

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2011

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-18
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	20
Statement of Activities	B	21
Governmental Fund Financial Statements:		
Balance Sheet	C	22
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	25
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	26
Statement of Revenues, Expenditures and Changes in Fund Net Assets	H	27
Statement of Cash Flows	I	28
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	29
Statement of Changes in Fiduciary Net Assets	K	30
Notes to Financial Statements		31-46
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		48
Notes to Required Supplementary Information - Budgetary Reporting		49
Schedule of Funding Progress for the Retiree Health Plan		50
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	52
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	53
Capital Project Accounts:		
Combining Balance Sheet	3	54
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	4	55
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	5	56
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	57
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 <u>Government Auditing Standards</u>		58-59
Schedule of Findings		60-64

Interstate 35 Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Expires</u>
<b>Board of Education</b>		
Leah Gray	President	2011
Julie Brownlee	Vice President	2011
Dan Kirkpatrick	Board Member	2013
Bryan Arzani	Board Member	2013
Ken Stanley	Board Member	2011
<b>School Officials</b>		
Eric Sundermeyer	Superintendent	2011
Jennifer Jamison	Board Secretary/ Business Manager	2011
Ahlers & Cooney, P.C.	Attorney	2011

**Interstate 35 Community School District**

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of 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, 2011, 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, 2011, 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 February 10, 2012 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 18 and 48 through 50 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 seven 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 6 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.

February 10, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2011. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

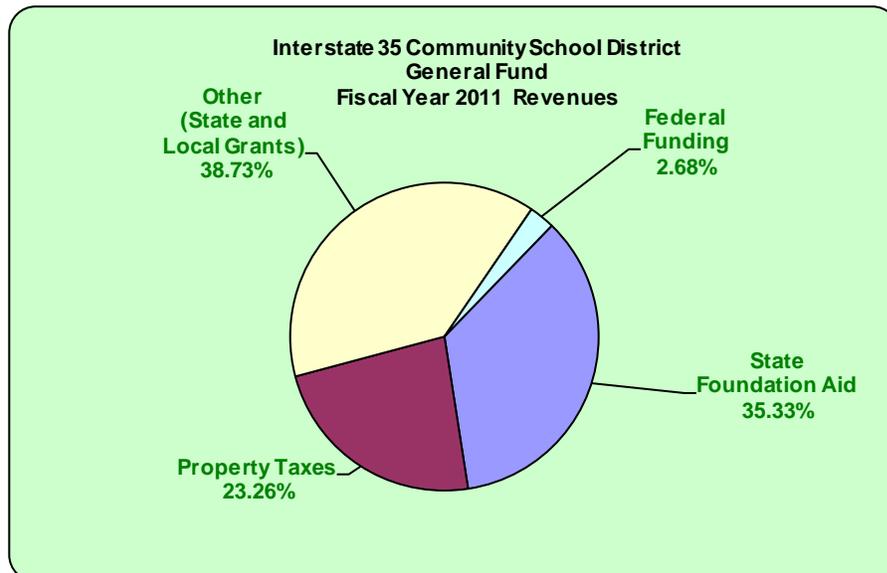
### 2011 FINANCIAL HIGHLIGHTS

- **Budget:** The State of Iowa legislatively approved an allowable growth factor of 2 percent for fiscal year 2011. The district's enrollment decreased by 3.7 students from 877.7 in fiscal year 2010 to 874.0 in fiscal year 2011. The decrease in enrollment resulted in a 1.6 percent increase, or \$79,168 in new regular program funding.

In April, 2010, the board approved a budget for fiscal year 2011 for all funds of \$12,353,383 (including transfers). In May, 2011, the board amended the budget one time by \$436,741 for unanticipated facility improvements.

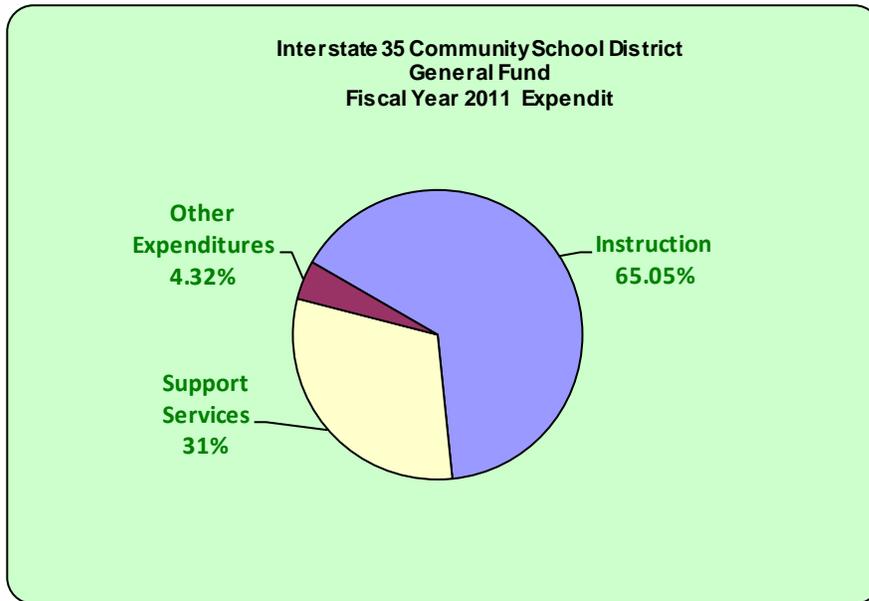
- **Revenue:** Government-wide revenues were \$10,090,646, which primarily consisted of state aid, property taxes, charges for service, and operating grants, contributions and restricted interest. General revenues accounted for approximately 82.1 percent of the District-wide revenue. Program specific revenues in the form of charges for services and grants and contributions, accounted for 17.9 percent of total fiscal year 2011 revenues.

The General Fund had \$7,724,787 in revenues for fiscal year 2011, which primarily consisted of state aid and property taxes. General Fund revenues increased from \$7,334,184 in fiscal year 2010 to \$7,724,787 in fiscal year 2011, which represents a 5.33% increase.



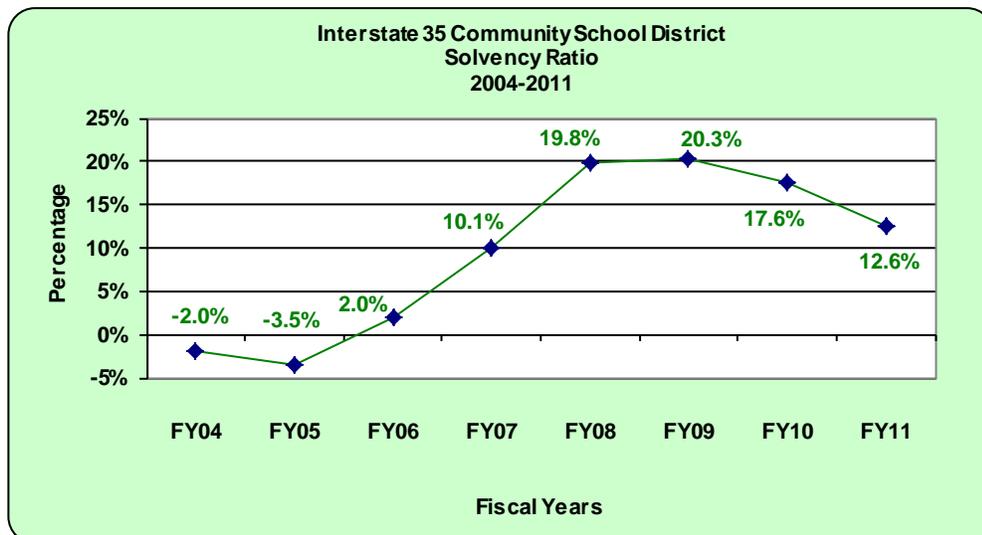
- **Expenses:** The government-wide expenses were \$9,792,323, of which \$1,810,743 were offset by program specific charges for services or grants and contributions. General revenues of \$8,279,903 provided for the remaining cost of these programs.

