

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2011**

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Introductory Section



Board of Education and School District Officials

At June 30, 2011

Name	Title	Term Expires
Board of Education		
Timothy Becker	President	September, 2013
Robert Thoms	Vice President	September, 2011
Michele Appelgate	Member	September, 2013
Gary Hoffman	Member	September, 2013
Darshini Jayawardena	Member	September, 2011
Paula Recinos	Member	September, 2011
Mark Young	Member	September, 2011
Officials		
Dr. Anita Micich	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section



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A Professional Corporation

Certified Public Accountants and Consultants

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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 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, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District at June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 25, 2012 on our consideration of the Mason City Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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 4 through 14 and 42 and 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mason City 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 ten years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 44 through 52, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information, including the schedule of expenditures of federal awards, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 25, 2012

**MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$37,066,738 in fiscal 2010 to \$40,164,650 in fiscal 2011, and General Fund expenditures increased from \$36,788,405 in fiscal 2010 to \$36,858,240 in fiscal 2011. This resulted in an increase of \$3,306,410 in General Fund balance from \$3,459,097 in fiscal 2010 to \$6,765,507 in fiscal 2011.

The increase in General Fund revenues of \$3,097,912 was attributable to an increase in property taxes and state aid. The increase in expenditures was due primarily to increased transportation and fuel costs and building transition expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Finally, other supplementary information provides detailed information about the nonmajor governmental funds. In addition, the schedule of expenditures of federal awards provides details of various programs benefiting the District.

