instructional staff	292,397	0	0	(292,397)	0	(292,397)
Administration	961,622	0	0	(961,622)	0	(961,622)
Operation and maintenance of plant	663,987	0	0	(663,987)	0	(663,987)
Transportation	627,068	0	330	(626,738)	0	(626,738)
	<u>2,715,089</u>	<u>0</u>	<u>330</u>	<u>(2,714,759)</u>	<u>0</u>	<u>(2,714,759)</u>
Other expenditures:						
Facilities and acquisitions	124,845	0	0	(124,845)	0	(124,845)
Long-term debt interest	228,149	0	0	(228,149)	0	(228,149)
AEA flowthrough	331,913	0	331,913	0	0	0
Depreciation(unallocated)*	339,216	0	0	(339,216)	0	(339,216)
	<u>1,024,123</u>	<u>0</u>	<u>331,913</u>	<u>(692,210)</u>	<u>0</u>	<u>(692,210)</u>
Total governmental activities	9,131,355	708,656	1,849,625	(6,573,074)	0	(6,573,074)
Business Type activities:						
Support services:						
Administration	35,162	0	0	0	(35,162)	(35,162)
Non-instructional programs:						
Nutrition services	438,340	269,651	165,953	0	(2,736)	(2,736)
Daycare	74,219	58,205	0	0	(16,014)	(16,014)
	<u>512,559</u>	<u>327,856</u>	<u>165,953</u>	<u>0</u>	<u>(18,750)</u>	<u>(18,750)</u>
Total business type activities	547,721	327,856	165,953	0	(53,912)	(53,912)
Total	\$ 9,679,076	1,036,512	2,015,578	(6,573,074)	(53,912)	(6,626,986)
General Revenues & Transfers:						
Local tax for:						
General purposes				\$ 2,357,381	0	2,357,381
Debt service				541,812	0	541,812
Capital outlay				299,462	0	299,462
Statewide sales, services and use tax				514,695	0	514,695
Unrestricted state grants				2,776,519	0	2,776,519
Unrestricted investment earnings				19,468	43	19,511
Other				80,988	0	80,988
Transfers				(6,974)	6,974	0
Total general revenues & transfers				<u>6,583,351</u>	<u>7,017</u>	<u>6,590,368</u>
Change in net assets				10,277	(46,895)	(36,618)
Net assets beginning of year				<u>8,820,976</u>	<u>85,524</u>	<u>8,906,500</u>
Net assets end of year				<u>\$ 8,831,253</u>	<u>38,629</u>	<u>8,869,882</u>

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	General	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 1,945,942	452,513	315,177	2,713,632
Receivables:				
Local tax:				
Delinquent	38,698	9,716	8,946	57,360
Succeeding year	2,346,381	547,991	508,362	3,402,734
Accounts	78	0	1,021	1,099
Due from other governments	146,955	0	294,520	441,475
Prepaid items	0	0	95,862	95,862
TOTAL ASSETS	\$ 4,478,054	1,010,220	1,223,888	6,712,162
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 136,937	0	11,188	148,125
Retainage payable	0	0	19,036	19,036
Salaries and benefits payable	663,095	0	0	663,095
Deferred revenue:				
Succeeding year property tax	2,346,381	547,991	508,362	3,402,734
Other	18,225	0	0	18,225
Total liabilities	3,164,638	547,991	538,586	4,251,215
Fund balances:				
Reserved for:				
Debt service	0	462,229	0	462,229
Categorical funding	82,937	0	0	82,937
Unreserved	1,230,479	0	685,302	1,915,781
Total fund balances	1,313,416	462,229	685,302	2,460,947
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,478,054	1,010,220	1,223,888	6,712,162

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances of governmental funds (page 20) \$ 2,460,947

***Amounts reported for governmental activities in the
 Statement of Net Assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 12,453,464

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. (50,828)

Long-term liabilities, including general obligation bonds payable, revenue bonds payable, captial loan notes payable, early retirement payable, compensated absences payable, and other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the governmental funds. (6,032,330)