The General Fund had \$7,773,474 in fiscal year 2011 expenses, which primarily consisted of instructional expenses. General Fund expenses increased 1.9% from \$7,628,843 in fiscal 2010 to \$7,773,474 in fiscal year 2011.



- General Fund Balance and Solvency Ratio:** The District’s overall General Fund balance decreased from \$1,313,416 as of June 30, 2010 to \$1,264,729 as of June 30, 2011. As a result, the General Fund combined unassigned and assigned fund balance decreased from \$1,230,479 as of June 30, 2010 to \$930,453 as of June 30, 2011.

The District’s solvency ratio (unassigned and assigned fund balance/General Fund revenues less AEA flowthrough) decreased from 17.6 percent in 2010 to 12.6 percent in 2011.



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

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**Debt:** The Debt Service Fund balance increased from \$462,229 at the end of fiscal year 2010 to \$471,510 at the end of fiscal year 2011. The cash and pooled investments of the Debt Service Fund include cash held in a sinking fund and debt service fund at Bankers Trust per the bond covenant for the sales tax revenue bonds. Monthly revenues are transferred from the Capital Projects Fund to the Debt Service Fund for payment of principal and interest on the sales tax revenue bonds.

- **Capital Projects:** Revenues from sales taxes increased from \$514,695 in fiscal year 2010 to \$589,113 in fiscal year 2011. Expenses (including transfers out to debt service) decreased from \$1,157,855 in fiscal year 2010 to \$681,434 in fiscal year 2011 due to the completion of various facility improvements in the District.

## **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

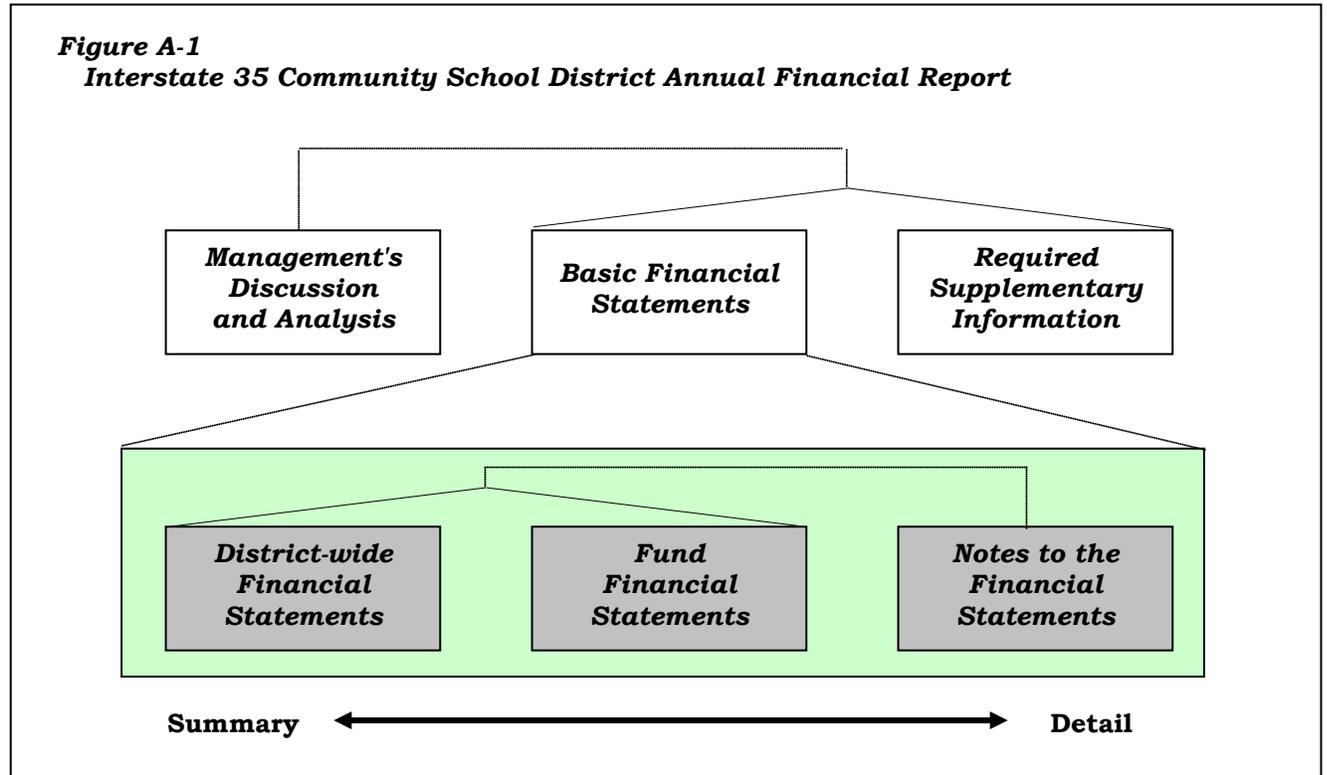


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Current and other assets	\$ 6,387,066	6,712,162	27,000	19,973	6,414,066	6,732,135	-4.72%
Capital assets	12,261,436	12,453,464	30,774	49,583	12,292,210	12,503,047	-1.69%
Total assets	18,648,502	19,165,626	57,774	69,556	18,706,276	19,235,182	-2.75%
Long-term liabilities	5,561,278	6,032,330	17,486	9,129	5,578,764	6,041,459	-7.66%
Other liabilities	3,951,831	4,302,043	7,476	21,798	3,959,307	4,323,841	-8.43%
Total liabilities	9,513,109	10,334,373	24,962	30,927	9,538,071	10,365,300	-7.98%
Net assets:							
Invested in capital assets, net of related debt	7,200,363	6,638,464	30,774	49,583	7,231,137	6,688,047	8.12%
Restricted	1,351,080	1,148,713	0	0	1,351,080	1,148,713	17.62%
Unrestricted	583,950	1,044,076	2,038	(10,954)	585,988	1,033,122	-43.28%
Total net assets	\$ 9,135,393	8,831,253	32,812	38,629	9,168,205	8,869,882	3.36%

The District's combined net assets increased by 3.36%, or \$298,323, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$202,367, or 17.62% over the prior year. The increase in restricted net assets can be attributable to the increase in resources restricted for categorical funding.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$447,134, or 43.28%. This decrease is due in part to the increased amount invested in capital assets and other amounts restricted for specific purposes.

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

Figure A-4 Changes in Net Assets							
	Governmental Activities		Business Type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-11
Revenues & Transfers:							
Program revenues:							
Charges for services	\$ 612,713	708,656	308,851	327,856	921,564	1,036,512	-11.09%
Operating grants and contributions and restricted interest	714,120	1,849,625	175,059	165,953	889,179	2,015,578	-55.88%
General revenues:							
Property tax	3,404,607	3,198,655	0	0	3,404,607	3,198,655	6.44%
Statewide sales, services and use tax	589,113	514,695	0	0	589,113	514,695	14.46%
Unrestricted state grants	4,124,895	2,776,519	0	0	4,124,895	2,776,519	48.56%
Non-specific program federal grants	84,103	0	0	0	84,103	0	100.00%
Unrestricted investment earnings	2,417	19,468	38	43	2,455	19,511	-87.42%
Other	72,522	80,988	2,208	0	74,730	80,988	-7.73%
Transfers	0	(6,974)	0	6,974	0	0	0.00%
Total revenues & transfers	<u>9,604,490</u>	<u>9,141,632</u>	<u>486,156</u>	<u>500,826</u>	<u>10,090,646</u>	<u>9,642,458</u>	<u>4.65%</u>
Program expenses:							
Governmental activities:							
Instructional	5,273,635	5,392,143	42,729	0	5,316,364	5,392,143	-1.41%
Support services	3,134,001	2,715,089	35,889	35,162	3,169,890	2,750,251	15.26%
Non-instructional programs	8,190	0	413,355	512,559	421,545	512,559	-17.76%
Other expenditures	884,524	1,024,123	0	0	884,524	1,024,123	-13.63%
Total expenses	<u>9,300,350</u>	<u>9,131,355</u>	<u>491,973</u>	<u>547,721</u>	<u>9,792,323</u>	<u>9,679,076</u>	<u>1.17%</u>
Changes in net assets	304,140	10,277	(5,817)	(46,895)	298,323	(36,618)	-914.69%
Beginning 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>
Ending net assets	<u>\$ 9,135,393</u>	<u>8,831,253</u>	<u>32,812</u>	<u>38,629</u>	<u>9,168,205</u>	<u>8,869,882</u>	<u>3.36%</u>

In fiscal 2011, property tax, statewide sales, services and use tax and unrestricted state grants account for 84.53% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.54% of the revenue from business type activities.