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

FIGURE A-1

**MASON CITY COMMUNITY SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT**

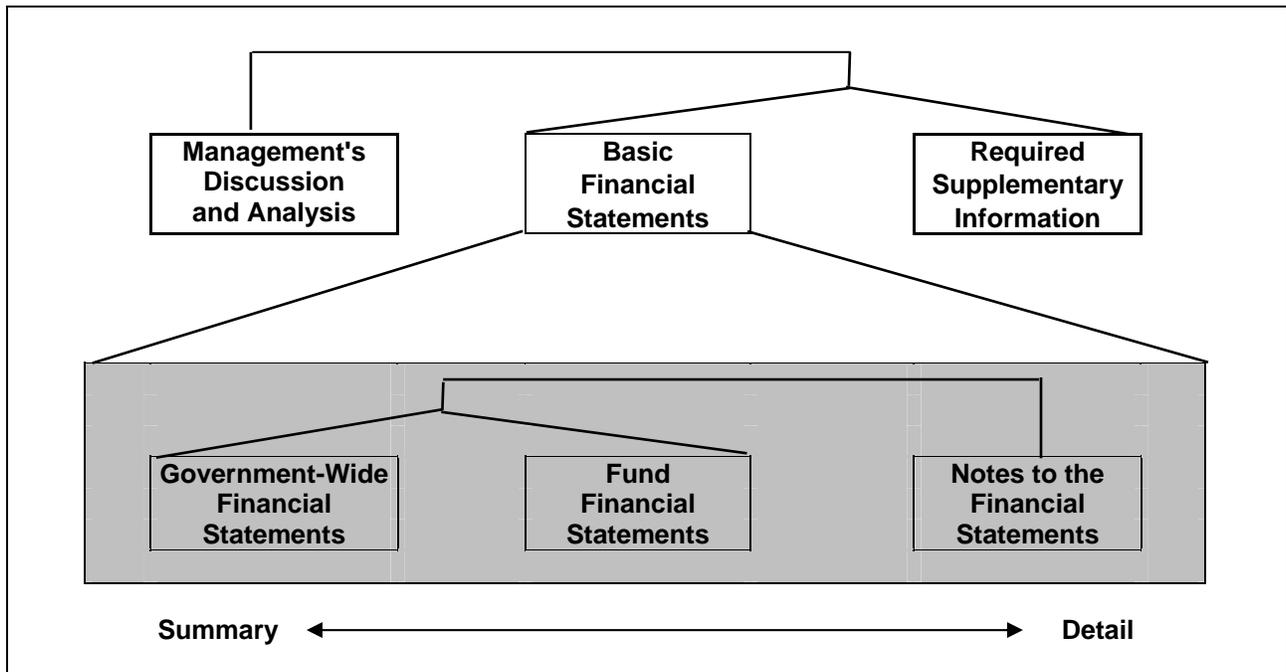


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

FIGURE A-2				
MAJOR FEATURES OF THE GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS				
	Government-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenue, expenditures, and changes in fund balances	* Statement of net assets * Statement of revenue, expenses and changes in net assets * Statement of cash flows	* Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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 revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 revenue 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

GOVERNMENT-WIDE STATEMENTS

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

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

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

In the 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:

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, Capital Projects Fund and Debt Service Fund.

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

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 fund, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

Fiduciary Funds: The District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund - These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other districts and certain revenue collected for District employee purchases of pop and related expenditures.

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 government-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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Figure A-3 below provides a summary of the District's net assets at June 30, 2011 compared to June 30, 2010.

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 75,989,287	\$ 49,529,439	\$ 891,181	\$ 893,468	\$ 76,880,468	\$ 50,422,907
Capital assets	41,231,195	35,332,303	160,412	209,118	41,391,607	35,541,421
TOTAL ASSETS	<u>\$ 117,220,482</u>	<u>\$ 84,861,742</u>	<u>\$ 1,051,593</u>	<u>\$ 1,102,586</u>	<u>\$ 118,272,075</u>	<u>\$ 85,964,328</u>
Long-term obligations	\$ 38,262,278	\$ 12,927,291	\$ —	\$ —	\$ 38,262,278	\$ 12,927,291
Other liabilities	23,701,612	22,392,324	33,961	40,819	23,735,573	22,433,143
TOTAL LIABILITIES	<u>\$ 61,963,890</u>	<u>\$ 35,319,615</u>	<u>\$ 33,961</u>	<u>\$ 40,819</u>	<u>\$ 61,997,851</u>	<u>\$ 35,360,434</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 3,221,195	\$ 23,207,303	\$ 160,412	\$ 209,118	\$ 3,381,607	\$ 23,416,421
Restricted	42,364,406	19,968,961	—	—	42,364,406	19,968,961
Unrestricted	9,670,991	6,365,863	857,220	852,649	10,528,211	7,218,512
TOTAL NET ASSETS	<u>\$ 55,256,592</u>	<u>\$ 49,542,127</u>	<u>\$ 1,017,632</u>	<u>\$ 1,061,767</u>	<u>\$ 56,274,224</u>	<u>\$ 50,603,894</u>

The District's combined net assets increased 11%, or approximately \$5.7 million, over the prior year. The largest portion of the District's net assets are invested in capital assets (e.g., land, infrastructure, intangibles, 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 represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$22.4 million, or 112%, over the prior year. The increase was primarily a result of bond proceeds for capital projects not spent as of June 30, 2011.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$3.3 million, or 46%. This increase in unrestricted net assets was primarily a result of an increase in revenues due to increased property tax levies and a reduction in expenditures.