Net assets of governmental activities (page 18) \$ 8,831,253

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010

	General	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,157,978	541,812	1,013,560	3,713,350
Tuition	409,448	0	0	409,448
Other	141,854	7,366	256,771	405,991
Intermediate sources	1,995	0	0	1,995
State sources	3,988,719	377	348	3,989,444
Federal sources	628,378	0	0	628,378
Total revenues	<u>7,328,372</u>	<u>549,555</u>	<u>1,270,679</u>	<u>9,148,606</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,230,536	0	118,372	3,348,908
Special	967,625	0	0	967,625
Other	770,840	0	240,486	1,011,326
	<u>4,969,001</u>	<u>0</u>	<u>358,858</u>	<u>5,327,859</u>
Support services:				
Student	162,388	0	4,360	166,748
Instructional staff	290,268	0	28,383	318,651
Administration	807,732	0	160,402	968,134
Operation and maintenance of plant	548,102	0	109,480	657,582
Transportation	519,439	0	195,904	715,343
	<u>2,327,929</u>	<u>0</u>	<u>498,529</u>	<u>2,826,458</u>
Other expenditures:				
Facilities acquisitions	0	0	558,685	558,685
Long-term debt:				
Principal	0	770,000	0	770,000
Interest	0	242,153	0	242,153
AEA flowthrough	331,913	0	0	331,913
	<u>331,913</u>	<u>1,012,153</u>	<u>558,685</u>	<u>1,902,751</u>
Total expenditures	<u>7,628,843</u>	<u>1,012,153</u>	<u>1,416,072</u>	<u>10,057,068</u>
Deficiency of revenues under expenditures	(300,471)	(462,598)	(145,393)	(908,462)
Other financing sources(uses):				
Transfers in	0	479,944	108,499	588,443
Transfers out	0	0	(588,443)	(588,443)
Sale of equipment	5,812	0	0	5,812
Total other financing sources(uses)	<u>5,812</u>	<u>479,944</u>	<u>(479,944)</u>	<u>5,812</u>
Net change in fund balance	(294,659)	17,346	(625,337)	(902,650)
Fund balance beginning of year	1,608,075	444,883	1,310,639	3,363,597
Fund balance end of year	<u>\$ 1,313,416</u>	<u>462,229</u>	<u>685,302</u>	<u>2,460,947</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds (page 22) \$ (902,650)

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

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

Expenditures for capital assets	\$ 898,060	
Depreciation expense	(519,492)	
Loss on disposal	(95,760)	282,808

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

770,000

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

14,004

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	\$ (33,134)	
Compensated absences	12,120	
Other postemployment benefits	(132,871)	(153,885)

Changes in net assets of governmental activities (page 19) \$ 10,277

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2010

	Business Type Activities:		
	Enterprise Funds		
	School Nutrition	Roadrunner Childcare Center	Total
ASSETS			
Current assets:			
Cash and pooled investments	\$ 19,818	(13,021)	6,797
Accounts receivable	634	0	634
Due from other governments	1,546	0	1,546
Inventories	10,996	0	10,996
Total current assets	<u>32,994</u>	<u>(13,021)</u>	<u>19,973</u>
Non-current assets:			
Capital assets:			
Machinery and equipment, net of accumulated depreciation	49,583	0	49,583
Total non-current assets	<u>49,583</u>	<u>0</u>	<u>49,583</u>
TOTAL ASSETS	<u>82,577</u>	<u>(13,021)</u>	<u>69,556</u>
LIABILITIES			
Current liabilities:			
Accounts payable	28	0	28
Salaries and benefits payable	11,510	1,875	13,385
Unearned revenue	8,385	0	8,385
Total current liabilities	<u>19,923</u>	<u>1,875</u>	<u>21,798</u>
Long-term liabilities:			
Net OPEB liability	8,011	1,118	9,129
Total long-term liabilities	<u>8,011</u>	<u>1,118</u>	<u>9,129</u>
TOTAL LIABILITIES	<u>27,934</u>	<u>2,993</u>	<u>30,927</u>
NET ASSETS			
Invested in capital assets	49,583	0	49,583
Unrestricted	5,060	(16,014)	(10,954)
TOTAL NET ASSETS	<u>\$ 54,643</u>	<u>(16,014)</u>	<u>38,629</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	Business Type Activites:		
	Enterprise Funds		
	Roadrunner		Total
School Nutrition	Childcare Center		
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 269,651	58,205	327,856
OPERATING EXPENSES:			
Support services:			
Administration:			
Salaries	30,763	0	30,763
Benefits	4,399	0	4,399
Total support services	35,162	0	35,162
Non-instructional programs:			
Food service operations:			
Salaries	123,247	0	123,247
Benefits	74,863	0	74,863
Services	290	0	290
Supplies	210,692	0	210,692
Other	872	0	872
Depreciation	26,591	0	26,591
	436,555	0	436,555
Community service operations:			
Salaries	0	55,095	55,095
Benefits	0	18,617	18,617
Supplies	0	507	507
	0	74,219	74,219
Total non-instructional programs:	436,555	74,219	510,774
TOTAL OPERATING EXPENSES	471,717	74,219	545,936
OPERATING LOSS	(202,066)	(16,014)	(218,080)
NON-OPERATING REVENUES (EXPENSES):			
Loss on disposal	(1,785)	0	(1,785)
State sources	4,023	0	4,023
Federal sources	161,930	0	161,930
Interest on investments	43	0	43
TOTAL NON-OPERATING REVENUES (EXPENSES)	164,211	0	164,211
Net loss before other financing sources	(37,855)	(16,014)	(53,869)
Other financing sources:			
Capital contribution	6,974	0	6,974
Net loss	(30,881)	(16,014)	(46,895)
Net assets beginning of year	85,524	0	85,524
Net assets end of year	\$ 54,643	(16,014)	38,629