The District's total revenues were approximately \$10.09 million of which approximately \$9.60 million was for governmental activities and approximately \$0.49 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.65% increase in revenues and a 1.17% increase in expenses. Property tax increased \$205,952 to help fund increases in expenses. The increase in expenses is related to increase in the negotiated salary and benefits.

**Governmental Activities**

Revenues for governmental activities were \$9,604,490 and expenses were \$9,300,350.

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

Figure A-5 Total and Net Cost of Governmental Activities						
	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-11	2011	2010	Change 2010-11
Instruction	\$ 5,273,635	5,392,143	-2.20%	4,292,904	3,166,105	35.59%
Support services	3,134,001	2,715,089	15.43%	3,123,711	2,714,759	15.06%
Non-instructional programs	8,190	0	100.00%	8,190	0	100.00%
Other expenses	884,524	1,024,123	-13.63%	548,712	692,210	-20.73%
Totals	<u>\$ 9,300,350</u>	<u>9,131,355</u>	<u>1.85%</u>	<u>7,973,517</u>	<u>6,573,074</u>	<u>21.31%</u>

- The cost financed by users of the District’s programs was \$612,713.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$714,120.
- The net cost of governmental activities was financed with \$3,404,607 in property tax, \$589,113 in statewide sales, services and use tax, \$4,124,895 in unrestricted state grants, \$84,103 in non-specific program federal grants, \$2,417 in interest income and \$72,522 in other general revenues.

**Business type Activities**

Revenues of the District’s business type activities were \$486,156 and expenses were \$491,973. The District’s business type activities include the School Nutrition Fund, the Preschool Fund and the Roadrunner Childcare Center Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,483,240, above last year’s ending fund balances of \$2,460,947. The primary reason for the increase in combined fund balances in fiscal 2011 is improvement in the fund balances of the special revenue funds.

**Governmental Fund Highlights**

- The District’s declining General Fund financial position is the result of many factors. The General Fund balance decreased from \$1,313,416 in fiscal 2010 to \$1,264,729 in fiscal 2011. Overall, District revenues for the General Fund during fiscal 2011 increased slightly, \$390,603, as compared to one year ago. General Fund expenses increased by \$144,631 as compared to the previous year. In spite of these two factors, expenses still outpaced revenues causing the General Fund balance to decrease.

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- The Management Levy Fund balance increased from \$176,350 in fiscal 2010 to \$201,707 in fiscal 2011. Revenues increased slightly while expenses were reduced approximately 32% when compared with the prior year causing the improvement in fund balance. This balance will be used in the future for early retirement incentives and property insurance.
  - The Capital Projects Fund balance improved slightly from a restated balance of \$412,538 in fiscal 2010 to \$418,336 in fiscal 2011. The beginning balance was restated as a result of the Physical Plant and Equipment Levy Fund reclassification as a Capital Projects Fund account in accordance with GASB Statement No. 54. A large portion of the Capital Projects Fund accounts expenditures were used to satisfy principal and interest requirements of the District's revenue bonded indebtedness and the capital loan notes.
  - The Debt Service Fund balance increased slightly from \$462,229 in fiscal 2010 to \$471,510 in fiscal 2011. Fund revenues and expenses remained fairly steady as compared to the previous year causing little change in the Debt Service Fund balance.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$54,643 at June 30, 2010 to \$38,941 at June 30, 2011, representing a decrease of 28.74%.

The Preschool Fund net assets were \$8,767 at June 30, 2011.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, Interstate 35 Community School District amended its budget one time to reflect additional expenditures associated with unanticipated facilities improvements.

The District's revenues were \$1,046,633 less than budgeted revenues, a variance of 9.40%. The most significant variance resulted from the District receiving less in state source revenues than originally anticipated.

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

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, 2011, the District had invested \$12,292,210, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.69% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$563,510.

The original cost of the District's capital assets was \$19,044,708. Governmental funds account for \$18,692,963 with the remainder of \$351,745 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$563,069 at June 30, 2010, compared to \$378,555 reported at June 30, 2011.

Figure A-6 Capital Assets, Net of Depreciation							
	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
Land	\$ 600,734	600,734	0	0	600,734	600,734	0.00%
Buildings	10,683,506	10,706,073	0	0	10,683,506	10,706,073	-0.21%
Land improvements	378,555	563,069	0	0	378,555	563,069	-32.77%
Machinery and equipment	598,641	583,588	30,774	49,583	629,415	633,171	-0.59%
Total	<u>\$ 12,261,436</u>	<u>12,453,464</u>	<u>30,774</u>	<u>49,583</u>	<u>12,292,210</u>	<u>12,503,047</u>	<u>-1.69%</u>

### Long-Term Debt

At June 30, 2011, the District had \$5,578,764 in general obligation bonds payable, revenue bonds payable, capital loan notes payable, computer lease payable, early retirement payable, compensated absences and other post-employment benefits. This represents a decrease of 7.66% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had outstanding general obligation bonds of \$2,710,000 at June 30, 2011.

The District had outstanding revenue bonded indebtedness of \$940,000 at June 30, 2011.

The district had outstanding capital loan notes payable from the Physical Plant and Equipment Levy Fund of \$1,360,000 at June 30, 2011.

The District had an outstanding computer lease payable from the Capital Project Fund of \$51,073 at June 30, 2011.

The District had total outstanding Early Retirement payable from the Management Levy Fund of \$230,391 at June 30, 2011.

The District had compensated absences payable from the General Fund of \$15,339 as of June 30, 2011.