Changes in Net Assets - 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

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET ASSETS**

	Governmental Activities		Business-Type Activities		Total District		Total Change
	2011	2010	2011	2010	2011	2010	2010-2011
REVENUES:							
Program Revenues:							
Charges for service	\$ 2,582,417	\$ 2,319,989	\$ 833,342	\$ 1,054,484	\$ 3,415,759	\$ 3,374,473	\$ 41,286
Operating grants and contributions	6,605,991	6,615,378	1,018,888	1,043,903	7,624,879	7,659,281	(34,402)
Capital grants and contributions	—	—	—	16,158	—	16,158	(16,158)
General Revenues:							
Property tax	16,028,021	14,360,783	—	—	16,028,021	14,360,783	1,667,238
Statewide sales, services and use tax	4,619,054	4,431,750	—	—	4,619,054	4,431,750	187,304
Unrestricted state grants	17,038,912	16,377,859	—	—	17,038,912	16,377,859	661,053
Unrestricted investment earnings	267,742	145,334	2,605	1,715	270,347	147,049	123,298
Other	101,935	91,565	—	—	101,935	91,565	10,370
TOTAL REVENUES	47,244,072	44,342,658	1,854,835	2,116,260	49,098,907	46,458,918	2,639,989
PROGRAM EXPENSES:							
Governmental Activities:							
Instruction	27,426,167	27,633,683	—	—	27,426,167	27,633,683	(207,516)
Support services	10,770,874	10,096,368	—	—	10,770,874	10,096,368	674,506
Non-instructional programs	19,535	26,285	1,898,970	1,935,791	1,918,505	1,962,076	(43,571)
Other expenditures	3,313,031	2,454,236	—	—	3,313,031	2,454,236	858,795
TOTAL EXPENSES	41,529,607	40,210,572	1,898,970	1,935,791	43,428,577	42,146,363	1,282,214
CHANGE IN NET ASSETS	\$ 5,714,465	\$ 4,132,086	\$ (44,135)	\$ 180,469	\$ 5,670,330	\$ 4,312,555	\$ 1,357,775

In fiscal year 2011, property tax, statewide sales, services and use tax and unrestricted state grants account for approximately 77% of total revenues. The District's expenses primarily relate to instruction and support services which account for approximately 88% of the total expenses.

The District's total revenues were approximately \$49.1 million, of which approximately \$47.2 million was for governmental activities and \$1.9 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 6% increase in revenues and a 3% increase in expenses. Property tax increased approximately \$1.7 million to fund the increase in expenses. The increase in expenses is related to fuel and transportation costs and transitioning RMS to Lincoln Intermediate.

Governmental Activities

Revenues for governmental activities were \$47,244,072 and expenses were \$41,529,607, which amounted to an increase in net assets of \$5,714,465. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

FIGURE A-5
MASON CITY COMMUNITY SCHOOL DISTRICT
TOTAL AND NET COST OF GOVERNMENTAL ACTIVITIES

	Total Cost of Services			Net Cost of Services		
	2011	2010	Change 2010-10	2011	2010	Change 2010-11
Instruction	\$ 27,426,167	\$ 27,633,683	(0.8)%	\$ 20,153,569	\$ 20,612,830	(2.2)%
Support services	10,770,874	10,096,368	6.7 %	10,696,229	10,009,648	6.9 %
Non-instructional programs	19,535	26,285	(25.7)%	19,535	26,285	(25.7)%
Other expenditures	<u>3,313,031</u>	<u>2,454,236</u>	<u>35.0 %</u>	<u>1,471,866</u>	<u>626,442</u>	<u>135.0 %</u>
TOTALS	<u>\$ 41,529,607</u>	<u>\$ 40,210,572</u>	<u>3.3 %</u>	<u>\$ 32,341,199</u>	<u>\$ 31,275,205</u>	<u>3.4 %</u>

- The cost financed by users of the District's programs was \$2,582,417.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$6,605,991.
- The net cost of governmental activities was financed with \$20,647,075 in property and other taxes, \$17,038,912 in state foundation aid and \$267,742 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$1,854,835 and expenses were \$1,898,970. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The District uses School Dining Services, which is a web-based software program to facilitate the District's hot lunch program. Parents are able to deposit money into their child's hot lunch account through RevTrak, which is also a web-based program. Parents may also print out a record of exactly what their child eats every day. The price of meals was not increased in school year 2010-2011.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Individual Fund Analysis

As previously noted, the Mason City 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 the District completed the year, its governmental funds reported combined fund balances of \$48,062,529, well above last year's ending fund balances of \$22,751,879. The main reasons for the increase in combined fund balances in 2011 were issuing general obligation bonds at the end of the fiscal year and increasing general fund revenues without increasing expenditures.