SEE NOTES TO BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2010

	Business Type Activites:		
	Enterprise Funds		
	Roadrunner		
	School Nutrition	Childcare Center	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 272,138	0	272,138
Cash received from daycare services	0	58,205	58,205
Cash payments to employees for services	(230,663)	(70,719)	(301,382)
Cash payments to suppliers for goods or services	(184,658)	(507)	(185,165)
Net cash used in operating activities	(143,183)	(13,021)	(156,204)
Cash flows from non-capital financing activities:			
State grants received	4,023	0	4,023
Federal grants received	132,237	0	132,237
Net cash provided by non-capital financing activities	136,260	0	136,260
Cash flows from investing activities:			
Interest on investments	43	0	43
Net decrease in cash and cash equivalents	(6,880)	(13,021)	(19,901)
Cash and cash equivalents at beginning of year	26,698	0	26,698
Cash and cash equivalents at end of year	\$ 19,818	(13,021)	6,797
Reconciliation of operating loss to net cash used in operating activities:			
Operating loss	\$ (202,066)	(16,014)	(218,080)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Commodities consumed	28,147	0	28,147
Depreciation	26,591	0	26,591
Increase in inventories	(979)	0	(979)
Decrease in accounts receivable	198	0	198
Increase in accounts payable	28	0	28
(Decrease)Increase in salaries and benefits payable	(5,402)	1,875	(3,527)
Increase in unearned revenue	2,289	0	2,289
Increase in postemployment benefits	8,011	1,118	9,129
Net cash used in operating activities	\$ (143,183)	(13,021)	(156,204)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2010, the District received Federal commodities valued at \$28,147.

During the year ended June 30, 2010, the Nutrition Fund received a capital contribution of \$6,974 from the Physical Plant and Equipment Levy Fund.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 9,000
LIABILITIES	0
NET ASSETS	
Restricted for scholarships	<u>\$ 9,000</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2010

	<u>Private Purpose Trust Scholarship</u>
ADDITIONS:	
Local sources:	
Contributions	\$ 19,000
TOTAL ADDITIONS	<u>19,000</u>
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	<u>10,000</u>
Change in net assets	9,000
Net assets beginning of year	<u>0</u>
Net assets end of year	<u>\$ 9,000</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

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

The Interstate 35 Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education and regular pre-kindergarten. The geographic area served includes the City of Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Interstate 35 Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Interstate 35 Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 expenditures, 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.

The District reports the following proprietary funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Roadrunner Child Care Center. The School Nutrition Fund is used to account for the food service operations of the District while the Roadrunner Child Care Center is used to account for the daycare services provided to the community by 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 Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2008 assessed property valuations; is for the tax accrual period July 1, 2009 through June 30, 2010 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2009.

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

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

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

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

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2 + years
Machinery and equipment	5-20 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.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 receivable and other receivables not collected within sixty days after year end.

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, expenditures in the non-instructional programs function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2010 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 and the Treasurer of the State of Iowa; 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, 2010, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,898,334 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

(3) Transfers

The detail of transfers at June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Physical Plant & Equipment Levy	\$ 226,125
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	253,819
Capital Projects: Revenue Bonds	Capital Projects: Capital Loan Notes	108,499
Total		<u>\$ 479,944</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the 2009-10A warrants was 2.50% The interest rate on the Series 2009-10B warrants is a variable rate, calculated daily based upon the Bankers Trust Co. NA prime rate plus 50 basis points with a minimum interest rate of 4.50%. During the year ended June 30, 2010, the District had no ISCAP borrowings or repayments.

During the year ended June 30, 2010, the District paid \$5,708 of interest on the ISCAP warrants.

(5) Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 600,734	0	0	600,734
Construction in progress	2,795,198	165,506	2,960,704	0
Total capital assets not being depreciated	3,395,932	165,506	2,960,704	600,734
Capital assets being depreciated:				
Buildings	12,120,648	2,917,631	114,000	14,924,279
Land improvements	537,699	414,947	0	952,646
Machinery and equipment	2,236,248	360,680	441,429	2,155,499
Total capital assets being depreciated	14,894,595	3,693,258	555,429	18,032,424
Less accumulated depreciation for:				
Buildings	3,938,434	298,012	18,240	4,218,206
Land improvements	348,373	41,204	0	389,577
Machinery and equipment	1,833,064	180,276	441,429	1,571,911
Total accumulated depreciation	6,119,871	519,492	459,669	6,179,694
Total capital assets being depreciated, net	8,774,724	3,173,766	95,760	11,852,730
Governmental activities capital assets, net	\$ 12,170,656	3,339,272	3,056,464	12,453,464
Business type activities:				
Machinery and equipment	\$ 366,937	6,974	12,826	361,085
Less accumulated depreciation	295,952	26,591	11,041	311,502
Business type activities capital assets, net	\$ 70,985	(19,617)	1,785	49,583