The district-wide net OPEB liability as of June 30, 2011 was \$271,961.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2011	2010	2011	2010	2011	2010	2010-11
General Obligation Bonds	\$ 2,710,000	3,135,000	0	0	2,710,000	3,135,000	-13.56%
Revenue Bonds	940,000	1,150,000	0	0	940,000	1,150,000	-18.26%
Capital Loan Notes	1,360,000	1,530,000	0	0	1,360,000	1,530,000	-11.11%
Computer Lease	51,073	0	0	0	51,073	0	100.00%
Early Retirement	230,391	81,755	0	0	230,391	81,755	181.81%
Compensated Absences	15,339	2,704	0	0	15,339	2,704	467.27%
Net OPEB Liability	254,475	132,871	17,486	9,129	271,961	142,000	91.52%
Total	\$ 5,561,278	6,032,330	17,486	9,129	5,578,764	6,041,459	-7.66%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- District enrollment increased from October 2009 to October 2010 by 1.8 students, or 0.21 percent. Therefore, the regular program cost for fiscal year 2012 will increase by approximately \$10,589. Due to the 101 percent budget guarantee of \$40,828, the District will realize an increase in the regular program cost of \$51,417.
- It is a concern of this District, as well as every District in the state, that certain costs will continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. Other uncontrolled costs such as fuel also continue to be monitored. With the legislature's hesitancy to fully fund and increase funding, knowing that these costs will continue to rise, the District remains vigilant to use completely and efficiently all the resources it has at its disposal.
- In an effort to ensure the efficient use of all resources, the District maintains a conservative approach to budgeting. It may also be worth noting that no matter the funding source, whether the state or individual taxpayers, any funds budgeted may not be fully received, hence encouraging the conservative approach.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 2,410,189	20,201	2,430,390
Receivables:			
Local tax:			
Delinquent	54,391	0	54,391
Succeeding year	3,526,767	0	3,526,767
Accounts	121	84	205
Due from other governments	395,378	0	395,378
Due from other funds	0	28	28
Inventories	0	6,687	6,687
Prepaid items	220	0	220
Capital assets, net of accumulated depreciation	12,261,436	30,774	12,292,210
<b>TOTAL ASSETS</b>	<b>18,648,502</b>	<b>57,774</b>	<b>18,706,276</b>
<b>LIABILITIES</b>			
Accounts payable	159,991	0	159,991
Salaries and benefits payable	35,499	0	35,499
Due from other funds	28	0	28
Interest payable	48,005	0	48,005
Deferred revenue:			
Succeeding year property tax	3,526,767	0	3,526,767
Other	181,541	0	181,541
Unearned revenue	0	7,476	7,476
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	440,000	0	440,000
Revenue bonds	220,000	0	220,000
Capital loan notes	175,000	0	175,000
Computer lease	24,483	0	24,483
Early retirement	133,973	0	133,973
Compensated absences	15,339	0	15,339
Portion due after one year:			
General obligation bonds	2,270,000	0	2,270,000
Revenue bonds	720,000	0	720,000
Capital loan notes	1,185,000	0	1,185,000
Computer lease	26,590	0	26,590
Early retirement	96,418	0	96,418
Net OPEB liability	254,475	17,486	271,961
<b>TOTAL LIABILITIES</b>	<b>9,513,109</b>	<b>24,962</b>	<b>9,538,071</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	7,200,363	30,774	7,231,137
Restricted for:			
Categorical funding	334,276	0	334,276
Debt service	471,510	0	471,510
Student activities	126,958	0	126,958
School infrastructure	396,227	0	396,227
Physical plant and equipment	22,109	0	22,109
Unrestricted	583,950	2,038	585,988
<b>TOTAL NET ASSETS</b>	<b>\$ 9,135,393</b>	<b>32,812</b>	<b>9,168,205</b>

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Contributions	Govern- mental Activities	Business Type Activities	Total
		for Services	and Restricted Interest			
<b>Functions/Programs:</b>						
Governmental activities:						
Instruction:						
Regular	\$ 3,276,567	352,868	219,166	(2,704,533)	0	(2,704,533)
Special	1,218,731	45,540	44,936	(1,128,255)	0	(1,128,255)
Other	778,337	214,305	103,916	(460,116)	0	(460,116)
	<u>5,273,635</u>	<u>612,713</u>	<u>368,018</u>	<u>(4,292,904)</u>	<u>0</u>	<u>(4,292,904)</u>
Support services:						
Student	173,944	0	1,192	(172,752)	0	(172,752)
Instructional staff	444,542	0	5,925	(438,617)	0	(438,617)
Administration	1,091,123	0	1,500	(1,089,623)	0	(1,089,623)
Operation and maintenance of plant	803,649	0	986	(802,663)	0	(802,663)
Transportation	620,743	0	687	(620,056)	0	(620,056)
	<u>3,134,001</u>	<u>0</u>	<u>10,290</u>	<u>(3,123,711)</u>	<u>0</u>	<u>(3,123,711)</u>
Non-instructional programs:						
Food service operations	8,190	0	0	(8,190)	0	(8,190)
Other expenditures:						
Long-term debt interest	213,678	0	0	(213,678)	0	(213,678)
AEA flowthrough	335,812	0	335,812	0	0	0
Depreciation(unallocated)*	335,034	0	0	(335,034)	0	(335,034)
	<u>884,524</u>	<u>0</u>	<u>335,812</u>	<u>(548,712)</u>	<u>0</u>	<u>(548,712)</u>
Total governmental activities	9,300,350	612,713	714,120	(7,973,517)	0	(7,973,517)
Business Type activities:						
Instruction:						
Regular	42,729	52,608	0	0	9,879	9,879
Support services:						
Administration	35,889	0	0	0	(35,889)	(35,889)
Non-instructional programs:						
Nutrition services	413,355	256,243	175,059	0	17,947	17,947
Total business type activities	<u>491,973</u>	<u>308,851</u>	<u>175,059</u>	<u>0</u>	<u>(8,063)</u>	<u>(8,063)</u>
Total	\$ 9,792,323	921,564	889,179	(7,973,517)	(8,063)	(7,981,580)
<b>General Revenues:</b>						
Local tax for:						
General purposes				\$ 2,547,782	0	2,547,782
Debt service				548,008	0	548,008
Capital outlay				308,817	0	308,817
Statewide sales, services and use tax				589,113	0	589,113
Unrestricted state grants				4,124,895	0	4,124,895
Non-specific program federal grants				84,103	0	84,103
Unrestricted investment earnings				2,417	38	2,455
Other				72,522	2,208	74,730
Total general revenues				<u>8,277,657</u>	<u>2,246</u>	<u>8,279,903</u>
Change in net assets				304,140	(5,817)	298,323
Net assets beginning of year				<u>8,831,253</u>	<u>38,629</u>	<u>8,869,882</u>
Net assets end of year				\$ 9,135,393	32,812	9,168,205

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

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011

	Capital		Debt		Total
	General	Projects	Service	Nonmajor	
<b>ASSETS</b>					
Cash and pooled investments	\$ 1,503,154	115,868	462,751	328,416	2,410,189
Receivables:					
Local tax:					
Delinquent	37,506	4,929	8,759	3,197	54,391
Succeeding year	2,438,155	319,738	543,875	224,999	3,526,767
Accounts	121	0	0	0	121
Due from other governments	94,799	300,579	0	0	395,378
Prepaid items	220	0	0	0	220
<b>TOTAL ASSETS</b>	<b>\$ 4,073,955</b>	<b>741,114</b>	<b>1,015,385</b>	<b>556,612</b>	<b>6,387,066</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 154,003	3,040	0	2,948	159,991
Salaries and benefits payable	35,499	0	0	0	35,499
Due to other funds	28	0	0	0	28
Deferred revenue:					
Succeeding year property tax	2,438,155	319,738	543,875	224,999	3,526,767
Other	181,541	0	0	0	181,541
Total liabilities	<b>2,809,226</b>	<b>322,778</b>	<b>543,875</b>	<b>227,947</b>	<b>3,903,826</b>
Fund balances:					
Reserved for:					
Catergorical funding	334,276	0	0	0	334,276
Debt service	0	0	471,510	0	471,510
Management levy purposes	0	0	0	201,707	201,707
Student activities	0	0	0	126,958	126,958
School infrastructure	0	396,227	0	0	396,227
Physical plant and equipment	0	22,109	0	0	22,109
Assigned for special purposes	46,409	0	0	0	46,409
Unassigned	884,044	0	0	0	884,044
Total fund balances	<b>1,264,729</b>	<b>418,336</b>	<b>471,510</b>	<b>328,665</b>	<b>2,483,240</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 4,073,955</b>	<b>741,114</b>	<b>1,015,385</b>	<b>556,612</b>	<b>6,387,066</b>

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2011

**Total fund balances of governmental funds(page 22)** \$ 2,483,240

**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. 12,261,436

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. (48,005)

Long-term liabilities, including general obligation bonds  
 payable, revenue bonds payable, captial loan notes payable,  
 computer lease 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. (5,561,278)