Governmental Fund Highlights

The General Fund expenditures for negotiated salaries decreased by \$742,837.98 from 2010 to 2011; whereas, the benefits decreased by \$302,462.47 from 2010 to 2011. Salaries and benefits make up approximately 83% of the General Fund budget. The decrease in salaries and benefits was attributed to layoffs and attrition.

On March 4, 2003, the taxpayers of Cerro Gordo County passed a one-cent local option sales tax to be used for school infrastructure. The first priority of the Mason City Community School's Board of Education was to reduce the bonded indebtedness. In order to do this, the interest and principal payments on the Harding/Hoover construction project are funded with transfers from the Capital Projects Fund where the one-cent local option sales tax monies are deposited. Also, the Iowa legislature in March, 2009 enacted the LOSST program as permanent throughout the state, rather than individually by county approval and is now referred to as SAFE tax. SAFE is extended to June, 2029 and will bring more stability and open other financing options to the District. As of July 1, 2013, all of the District's bonded indebtedness will be paid off. At that point in time, the Mason City Community School District will be part of the statewide SAFE revenue which will mean the District's revenue will decrease by approximately \$500 per student.

The Board of Education's decision to save \$300,000 a year from the PPEL Fund for long-term investments and major projects has resulted in a savings set aside of \$2,407,320 for school years 2002-2010 as of June 30, 2011.

The District received \$1,000,000 in Qualified Zone Academy Bonds (QZAB) to remodel ten academic classrooms at Roosevelt Elementary School. The Local Option Sales and Services Tax will also be used to repay the principal on the QZAB. The Federal Taxpayer Relief Act of 1997 created the Qualified Zone Academy Bond Program (QZAB) to provide low or no interest financing for renovating school buildings and purchasing equipment. New construction does not apply under this program.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$1,061,767 in 2010 to \$1,017,632 in 2011, a decrease of \$44,135, or approximately 4%. Total revenues in 2011 were \$1,854,835 which is a decrease of \$261,425 from \$2,116,260 in 2010. Total expenses for 2011 were \$1,898,970 and in 2010 they were \$1,935,791 for a decrease of \$36,821, or approximately 2%. The decrease in revenues and expenditures was mainly due to construction projects for the Middle School and High School cafeterias.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The District's total actual receipts were \$3,185,259 less than the total budgeted receipts; a variance of 6.1%. The most significant changes were due to loss of cafeteria revenues due to construction and timing of refinancing of bonds and timing of selling QSCB and revenue bonds. Another contributing factor was loss of ARRA or stimulus funding.

Total expenditures were greater than budgeted due primarily to not budgeting for the refinancing of the general obligation debt which took place during the fiscal year. 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 the actual expenditures during the year. The District's total actual expenditures were \$52,204,592 compared to the budget amount of \$49,042,689 or a difference of \$3,161,903, which is a 6.4% variance. The majority of the variance in expenditures is due to the remodeling project at the High School and John Adams Middle School.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2011, the District had invested \$41,391,607, 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). Depreciation expense was \$1,393,064 for Governmental Activities and \$33,485 for Business-Type Activities. Additional information about the District's capital assets is presented in Note 5 to the financial statements.

Governmental Activities account for \$41,231,195 of the District's capital assets with the remainder of \$160,412 in the Business-Type Activities.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$7,299,249 at June 30, 2011, compared to \$259,257 reported at June 30, 2010. This significant increase resulted from construction activity financed by the issuance of revenue bonds totaling \$29,540,000 in fiscal year 2011, of which \$14,540,000 are QSCB Bonds, for the renovations of the High School and John Adams Middle School. The District also issued \$5,845,000 of refunding bonds to pay off revenue bonds issued July 1, 2004. The refunding resulted in an economic gain of \$14,171.