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 43,109
Other		21,802
Support services:		
Instructional staff		8,319
Operation and maintenance of plant		6,679
Transportation		100,367
Unallocated depreciation		<u>339,216</u>
Total governmental activities depreciation expense		<u>\$ 519,492</u>
Business type activities:		
Food service operations		<u>\$ 26,591</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 3,545,000	0	410,000	3,135,000	425,000
Revenue Bonds	1,345,000	0	195,000	1,150,000	210,000
Capital Loan Notes	1,695,000	0	165,000	1,530,000	170,000
Early Retirement	48,621	124,952	91,818	81,755	23,943
Compensated Absences	14,824	2,704	14,824	2,704	2,704
Net OPEB Liability	0	132,871	0	132,871	0
Total	<u>\$ 6,648,445</u>	<u>260,527</u>	<u>876,642</u>	<u>6,032,330</u>	<u>831,647</u>
Business Type Activities:					
Net OPEB Liability	<u>\$ 0</u>	<u>9,129</u>	<u>0</u>	<u>9,129</u>	<u>0</u>

General Obligation Bonds Payable

Details of the District's June 30, 2010 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue of December 1, 2002		
		Principal	Interest	Total
2011	3.45-3.65 %	\$ 425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014	3.85-4.00	475,000	69,329	544,329
2015	4.00-4.10	495,000	50,305	545,305
2016	4.10-4.20	515,000	30,030	545,030
2017	4.20-4.30	325,000	9,575	334,575
Total		<u>\$ 3,135,000</u>	<u>459,067</u>	<u>3,269,067</u>

Revenue Bonds

Details of the District's statewide sales, services and use tax revenue bonded indebtedness, as June 30, 2010, are as follows:

Year Ending June 30,	Bond issue of May 1, 2008			
	Interest Rates	Principal	Interest	Total
2011	3.50 %	\$ 210,000	38,395	248,395
2012	3.50	220,000	30,870	250,870
2013	3.65	230,000	22,823	252,823
2014	3.75	240,000	14,125	254,125
2015	3.85	250,000	4,812	254,812
Total		\$ 1,150,000	111,025	1,261,025

The District has pledged future statewide sales, services and use tax revenues to repay the \$1,345,000 bonds issued on May 1, 2008. The bonds were issued for the purpose of financing a portion of the costs of a new school. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2015. The bonds are not a general obligation of the District. However, the debt is subject to the constitution debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 48 percent of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$1,261,025. For the current year, \$195,000 in principal and \$45,483 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$514,695.

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

- a) \$134,500 of the proceeds from the issuance of the revenue bonds shall be deposited to a Reserve Account to be used solely for the purpose of paying principal and interest on the bonds, if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interests requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Capital Loan Notes

During the year ended June 30 2008, the District issued \$1,850,000 in Capital Loan Notes, which are payable from the Physical Plant and Equipment Levy. Details of the District's June 30, 2010 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loans Note of May 1, 2008			
	Interest Rates	Principal	Interest	Total
2011	3.00 %	\$ 170,000	56,270	226,270
2012	3.20	175,000	51,170	226,170
2013	3.50	180,000	45,570	225,570
2014	3.70	185,000	39,270	224,270
2015	3.80	195,000	32,426	227,426
2016	3.90	200,000	25,016	225,016
2017	4.00	210,000	17,216	227,216
2018	4.10	215,000	8,816	223,816
Total		\$ 1,530,000	275,754	1,805,754

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified 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 cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period of up to three years, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2010, totaled \$91,818. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.30% of their annual covered salary and the District is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$294,272, \$265,379, and \$235,940, respectively, equal to the required contributions for each year.

(8) Other Postemployment Benefits (OPEB)

The District implemented GASB Statement No.45, Accounting and Financial Reporting by Employers for Postemployment Benefits other Than Pensions during the year ended June 30, 2010.

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug and dental benefits for retirees and their spouses. There are 134 active and 7 retired members in the plan. Employees must be age 59 or older at retirement and have fifteen or more years of continuous service to the District.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by ISEBA. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for June 30, 2010, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 197,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	0
Annual OPEB cost	<u>197,000</u>
Contributions made	<u>(55,000)</u>
Increase in net OPEB obligation	142,000
Net OPEB obligation - beginning of year	<u>0</u>
Net OPEB obligation - end of year	<u>\$ 142,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2010.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	\$ 197,000	27.92%	\$ 142,000

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1.491 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.491 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.103 million, and the ratio of the UAAL to the covered payroll was 36.3%. As of June 30, 2010, there were no trust fund assets.