**Net assets of governmental activities(page 20)** \$ 9,135,393

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2011

	General	Capital Projects	Debt Service	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 2,347,673	897,930	548,008	200,109	3,993,720
Tuition	377,762	0	0	0	377,762
Other	92,490	240	402	232,581	325,713
Intermediate sources	353	0	0	0	353
State sources	4,636,205	204	363	133	4,636,905
Federal sources	270,037	0	0	0	270,037
Total revenues	<u>7,724,520</u>	<u>898,374</u>	<u>548,773</u>	<u>432,823</u>	<u>9,604,490</u>
EXPENDITURES:					
Current:					
Instruction:					
Regular	3,286,735	0	0	30,839	3,317,574
Special	1,018,857	0	0	183,174	1,202,031
Other	751,280	0	0	0	751,280
	<u>5,056,872</u>	<u>0</u>	<u>0</u>	<u>214,013</u>	<u>5,270,885</u>
Support services:					
Student	170,644	0	0	0	170,644
Instructional staff	336,125	100,760	0	0	436,885
Administration	805,643	0	0	153,002	958,645
Operation and maintenance of plant	550,259	25,529	0	1,717	577,505
Transportation	518,119	1,250	0	0	519,369
	<u>2,380,790</u>	<u>127,539</u>	<u>0</u>	<u>154,719</u>	<u>2,663,048</u>
Non-instructional programs:					
Food service operations	0	0	0	8,190	8,190
Other expenditures:					
Facilities acquisitions	0	334,101	0	0	334,101
Long-term debt:					
Principal	0	0	833,311	0	833,311
Interest and fiscal charges	0	0	216,501	0	216,501
AEA flowthrough	335,812	0	0	0	335,812
	<u>335,812</u>	<u>334,101</u>	<u>1,049,812</u>	<u>0</u>	<u>1,719,725</u>
Total expenditures	<u>7,773,474</u>	<u>461,640</u>	<u>1,049,812</u>	<u>376,922</u>	<u>9,661,848</u>
Excess(deficiency) of revenues over(under) expenditures	(48,954)	436,734	(501,039)	55,901	(57,358)
Other financing sources(uses):					
Transfers in	0	19,059	510,320	0	529,379
Transfers out	0	(529,379)	0	0	(529,379)
Proceeds from capital lease	0	79,384	0	0	79,384
Sale of equipment	267	0	0	0	267
Total other financing sources(uses)	<u>267</u>	<u>(430,936)</u>	<u>510,320</u>	<u>0</u>	<u>79,651</u>
Net change in fund balances	(48,687)	5,798	9,281	55,901	22,293
Fund balances beginning of year, as restated	1,313,416	412,538	462,229	272,764	2,460,947
Fund balances end of year	<u>\$ 1,264,729</u>	<u>418,336</u>	<u>471,510</u>	<u>328,665</u>	<u>2,483,240</u>

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2011

Net change in fund balances - total governmental funds(page 24) \$ 22,293

**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	\$ 352,673	
Depreciation expense	<u>(544,701)</u>	(192,028)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(79,384)	
Repaid	<u>833,311</u>	753,927

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.

2,823

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	\$ (148,636)	
Compensated absences	(12,635)	
Other postemployment benefits	<u>(121,604)</u>	<u>(282,875)</u>

Changes in net assets of governmental activities(page 21) \$ 304,140

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

	Business Type Activities:			
	Enterprise Funds			
	School Nutrition	Roadrunner Childcare Center	Preschool	Total
<b>ASSETS</b>				
Current assets:				
Cash and pooled investments	\$ 24,185	(14,896)	10,912	20,201
Accounts receivable	84	0	0	84
Due from other funds	28	0	0	28
Inventories	6,687	0	0	6,687
Total current assets	30,984	(14,896)	10,912	27,000
Non-current assets:				
Capital assets:				
Machinery and equipment, net of accumulated depreciation	30,774	0	0	30,774
Total non-current assets	30,774	0	0	30,774
<b>TOTAL ASSETS</b>	61,758	(14,896)	10,912	57,774
<b>LIABILITIES</b>				
Current liabilities:				
Unearned revenue	7,476	0	0	7,476
Long-term liabilities:				
Net OPEB liability	15,341	0	2,145	17,486
<b>TOTAL LIABILITIES</b>	22,817	0	2,145	24,962
<b>NET ASSETS</b>				
Invested in capital assets	30,774	0	0	30,774
Unrestricted	8,167	(14,896)	8,767	2,038
<b>TOTAL NET ASSETS</b>	\$ 38,941	(14,896)	8,767	32,812

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Business Type Activities:			
	Enterprise Funds			
	Roadrunner			
	School Nutrition	Childcare Center	Preschool	Total
OPERATING REVENUE:				
Local sources:				
Charges for services	\$ 256,243	0	52,608	308,851
Miscellaneous	2,208	0	0	2,208
TOTAL OPERATING REVENUES	258,451	0	52,608	311,059
OPERATING EXPENSES:				
Instruction:				
Other:				
Salaries	0	0	30,459	30,459
Benefits	0	0	12,270	12,270
	0	0	42,729	42,729
Support services:				
Administration:				
Salaries	31,317	0	0	31,317
Benefits	4,572	0	0	4,572
	35,889	0	0	35,889
Non-instructional programs:				
Food service operations:				
Salaries	122,788	0	0	122,788
Benefits	65,921	0	0	65,921
Services	2,789	0	0	2,789
Supplies	200,244	0	0	200,244
Other	2,804	0	0	2,804
Depreciation	18,809	0	0	18,809
	413,355	0	0	413,355
TOTAL OPERATING EXPENSES	449,244	0	42,729	491,973
OPERATING GAIN(LOSS)	(190,793)	0	9,879	(180,914)
NON-OPERATING REVENUES:				
State sources	3,803	0	0	3,803
Federal sources	171,256	0	0	171,256
Interest on investments	32	0	6	38
TOTAL NON-OPERATING REVENUES	175,091	0	6	175,097
Net gain(loss)	(15,702)	0	9,885	(5,817)
Net assets beginning of year	54,643	(14,896)	(1,118)	38,629
Net assets end of year	\$ 38,941	(14,896)	8,767	32,812

SEE NOTES TO FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2011

	Business Type Activities:			
	Enterprise Funds			
	Roadrunner		Preschool	Total
School Nutrition	Childcare Center			
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 255,884	0	0	255,884
Cash received from daycare services	0	0	52,608	52,608
Cash received from miscellaneous	2,208	0	0	2,208
Cash payments to employees for services	(228,778)	0	(41,702)	(270,480)
Cash payments to suppliers for goods or services	(178,882)	0	0	(178,882)
Net cash provided by(used in) operating activities	(149,568)	0	10,906	(138,662)
Cash flows from non-capital financing activities:				
Interfund repayments	(28)	0	0	(28)
State grants received	3,803	0	0	3,803
Federal grants received	150,128	0	0	150,128
Net cash provided by non-capital financing activities	153,903	0	0	153,903
Cash flows from investing activities:				
Interest on investments	32	0	6	38
Net increase in cash and cash equivalents	4,367	0	10,912	15,279
Cash and cash equivalents at beginning of year	19,818	(14,896)	0	4,922
Cash and cash equivalents at end of year	\$ 24,185	(14,896)	10,912	20,201
Reconciliation of operating gain(loss) to net cash provided by(used in) operating activities:				
Operating gain(loss)	\$ (190,793)	0	9,879	(180,914)
Adjustments to reconcile operating gain(loss) to net cash provided by(used in) operating activities:				
Commodities consumed	22,674	0	0	22,674
Depreciation	18,809	0	0	18,809
Decrease in inventories	4,309	0	0	4,309
Decrease in accounts receivable	550	0	0	550
Decrease in accounts payable	(28)	0	0	(28)
Decrease in salaries and benefits payable	(11,510)	0	0	(11,510)
Decrease in unearned revenue	(909)	0	0	(909)
Increase in other postemployment benefits	7,330	0	1,027	8,357
Net cash provided by(used in) operating activities	\$ (149,568)	0	10,906	(138,662)

## NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2011, the District received \$22,674 of federal commodities.

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2011

	Private Purpose Trust
	Scholarship
ASSETS	
Cash and pooled investments	\$ 8,010
LIABILITIES	0
NET ASSETS	
Restricted for scholarships	\$ 8,010

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest	10
Contributions	\$ 15,000
TOTAL ADDITIONS	15,010
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	16,000
Change in net assets	(990)
Net assets beginning of year	9,000
Net assets end of year	\$ 8,010

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

(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 nonmajor governmental funds. Combining schedules are also included for the Capital Project Fund accounts.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and other capital assets.