FIGURE A-6

**MASON CITY COMMUNITY SCHOOL DISTRICT
CAPITAL ASSETS, NET OF DEPRECIATION**

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2011	2010	2011	2010	2011	2010
Land	\$ 408,722	\$ 408,722	\$ —	\$ —	\$ 408,722	\$ 408,722
Construction in progress	7,299,249	259,257	—	—	7,299,249	259,257
Buildings and improvements	32,965,284	34,175,209	—	—	32,965,284	34,175,209
Furniture and equipment	<u>557,940</u>	<u>489,115</u>	<u>160,412</u>	<u>209,118</u>	<u>718,352</u>	<u>698,233</u>
TOTALS	<u>\$ 41,231,195</u>	<u>\$ 35,332,303</u>	<u>\$ 160,412</u>	<u>\$ 209,118</u>	<u>\$ 41,391,607</u>	<u>\$ 35,541,421</u>

Long-Term Debt

At June 30, 2011, the District had \$1,625,000 in general obligation bonds outstanding and \$36,385,000 in revenue bonds outstanding. The District retired debt in the amount of \$9,500,000 and issued revenue bonds in the amount of \$35,385,000 during the year ended June 30, 2011. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

FIGURE A-7

**MASON CITY COMMUNITY SCHOOL DISTRICT
OUTSTANDING LONG-TERM OBLIGATIONS**

	Total District June 30, 2011	Total District June 30, 2010	Debt Retired June 30, 2011
General obligation bonds	\$ 1,625,000	\$ 2,415,000	\$ 790,000
Revenue bonds	35,385,000	8,710,000	8,710,000
Qualified Zone Academy Bonds	<u>1,000,000</u>	<u>1,000,000</u>	<u>—</u>
TOTAL BONDS	<u>\$ 38,010,000</u>	<u>\$ 12,125,000</u>	<u>\$ 9,500,000</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District has experienced declining enrollment for the past 14 years. The District was averaging a 75 student decline in student enrollment per school year. The District significantly reduced staff in school year 2009-2010 while increasing the general fund tax levy to compensate for the 11.5% across-the-board cut.

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 Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2011

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and investments	\$ 56,367,060	\$ 782,267	\$ 57,149,327
Receivables			
Property Taxes, Net of Allowance			
Current year delinquent.....	195,978	—	195,978
Succeeding year	16,347,138	—	16,347,138
Accrued interest	23,277	—	23,277
Due from other governments	121,207	—	121,207
Due from other funds	—	1,213	1,213
Interfund loan to agency	200,000	—	200,000
Other	2,054,548	—	2,054,548
Inventories and prepaid expenses.....	16,720	107,701	124,421
Capital assets, net of accumulated depreciation	41,231,195	160,412	41,391,607
Restricted Assets			
Cash held by agent.....	663,359	—	663,359
Total Assets	<u>\$ 117,220,482</u>	<u>\$ 1,051,593</u>	<u>\$ 118,272,075</u>
Liabilities			
Accounts payable	\$ 2,041,180	\$ 1,586	\$ 2,042,766
Salaries and benefits payable	4,035,574	32,375	4,067,949
Due to other funds.....	30,129	—	30,129
Accrued interest payable	52,855	—	52,855
Deferred Revenue			
Succeeding year property taxes	16,347,138	—	16,347,138
Other	621,449	—	621,449
Provision for self-insurance claims	573,287	—	573,287
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds	825,000	—	825,000
Revenue bonds, net of unamortized discount.....	2,268,529	—	2,268,529
Compensated absences	172,735	—	172,735
Early retirement.....	268,803	—	268,803
Portion Due After One Year			
General obligation bonds	800,000	—	800,000
Revenue bonds, net of unamortized discount.....	32,646,211	—	32,646,211
Qualified Zone Academy Bonds.....	336,641	—	336,641
Payable from Restricted Assets			
Qualified Zone Academy Bonds.....	663,359	—	663,359
Net OPEB liability	281,000	—	281,000
Total Liabilities	<u>61,963,890</u>	<u>33,961</u>	<u>61,997,851</u>
Net Assets			
Invested in capital assets, net of related debt	3,221,195	160,412	3,381,607
Restricted for			
Categorical funding	372,790	—	372,790
Adopt-a-school.....	38,288	—	38,288
Debt service	3,407,470	—	3,407,470
Management levy.....	2,391,145	—	2,391,145
Property, plant and equipment levy	3,876,879	—	3,876,879
Student activities.....	225,627	—	225,627
Capital projects	31,698,721	—	31,698,721
Other purposes	233,740	—	233,740
Other special revenue purposes	119,747	—	119,747
Unrestricted	9,670,990	857,220	10,528,210
Total Net Assets	<u>55,256,592</u>	<u>1,017,632</u>	<u>56,274,224</u>
Total Liabilities and Net Assets	<u>\$ 117,220,482</u>	<u>\$ 1,051,593</u>	<u>\$ 118,272,075</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2011