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

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

As of July 1, 2009 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

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

The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years. Projected claim costs of the medical plan are illustrated below for retirees less than age 60 according to plan chosen.

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

(9) Risk Management

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

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2009 were \$814,999.

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

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$331,913 for the year ended June 30, 2010 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(12) Deficit Fund Balance

At June 30, 2010, the Roadrunner Childcare Center Fund had a deficit unreserved fund balance of \$16,014 and the Capital Projects: Capital Loan Notes Fund had a deficit unreserved fund balance of \$14,449. The District also had a deficit unrestricted net assets balance in the business type activities of \$10,954.

(13) Budget Overexpenditure

During the year ended June 30, 2010, District expenditures in the non-instructional programs functional area exceeded the budgeted amount.

(14) Categorical Funding

The District's ending reserved balances for categorical funding as of June 30, 2010 are broken out by the following projects:

<u>Project</u>	<u>Amount</u>
Market Factor	\$ 1,358
Gifted and Talented	26,452
Professional Development	30,842
Beginning Teacher Mentoring	35
Market Factor Incentives	2,107
Model Core Curriculum	15,361
Teacher Salary Supplement	2,393
Home School Assistance Program (HSAP)	4,389
Total	<u>\$ 82,937</u>

Interstate 35 Community School District

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES
 AND CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Fund		Original	Final	Actual
	Actual	Actual				Variance
Revenues:						
Local sources	\$ 4,528,789	327,899	4,856,688	4,899,983	4,899,983	(43,295)
Intermediate sources	1,995	0	1,995	1,500	1,500	495
State sources	3,989,444	4,023	3,993,467	5,019,818	5,019,818	(1,026,351)
Federal sources	628,378	161,930	790,308	715,000	715,000	75,308
Total revenues	9,148,606	493,852	9,642,458	10,636,301	10,636,301	(993,843)
Expenditures/expenses:						
Instruction	5,327,859	0	5,327,859	6,370,505	6,370,505	1,042,646
Support services	2,826,458	35,162	2,861,620	4,020,000	4,020,000	1,158,380
Non-instructional programs	0	510,774	510,774	496,513	496,513	(14,261)
Other expenditures	1,902,751	0	1,902,751	4,296,737	4,296,737	2,393,986
Total expenditures/expenses	10,057,068	545,936	10,603,004	15,183,755	15,183,755	4,580,751
Excess(deficiency) of revenues over(under) expenditures/expenses	(908,462)	(52,084)	(960,546)	(4,547,454)	(4,547,454)	3,586,908
Other financing sources, net	5,812	5,189	11,001	3,500	3,500	7,501
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	(902,650)	(46,895)	(949,545)	(4,543,954)	(4,543,954)	3,594,409
Balance beginning of year	3,363,597	85,524	3,449,121	5,592,553	5,592,553	(2,143,432)
Balance end of year	\$ 2,460,947	38,629	2,499,576	1,048,599	1,048,599	1,450,977

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2010

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

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

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

During the year ended June 30, 2010, expenditures in the non-instructional programs function exceeded the amount budgeted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FUNDING PROGRESS FOR THE
 RETIREE HEALTH PLAN

(IN MILLIONS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	\$ -	\$1.491	\$1.491	0.0%	\$4.103	36.3%

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

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total	Capital Projects	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 77,831	102,159	16,112	196,102	119,075	315,177
Receivables:						
Property tax:						
Delinquent	3,576	0	5,370	8,946	0	8,946
Succeeding year	200,000	0	308,362	508,362	0	508,362
Accounts	1,021	0	0	1,021	0	1,021
Due from other governments	0	0	0	0	294,520	294,520
Prepaid items	95,862	0	0	95,862	0	95,862
TOTAL ASSETS	\$ 378,290	102,159	329,844	810,293	413,595	1,223,888
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 1,940	5,745	3,503	11,188	0	11,188
Retainage payable	0	0	0	0	19,036	19,036
Deferred revenue:						
Succeeding year property tax	200,000	0	308,362	508,362	0	508,362
Total liabilities	201,940	5,745	311,865	519,550	19,036	538,586
Unreserved fund balances	176,350	96,414	17,979	290,743	394,559	685,302
TOTAL LIABILITIES AND FUND BALANCES	\$ 378,290	102,159	329,844	810,293	413,595	1,223,888