The District reports the following proprietary funds.

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

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

#### D. Assets, Liabilities and Fund Equity

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

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, 2009 assessed property valuations; is for the tax accrual period July 1, 2010 through June 30, 2011 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2010.

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

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

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

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, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

Fund Equity - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either

externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Board intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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

**E. Budgeting and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, expenditures in the non-instructional programs functional area exceeded the amount budgeted.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2011 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education 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, 2011, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$1,257,558 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) Due From and Due to Other Funds**

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

Receivable Fund	Payable Fund	Amount
Nutrition	General	\$ 28

**(4) Transfers**

The detail of interfund transfers at June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects: Physical Plant & Equipment Levy	\$ 226,720
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	283,600
Capital Projects: Statewide Sales, Services and Use Tax	Capital Projects: Revenue Bonds	4,610
Capital Projects: Capital Loan Notes	Capital Projects: Statewide Sales, Services and Use Tax	14,449
Total		<u>\$ 529,379</u>

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

**(5) 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 25<sup>th</sup> 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 Series 2010-11A warrants is 1.20% plus the one-month LIBOR rate, adjusted daily. The interest rate on the Series 2010-11B warrants is a variable rate, calculated daily based upon the LIBOR rate plus 120 basis points. During the year ended June 30, 2011, the District had no ISCAP borrowings or repayments.

**(6) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 600,734	0	0	600,734
Total capital assets not being depreciated	600,734	0	0	600,734
Capital assets being depreciated:				
Buildings	14,924,279	160,564	0	15,084,843
Land improvements	952,646	37,004	292,868	696,782
Machinery and equipment	2,155,499	155,105	0	2,310,604
Total capital assets being depreciated	18,032,424	352,673	292,868	18,092,229
Less accumulated depreciation for:				
Buildings	4,218,206	183,131	0	4,401,337
Land improvements	389,577	221,518	292,868	318,227
Machinery and equipment	1,571,911	140,052	0	1,711,963
Total accumulated depreciation	6,179,694	544,701	292,868	6,431,527
Total capital assets being depreciated, net	11,852,730	(192,028)	0	11,660,702
Governmental activities capital assets, net	\$ 12,453,464	(192,028)	0	12,261,436
<b>Business type activities:</b>				
Machinery and equipment	\$ 361,085	0	9,340	351,745
Less accumulated depreciation	311,502	18,809	9,340	320,971
Business type activities capital assets, net	\$ 49,583	(18,809)	0	30,774

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 96,206
Other		14,151
Support services:		
Student		921
Instructional staff		2,264
Administration		3,693
Operation and maintenance of plant		2,501
Transportation		89,931
Unallocated depreciation		335,034
Total governmental activities depreciation expense		\$ 544,701
Business type activities:		
Food service operations		\$ 18,809

(7) **Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2011 are summarized as follows:

	Balance			Balance	Due
	Beginning			End of	Within
	of Year	Additions	Deletions	Year	One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 3,135,000	0	425,000	2,710,000	440,000
Revenue Bonds	1,150,000	0	210,000	940,000	220,000
Capital Loan Notes	1,530,000	0	170,000	1,360,000	175,000
Computer lease	0	79,384	28,311	51,073	24,483
Early Retirement	81,755	181,133	32,497	230,391	133,973
Compensated Absences	2,704	15,339	2,704	15,339	15,339
Net OPEB Liability	132,871	121,604	0	254,475	0
Total	<u>\$ 6,032,330</u>	<u>397,460</u>	<u>868,512</u>	<u>5,561,278</u>	<u>1,008,795</u>
<b>Business Type Activities:</b>					
Net OPEB Liability	<u>\$ 9,129</u>	<u>8,357</u>	<u>0</u>	<u>17,486</u>	<u>0</u>

General Obligation Bonds Payable

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

Year	Bond issue of December 1, 2002			
	Ending	Interest	Principal	Total
June 30,	Rates			
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>\$ 2,710,000</u>	<u>340,200</u>	<u>2,725,200</u>

Revenue Bonds

Details of the District's statewide sales, services and use tax revenue bonded indebtedness, as June 30, 2011, are as follows:

Year	Bond issue of May 1, 2008			
	Ending	Interest	Principal	Total
June 30,	Rates			
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		<u>\$ 940,000</u>	<u>72,630</u>	<u>1,012,630</u>

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 \$1,012,630. For the current year, \$210,000 in principal and \$38,395 in interest was paid on the bonds and total statewide sales, services and use tax revenues were \$589,113.

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, 2011 capital loan notes indebtedness are as follows:

Year Ending June 30,	Capital Loans Note of May 1, 2008				
	Interest Rates		Principal	Interest	Total
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			\$ 1,360,000	219,484	1,579,484

Computer Lease

A detail of the District's June 30, 2011 computer lease indebtedness is as follows:

Year Ending June 30,	Computer lease of July 15, 2010			
	Interest Rates	Principal	Interest	Total
2012	8.61 %	\$ 24,483	4,397	28,880
2013	8.61	26,590	2,290	28,880
		<u>\$ 51,073</u>	<u>6,687</u>	<u>57,760</u>

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, 2011, totaled \$32,497. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

**(8) Pension and Retirement Benefits**

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

Plan members are required to contribute 4.50% of their annual covered salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$344,139, \$294,272, and \$265,379, respectively, equal to the required contributions for each year.

**(9) Other Postemployment Benefits (OPEB)**

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, 2011, 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	6,390
Adjustment to annual required contribution	<u>(5,429)</u>
Annual OPEB cost	197,961
Contributions made	<u>(68,000)</u>
Increase in net OPEB obligation	129,961
Net OPEB obligation - beginning of year	<u>142,000</u>
Net OPEB obligation - end of year	<u><u>\$ 271,961</u></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, 2011.

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:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 197,000	27.92%	\$ 142,000
2011	197,961	34.35%	271,961

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$1,491,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,491,000. The covered payroll (annual payroll of active employees covered by the plan) was \$3,893,622, and the ratio of the UAAL to the covered payroll was 38.3%. As of June 30, 2011, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. 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

**(10) 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, 2011 were \$1,117,188.

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.

**(11) 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 \$335,812 for the year ended June 30, 2011 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Deficit Fund Balance**

At June 30, 2011, the Roadrunner Childcare Center Fund had deficit unrestricted net assets of \$14,896.

**(13) Budget Overexpenditure**

During the year ended June 30, 2011, District expenditures in the non-instructional programs functional area exceeded the budgeted amount.

**(14) Categorical Funding**

The District's restricted fund balance for categorical funding at June 30, 2011 is comprised of the following programs:

Program	Amount
Home School Assistance Program	\$ 3,846
At-Risk Programs	15,257
Gifted and Talented Programs	26,567
Returning Dropouts and Dropout Prevention Programs	176,502
Teacher Salary Supplement	16,994
Market Factor	1,358
Iowa Early Intervention Block Grant	3,091
Vocational Aid	1,783
Statewide Voluntary Preschool Program Grants	27,023
Professional Development for Model Core Curriculum	27,344
Professional Development	34,398
Market Factor Incentives	113
Total	<u>\$ 334,276</u>

**(15) Accounting Change/Restatement**

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

	<u>Capital Projects</u>	<u>Special Revenue, Physical Plant and Equipment Levy</u>
Balances June 30, 2010, as previously stated	\$ 394,559	17,979
Change in fund type classification per implementation of GASB Statement No. 54	17,979	(17,979)
Balances July 1, 2010, as restated	<u>\$ 412,538</u>	<u>-</u>

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF  
 REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2011