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2010

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 199,403	0	299,462	498,865	514,695	1,013,560
Other	13,237	233,151	5,327	251,715	5,056	256,771
State sources	139	0	209	348	0	348
TOTAL REVENUES	212,779	233,151	304,998	750,928	519,751	1,270,679
EXPENDITURES:						
Current:						
Instruction:						
Regular	118,372	0	0	118,372	0	118,372
Other	0	240,486	0	240,486	0	240,486
Support services:						
Student	3,411	949	0	4,360	0	4,360
Instructional	0	0	0	0	28,383	28,383
Administration	160,402	0	0	160,402	0	160,402
Operation and maintenance of plant	0	0	44,793	44,793	64,687	109,480
Transportation	0	0	0	0	195,904	195,904
Other expenditures:						
Facilities acquisitions	0	0	52,122	52,122	506,563	558,685
TOTAL EXPENDITURES	282,185	241,435	96,915	620,535	795,537	1,416,072
Excess(Deficiency) of revenues over(under) expenditures	(69,406)	(8,284)	208,083	130,393	(275,786)	(145,393)
Other financing sources(uses):						
Transfers in	0	0	0	0	108,499	108,499
Transfers out	0	0	(226,125)	(226,125)	(362,318)	(588,443)
Total other financing sources(uses)	0	0	(226,125)	(226,125)	(253,819)	(479,944)
Net change in fund balance	(69,406)	(8,284)	(18,042)	(95,732)	(529,605)	(625,337)
Fund balance beginning of year	245,756	104,698	36,021	386,475	924,164	1,310,639
Fund balance end of year	\$ 176,350	96,414	17,979	290,743	394,559	685,302

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2010

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Speech	\$ 0	577	577	0
HS Vocal	3,064	1,993	1,757	3,300
HS Band	109	2,428	1,777	760
Co-ed athletic gates	4,022	40,269	39,059	5,232
Cross Country	0	2,166	1,643	523
Golf	888	2,653	3,270	271
HS Cheerleaders	2,881	5,316	6,077	2,120
Dance Team	4,391	12,776	10,456	6,711
Boys Basketball	1,738	3,512	2,707	2,543
Football	2,628	9,161	7,806	3,983
Baseball	2,567	3,767	2,626	3,708
Boys Track	1,259	2,077	2,225	1,111
Wrestling	354	6,555	4,454	2,455
Girls Basketball	2,651	4,201	3,740	3,112
Volleyball	1,591	4,510	4,249	1,852
Softball	1,161	2,177	2,550	788
Girls Track	91	3,330	1,363	2,058
HS General Athletics	4,434	4,130	5,812	2,752
JH Athletics	4,065	4,635	8,243	457
Knowledge Bowl	0	70	70	0
Booster Club	5,654	61,456	54,528	12,582
AED Grant	279	0	0	279
Athletic Complex	649	1,746	2,307	88
Interest	79	603	671	11
Uniform Fund	566	272	838	0
TAG Activity Fund Balance	592	500	500	592
Honor Society	1,321	1,506	2,122	705
HS Student Council	4,016	3,530	2,948	4,598
FFA	2,365	17,654	12,891	7,128
FCCLA	485	815	1,300	0
Art Club	12	0	0	12
HS Book Club	1,464	0	70	1,394
Senior Breakfast	234	0	0	234
Math & Science Club	412	2,965	2,895	482
Middle School Band	637	143	508	272
Vocal Entry Fees	305	0	197	108
7th and 8th Vocal	798	201	35	964
Elem Vocal	131	508	152	487
Class of 2009	65	220	65	220
Class of 2010	1,030	515	881	664
Class of 2011	2,318	940	2,990	268
Class of 2012	540	1,775	150	2,165
Class of 2013	48	610	0	658
High School Fundraising	1,311	455	575	1,191
Beep Club	12,141	236	12,377	0
Scholarship Memorial	6,000	100	6,100	0
Unreserved-Fund Balance Preschool	587	426	255	758
Elementary Classes	3,008	10,371	9,943	3,436
EL/MS Fundraising	257	394	558	93
Middle School Classes	9,803	382	3,033	7,152
JH Student Council	9,697	8,525	12,085	6,137
	<u>\$ 104,698</u>	<u>233,151</u>	<u>241,435</u>	<u>96,414</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 CAPITAL PROJECTS FUNDS
 JUNE 30, 2010

	Statewide			Total
	Sales, Services and Use Tax	Revenue Bonds	Capital Loan Notes	
ASSETS				
Cash and pooled investments	\$ 109,878	4,610	4,587	119,075
Due from other governments	294,520	0	0	294,520
TOTAL ASSETS	\$ 404,398	4,610	4,587	413,595
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 0	0	19,036	19,036
Total liabilities	0	0	19,036	19,036
Unreserved fund balances	404,398	4,610	(14,449)	394,559
TOTAL LIABILITIES AND FUND BALANCES	\$ 404,398	4,610	4,587	413,595

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2010

	Statewide Sales and Services Tax	Revenue Bonds	Capital Loan Notes	Total
REVENUES:				
Local sources:				
Local tax	\$ 514,695	0	0	514,695
Other	300	61	4,695	5,056
TOTAL REVENUES	514,995	61	4,695	519,751
EXPENDITURES:				
Current:				
Support services:				
Instructional	28,383	0	0	28,383
Operation and maintainance of plant	64,687	0	0	64,687
Transportation	195,904	0	0	195,904
Other expenditures:				
Facilities acquisitions	59,862	0	446,701	506,563
TOTAL EXPENDITURES	348,836	0	446,701	795,537
Excess(Deficiency)of revenues over (under)expenditures	166,159	61	(442,006)	(275,786)
Other financing sources(uses):				
Transfer in	0	108,499	0	108,499
Transfer out	(253,819)	0	(108,499)	(362,318)
Total other financing sources(uses)	(253,819)	108,499	(108,499)	(253,819)
Net change in fund balances	(87,660)	108,560	(550,505)	(529,605)
Fund balance beginning of year	492,058	(103,950)	536,056	924,164
Fund balance end of year	\$ 404,398	4,610	(14,449)	394,559

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST SEVEN YEARS

	Modified Accrual Basis						
	Years Ended June 30,						
	2010	2009	2008	2007	2006	2005	2004
Revenues:							
Local sources:							
Local tax	\$ 3,713,350	3,689,949	3,326,721	3,296,822	3,033,229	2,961,634	2,503,938
Tuition	409,448	430,322	355,098	322,459	283,603	230,110	188,971
Other	405,991	428,611	443,370	500,273	458,751	415,118	345,482
Intermediate sources	1,995	20,671	673	9,691	3,663	180	860
State sources	3,989,444	4,735,246	4,752,359	4,453,988	3,711,595	3,534,845	3,343,852
Federal sources	628,378	433,239	635,610	169,225	172,332	172,013	125,386
Total	\$ 9,148,606	9,738,038	9,513,831	8,752,458	7,663,173	7,313,900	6,508,489
Expenditures:							
Current:							
Instruction:							
Regular	\$ 3,348,908	3,493,510	3,264,668	2,929,529	2,593,367	2,566,745	2,453,170
Special	967,625	1,418,006	1,190,396	1,271,565	879,648	1,054,796	843,303
Other	1,011,326	808,075	756,316	673,801	677,564	552,769	539,517
Support services:							
Student	166,748	136,504	133,351	124,138	170,046	177,068	174,280
Instructional staff	318,651	190,381	79,919	55,002	48,296	37,662	73,135
Administration	968,134	928,888	838,959	860,317	872,124	786,083	670,130
Operation and maintenance of plant	657,582	753,379	644,583	639,872	658,572	676,195	553,359
Transportation	715,343	519,824	507,750	465,040	447,807	484,531	458,525
Other expenditures:							
Facilities acquisitions	558,685	2,639,674	537,325	51,501	52,552	80,903	510
Long-term debt:							
Principal	770,000	555,000	385,000	375,000	365,000	355,000	350,000
Interest and fiscal charges	242,153	245,357	158,623	169,947	180,522	189,391	196,648
AEA flow-through	331,913	309,836	300,529	282,513	233,707	222,803	216,931
Total	\$ 10,057,068	11,998,434	8,797,419	7,898,225	7,179,205	7,183,946	6,529,508

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 10	18,929
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 10	143,001 *
			161,930
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 10	63,839
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES, RECOVERY ACT	84.389	FY 10	14,114
			77,953
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 10	5,695
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 10	2,028
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 10	26,782
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 10	5,506
STATE FISCAL STABILIZATION FUND(SFSF), EDUCATION STATE GRANTS, RECOVERY ACT	84.394	FY 10	362,947
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION CLUSTER:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 10	43,216
SPECIAL EDUCATION - GRANTS TO STATES, RECOVERY ACT	84.391	FY 10	94,534
			137,750
EDUCATION TECHNOLOGY STATE GRANTS (E2T2)	84.318	FY 10	760
TOTAL			\$ 781,351

* - Includes \$28,147 in non-cash awards.

Basis of Presentation - The Schedule of Expenditures includes the federal grant activity of the Interstate 35 Community School District and is presented in the 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 general purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Interstate 35 Community School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 17, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interstate 35 Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Interstate 35 Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatement on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be material weakness.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B-10 and II-C-10 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Interstate 35 Community School District's responses to 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 Interstate 35 Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Interstate 35 Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2011

NOLTE, CORNMAN & JOHNSON P.C.