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Funds		Original	Final	Actual
	Actual	Actual				Actual
Revenues:						
Local sources	\$ 4,697,195	311,097	5,008,292	5,052,992	5,052,992	(44,700)
Intermediate sources	353	0	353	23,000	23,000	(22,647)
State sources	4,636,905	3,803	4,640,708	5,519,287	5,519,287	(878,579)
Federal sources	270,037	171,256	441,293	542,000	542,000	(100,707)
Total revenues	9,604,490	486,156	10,090,646	11,137,279	11,137,279	(1,046,633)
Expenditures/expenses:						
Instruction	5,270,885	42,729	5,313,614	7,200,602	7,200,602	1,886,988
Support services	2,663,048	35,889	2,698,937	3,382,198	3,382,198	683,261
Non-instructional programs	8,190	413,355	421,545	407,324	407,324	(14,221)
Other expenditures	1,719,725	0	1,719,725	1,363,259	1,800,000	80,275
Total expenditures/expenses	9,661,848	491,973	10,153,821	12,353,383	12,790,124	2,636,303
Excess(deficiency) of revenues over(under) expenditures/expenses	(57,358)	(5,817)	(63,175)	(1,216,104)	(1,652,845)	1,589,670
Other financing sources, net	79,651	0	79,651	10,000	10,000	69,651
Excess(deficiency) of revenues and other financing sources over(under) expenditures/expenses	22,293	(5,817)	16,476	(1,206,104)	(1,642,845)	1,659,321
Balance beginning of year	2,460,947	38,629	2,499,576	2,811,955	2,811,955	(312,379)
Balance end of year	\$ 2,483,240	32,812	2,516,052	1,605,851	1,169,110	1,346,942

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2011

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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, the District adopted one budget amendment increasing budgeted expenditures by \$436,741.

During the year ended June 30, 2011, expenditures in the non-instructional programs functional area exceeded the amounts budgeted.

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

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAAL as a Percentage of Covered Payroll ((b-a)/c)
			Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2010	July 1, 2009	-	\$ 1,491,000	1,491,000	0.0%	\$ 4,103,443	36.3%
2011	July 1, 2009	-	1,491,000	1,491,000	0.0%	3,893,622	38.3%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 198,510	129,906	328,416
Receivables:			
Property tax:			
Delinquent	3,197	0	3,197
Succeeding year	224,999	0	224,999
<b>TOTAL ASSETS</b>	<b>\$ 426,706</b>	<b>129,906</b>	<b>556,612</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 0	2,948	2,948
Deferred revenue:			
Succeeding year property tax	224,999	0	224,999
Total liabilities	224,999	2,948	227,947
Fund Balances:			
Management levy purposes	201,707	0	201,707
Student activities	0	126,958	126,958
	201,707	126,958	328,665
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 426,706</b>	<b>129,906</b>	<b>556,612</b>

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, 2011

	Special Revenue		
	Manage- ment Levy	Student Activity	Total
REVENUES:			
Local sources:			
Local tax	\$ 200,109	0	200,109
Other	18,146	214,435	232,581
State sources	133	0	133
TOTAL REVENUES	218,388	214,435	432,823
EXPENDITURES:			
Current:			
Instruction:			
Regular	30,839	0	30,839
Other	0	183,174	183,174
Support services:			
Administration	153,002	0	153,002
Operation and maintenance of plant	1,000	717	1,717
Non-instructional programs:			
Food service operations	8,190	0	8,190
TOTAL EXPENDITURES	193,031	183,891	376,922
Net change in fund balances	25,357	30,544	55,901
Fund balances beginning of year, as restated	176,350	96,414	272,764
Fund balance end of year	\$ 201,707	126,958	328,665

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2011

	Capital Projects		
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>Assets</b>			
Cash and pooled investments	\$ 97,846	18,022	115,868
Receivables:			
Property tax:			
Delinquent	0	4,929	4,929
Succeeding year	0	319,738	319,738
Due from other governments	300,579	0	300,579
<b>Total Assets</b>	<b>\$ 398,425</b>	<b>342,689</b>	<b>741,114</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 2,198	842	3,040
Deferred revenue:			
Succeeding year property tax	0	319,738	319,738
Total liabilities	2,198	320,580	322,778
Fund balances:			
Restricted for:			
School infrastructure	396,227	0	396,227
Physical plant and equipment	0	22,109	22,109
Total fund balances	396,227	22,109	418,336
<b>Total Liabilities and Fund Balances</b>	<b>\$ 398,425</b>	<b>342,689</b>	<b>741,114</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2011

	Capital Projects				
	Statewide Sales, Services and Use Tax	Revenue Bonds	Capital Loan Notes	Physical Plant and Equipment Levy	Total
REVENUES:					
Local sources:					
Local tax	\$ 589,113	0	0	308,817	897,930
Other	156	0	0	84	240
State sources	0	0	0	204	204
TOTAL REVENUES	<u>589,269</u>	<u>0</u>	<u>0</u>	<u>309,105</u>	<u>898,374</u>
EXPENDITURES:					
Current:					
Support services:					
Instructional staff	100,760	0	0	0	100,760
Operation and maintenance of plant	0	0	0	25,529	25,529
Transportation	0	0	0	1,250	1,250
Other expenditures:					
Facilities acquisitions	282,625	0	0	51,476	334,101
TOTAL EXPENDITURES	<u>383,385</u>	<u>0</u>	<u>0</u>	<u>78,255</u>	<u>461,640</u>
Excess of revenues over expenditures	205,884	0	0	230,850	436,734
Other financing sources(uses):					
Transfer in	4,610	0	14,449	0	19,059
Transfer out	(298,049)	(4,610)	0	(226,720)	(529,379)
Proceeds from capital lease	79,384	0	0	0	79,384
Total other financing sources(uses)	<u>(214,055)</u>	<u>(4,610)</u>	<u>14,449</u>	<u>(226,720)</u>	<u>(430,936)</u>
Net change in fund balances	(8,171)	(4,610)	14,449	4,130	5,798
Fund balances beginning of year, as restated	<u>404,398</u>	<u>4,610</u>	<u>(14,449)</u>	<u>17,979</u>	<u>412,538</u>
Fund balances end of year	<u>\$ 396,227</u>	<u>0</u>	<u>0</u>	<u>22,109</u>	<u>418,336</u>

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, 2011

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intra- Fund Transfers	Balance End of Year
Speech	\$ 0	555	555	0	0
HS Vocal	3,300	1,245	941	0	3,604
HS Band	760	6,048	4,168	0	2,640
Co-ed athletic gates	5,232	31,681	24,826	0	12,087
Cross Country	523	2,838	1,691	0	1,670
Golf	271	850	281	0	840
HS Cheerleaders	2,120	5,457	5,927	0	1,650
Dance Team	6,711	9,344	9,709	0	6,346
Boys Basketball	2,543	468	686	0	2,325
Football	3,983	8,050	5,393	0	6,640
Baseball	3,708	4,841	6,616	0	1,933
Boys Track	1,111	1,630	1,947	0	794
Wrestling	2,455	7,965	6,015	0	4,405
Girls Basketball	3,112	5,978	3,847	0	5,243
Volleyball	1,852	3,857	4,019	0	1,690
Softball	788	940	977	0	751
Girls Track	2,058	3,650	3,594	0	2,114
HS General Athletics	2,752	5,652	5,482	0	2,922
JH Athletics	457	6,033	5,841	0	649
Knowledge Bowl	0	169	169	0	0
Booster Club	12,582	54,974	41,031	0	26,525
AED Grant	279	0	192	0	87
Athletic Complex	88	0	0	0	88
Interest	11	118	129	0	0
TAG Activity Fund Balance	592	395	407	0	580
Honor Society	705	369	595	0	479
HS Student Council	4,598	5,878	6,044	0	4,432
FFA	7,128	17,707	19,581	0	5,254
Art Club	12	0	12	0	0
HS Book Club	1,394	0	0	0	1,394
Senior Breakfast	234	0	0	0	234
Math & Science Club	482	2,340	2,558	0	264
Middle School Band	272	4,210	2,693	0	1,789
Vocal Entry Fees	108	0	0	0	108
7th and 8th Vocal	964	1,226	488	0	1,702
Elem Vocal	487	784	214	0	1,057
Class of 2009	220	0	0	(220)	0
Class of 2010	664	4	668	0	0
Class of 2011	268	256	502	0	22
Class of 2012	2,165	745	2,193	0	717
Class of 2013	658	911	150	0	1,419
Class of 2014	0	490	0	220	710
Class of 2015	0	270	0	0	270
High School Fundraising	1,191	3,712	3,790	0	1,113
Unreserved-Fund Balance Preschool	758	35	35	0	758
Elementary Classes	3,436	3,456	4,877	0	2,015
EL/MS Fundraising	93	0	0	0	93
Middle School Classes	7,152	192	1,278	0	6,066
JH Student Council	6,137	9,112	3,770	0	11,479
	<u>\$ 96,414</u>	<u>214,435</u>	<u>183,891</u>	<u>0</u>	<u>126,958</u>