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Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of
Interstate 35 Community School District:

Compliance

We have audited the compliance of Interstate 35 Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2010. Interstate 35 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 Interstate 35 Community School District's management. Our responsibility is to express an opinion on Interstate 35 Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, 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 Interstate 35 Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Interstate 35 Community School District's compliance with those requirements.

In our opinion, Interstate 35 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, 2010.

Internal Control Over Compliance

The management of Interstate 35 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 Interstate 35 Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Interstate 35 Community School District's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-10 to be a material weakness.

Interstate 35 Community School District's responses to the 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 Interstate 35 Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

March 17, 2011

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency and material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major programs was disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed 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:
 - Clustered:
 - CFDA Number 84.027 - Special Education - Grants to States (Part B)
 - CFDA Number 84.391 - Special Education - Grants to States, Recovery Act
 - Individual:
 - CFDA Number 84.394 - State Fiscal Stabilization Fund(SFSF)
Education State Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Interstate 35 Community School District did not qualify as a low-risk auditee.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and utilize compensating controls whenever adequate segregation of duties cannot be achieved.

Conclusion - Response accepted.

II-B-10 Paid Contracts - We noted during our audit that an employee had been overpaid on their contract by \$2,494.92.

Recommendation - The District should contact the employee whose contract was overpaid and either request the overpayment be given back to the District or subsequent checks be adjusted to pay back the overpayment. The District should review procedures in place to ensure accuracy of paid contracts.

Response - The employee has been contacted and repayment arrangements have been made over the next three years.

Conclusion - Response accepted.

II-C-10 Detail on Deposit Slips - We noted during our audit that when deposits were prepared for the bank, the deposit slips did not contain a list of checks contained in the deposit which made it difficult to trace receipts in the receipting process.

Recommendation - When preparing deposit slips, the person should list in detail the checks, if any that make up the deposit. The composition of the deposit is useful in the bank reconciliation process as well as tracing receipts through the receipting process.

Response - New deposit tickets are being used that have room for check detail. A report will be printed and attached to food service deposits with the check detail on those deposits.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 84.027 - Special Education - Grants to States (Part B)
CFDA Number 84.391 - Special Education - Grants to States, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through an Area Education Agency

CFDA Number 84.394 - State Fiscal Stabilization Fund(SFSF)
Education State Grants, Recovery Act
Federal Award Year: 2010
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-10 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and utilize compensating controls whenever adequate segregation of duties cannot be achieved.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTION COSTS
 YEAR ENDED JUNE 30, 2010

Part II: Other Findings Related to Required Statutory Reporting:

IV-A-10 Certified Budget - District disbursements for the year ended June 30, 2010 exceeded the amount budgeted in the non-instructional programs function.

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

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-10 Questionable Disbursements - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-10 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-10 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
DeAnn Strange Secretary Spouse owns D&L Electric and Auto	Purchased Services	\$9,424
Bill Maske, Superintendent Spouse does computer repair	Purchased Services	\$1,180

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

IV-E-10 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-10 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - The District has implemented procedures to comply with the publication of minutes in a timely manner.

Conclusion - Response accepted.

IV-G-10 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-10 Supplementary Weighting - We noted a variance regarding the supplementary weighting certified to the Iowa Department of Education. Supplementary weighting was overstated by 5.85.

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

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

Conclusion - Response accepted.

IV-I-10 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-J-10 Certified Annual Report -The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-10 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-10 Statewide Sales, Services and Use Tax- No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax. For the year ended June 30, 2010, the District's financial activity and other required information for the statewide sales, services and use tax are as follows:

Beginning Balance		\$	0
Statewide sales, services and use tax revenue			514,695
Expenditures/transfers out:			
School infrastructure:			
Buildings	\$	285	
Equipment		260,591	
Debt service for school infrastructure:			
Revenue debt		253,819	514,695
Ending balance		\$	0

As a result of the statewide sales, services and use tax revenue received during the year ended June 30, 2010, the District reduced the following levies:

	Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	\$ 1.41123	\$ 253,819
Physical Plant and Equipment Levy	\$ 1.45047	\$ 260,876

IV-M-10 Financial Condition - At June 30, 2010, the Roadrunner Childcare Center Fund had a deficit unreserved fund balance of \$16,014 and the Capital Projects: Capital Loan Notes Fund had a deficit unreserved fund balance of \$14,449. The District also had a deficit unrestricted net assets balance in the business type activities of \$10,954.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - The District will monitor these funds and investigate alternatives to eliminate any deficits that may exist.

Conclusion - Response accepted.

IV-N-10 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided, or submitted to the State Treasurer as unclaimed property. Per Chapter 556.1(10) and 556.11 of the Code of Iowa, the District is required to report unclaimed property to the State Treasurer annually before November 1st.

Response - We will investigate these outstanding checks and determine what steps need to be taken to remove them from our listing.

Conclusion - Response accepted.