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 EIGHT YEARS

	Modified Accrual Basis							
	Years Ended June 30,							
	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:								
Local sources:								
Local tax	\$ 3,993,720	3,713,350	3,689,949	3,326,721	3,296,822	3,033,229	2,961,634	2,503,938
Tuition	377,762	409,448	430,322	355,098	322,459	283,603	230,110	188,971
Other	325,713	405,991	428,611	443,370	500,273	458,751	415,118	345,482
Intermediate sources	353	1,995	20,671	673	9,691	3,663	180	860
State sources	4,636,905	3,989,444	4,735,246	4,752,359	4,453,988	3,711,595	3,534,845	3,343,852
Federal sources	270,037	628,378	433,239	635,610	169,225	172,332	172,013	125,386
<b>Total</b>	<b>\$ 9,604,490</b>	<b>9,148,606</b>	<b>9,738,038</b>	<b>9,513,831</b>	<b>8,752,458</b>	<b>7,663,173</b>	<b>7,313,900</b>	<b>6,508,489</b>
Expenditures:								
Current:								
Instruction:								
Regular	\$ 3,317,574	3,348,908	3,493,510	3,264,668	2,929,529	2,593,367	2,566,745	2,453,170
Special	1,202,031	967,625	1,418,006	1,190,396	1,271,565	879,648	1,054,796	843,303
Other	751,280	1,011,326	808,075	756,316	673,801	677,564	552,769	539,517
Support services:								
Student	170,644	166,748	136,504	133,351	124,138	170,046	177,068	174,280
Instructional staff	436,885	318,651	190,381	79,919	55,002	48,296	37,662	73,135
Administration	958,645	968,134	928,888	838,959	860,317	872,124	786,083	670,130
Operation and maintenance of plant	577,505	657,582	753,379	644,583	639,872	658,572	676,195	553,359
Transportation	519,369	715,343	519,824	507,750	465,040	447,807	484,531	458,525
Non-instructional programs	8,190	0	0	0	0	0	0	0
Other expenditures:								
Facilities acquisitions	334,101	558,685	2,639,674	537,325	51,501	52,552	80,903	510
Long-term debt:								
Principal	833,311	770,000	555,000	385,000	375,000	365,000	355,000	350,000
Interest and fiscal charges	216,501	242,153	245,357	158,623	169,947	180,522	189,391	196,648
AEA flow-through	335,812	331,913	309,836	300,529	282,513	233,707	222,803	216,931
<b>Total</b>	<b>\$ 9,661,848</b>	<b>10,057,068</b>	<b>11,998,434</b>	<b>8,797,419</b>	<b>7,898,225</b>	<b>7,179,205</b>	<b>7,183,946</b>	<b>6,529,508</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
**(a professional corporation)**  
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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, 2011, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 10, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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, 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 I of the accompanying Schedule of Findings as item I-A-11 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Interstate 35 Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit 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.

February 10, 2012

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the collection of cash receipts and the preparation of bank deposits were done by the same employees. We also noted that the entering of cash receipts and bank reconciliations were done by the same employees.

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 - There are two building secretaries in each building, therefore one secretary will be responsible for receipting the cash and checks, and the other secretary will be responsible for preparing the deposit for the bank. Within the Superintendent's Office, the Superintendent's Secretary will continue to enter cash receipts for the Student Activity and School Nutrition Fund and the Business Manager will reconcile these accounts. The Business Manager will continue to enter cash receipts for the General Fund and the Superintendent's Secretary will reconcile this account. In addition, the district will employ compensating controls whenever adequate segregation of duties cannot be achieved.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2011

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

II-A-11 Certified Budget - District disbursements for the year ended June 30, 2011 exceeded the amounts budgeted in the non-instructional programs functional area.

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 - The district amended the budget in May due to unanticipated facilities improvements. At that time, there appeared to be sufficient budget for the remainder of the fiscal year in the non-instructional budget area, but due to year-end entries in the School Nutrition Fund for depreciation expense, the expenditures ended up exceeding the certified budget in this area.

The district will monitor the non-instructional budget more closely, taking into consideration year-end adjustments to depreciation expense and amend the budget if necessary in the future.

Conclusion - Response accepted.

II-B-11 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.

II-C-11 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-11 Business Transactions - Business transactions between the District and District officials 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	\$746
Travis Egli, Coach Owns Egli Feed & Supply	Supplies	\$807
Denny Clark, Building/Grounds Director Owns Out Door Enhancements	Purchased Services	\$65
Vicki Westerly, Teacher Spouse owns Teen Driver	Purchased Services	\$4,700

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

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

- II-E-11 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-11 Certified Enrollment - We noted variances in the basic enrollment data certified to the Department of Education. The total number of students certified was understated by 1 student.

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.

- II-H-11 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Department of Education were noted.
- II-I-11 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-11 Certified Annual Report -The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-K-11 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- II-L-11 Statewide Sales, Services and Use Tax- No instances of non-compliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2011, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$	409,008
Revenues/transfers in:			
Sales tax revenues	\$	589,113	
Other local revenues		156	
Sale of long-term debt		79,384	
Transfer from other funds		4,610	673,263
			<u>1,082,271</u>
Expenditures/transfers out:			
School infrastructure construction	\$	260,355	
Equipment		79,384	
Other		48,256	
Transferred to other funds:			
Debt service fund		283,600	
Other transfers		14,449	686,044
			<u>686,044</u>
Ending Balance		\$	<u>396,227</u>

For the year ended June 30, 2011, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

II-M-11 Financial Condition - At June 30, 2011, the Roadrunner Childcare Center Fund had a deficit unrestricted net assets of \$14,896.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - The Roadrunner Childcare Fund was discontinued in fiscal year 2010, after the fund's inability to produce enough cash flow to meet its expenditures. The district will carry the deficit balance forward unless a fund transfer is approved from another fund to eliminate the deficit.

Conclusion - Response accepted.

II-N-11 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. In accordance with Chapter 298A.8 of the Code of Iowa and Iowa Administrative Rule 281-12.6(1), moneys in the Student Activity Fund should be used to support only the extracurricular and co-curricular activities offered as part of the District's educational program. More specific examples of these instances of questioned items and recommendations are as follows:

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

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

Response - The district will record any funds raised by student organizations for scholarships to the district's Trust Fund for payment in the future.

Conclusion - Response accepted.

**Donations to Outside Organizations:** We noted donations to various outside organizations without supporting documentation indicating that fundraising was for those specific purposes. Chapter 9 of the LEA Administrative Manual describes ‘payments to any private organization unless a fundraiser was held expressly for that purpose and the purpose of the fundraiser was specifically identified’ as an inappropriate expenditure in the Student Activity Fund.

Recommendation - The District should refrain from making donations to outside organizations unless a fundraiser was held expressly for that purpose and the purpose was documented.

Response - The district has begun obtaining minutes from the meetings of student organizations where decisions regarding fundraising and the uses for those funds are discussed, and attaches that documentation with the purchase order before charitable donation payments are made.

Conclusion - Response accepted.