Functions/Programs	Expenses
Governmental Activities	
Instruction	
Regular instruction	\$ 15,329,313
Special instruction	7,715,852
Vocational instruction	567,014
Co-curricular instruction	<u>3,813,988</u>
Total Instruction	<u>27,426,167</u>
Support Services	
Student services	929,517
Instructional staff services	1,273,450
Administration services	3,602,815
Operation and maintenance of plant services	2,837,224
Transportation services	1,353,011
Central services	32
Community services	11,603
Other support services	<u>763,222</u>
Total Support Services	<u>10,770,874</u>
Noninstructional Programs	
Scholarships	<u>19,535</u>
Other Expenditures	
Facilities acquisition	991,036
Long-term debt interest	479,712
AEA flow through	1,841,165
Depreciation - unallocated	<u>1,118</u>
Total Other Expenditures	<u>3,313,031</u>
Total Governmental Activities	41,529,607
Business-Type Activities	
Noninstructional Programs	
Nutrition services	<u>1,898,970</u>
Total	<u>\$ 43,428,577</u>
General Revenue	
Property Taxes Levied for	
General purposes	
Management	
Capital outlay	
Statewide sales, services and use tax	
Unrestricted state grants	
Other	
Unrestricted investment earnings	
Total General Revenue	
Change in Net Assets	
Net Assets - Beginning of Year	
Net Assets - End of Year	

See accompanying notes to the financial statements.

<u>Program Revenue</u>		<u>Net (Expenses), Revenue and Changes in Net Assets</u>		
<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 1,498,182	\$ 4,756,935	\$ (9,074,196)	\$ —	\$ (9,074,196)
26,103	7,891	(7,681,858)	—	(7,681,858)
—	—	(567,014)	—	(567,014)
983,487	—	(2,830,501)	—	(2,830,501)
<u>2,507,772</u>	<u>4,764,826</u>	<u>(20,153,569)</u>	<u>—</u>	<u>(20,153,569)</u>
—	—	(929,517)	—	(929,517)
—	—	(1,273,450)	—	(1,273,450)
26,848	—	(3,575,967)	—	(3,575,967)
—	—	(2,837,224)	—	(2,837,224)
47,797	—	(1,305,214)	—	(1,305,214)
—	—	(32)	—	(32)
—	—	(11,603)	—	(11,603)
—	—	(763,222)	—	(763,222)
<u>74,645</u>	<u>—</u>	<u>(10,696,229)</u>	<u>—</u>	<u>(10,696,229)</u>
—	—	(19,535)	—	(19,535)
—	—	(991,036)	—	(991,036)
—	—	(479,712)	—	(479,712)
—	1,841,165	—	—	—
—	—	(1,118)	—	(1,118)
—	<u>1,841,165</u>	<u>(1,471,866)</u>	<u>—</u>	<u>(1,471,866)</u>
2,582,417	6,605,991	(32,341,199)	—	(32,341,199)
833,342	1,018,888	—	(46,740)	(46,740)
<u>\$ 3,415,759</u>	<u>\$ 7,624,879</u>	<u>(32,341,199)</u>	<u>(46,740)</u>	<u>(32,387,939)</u>
		14,863,707	—	14,863,707
		799,989	—	799,989
		364,325	—	364,325
		4,619,054	—	4,619,054
		17,038,912	—	17,038,912
		101,935	—	101,935
		<u>267,742</u>	<u>2,605</u>	<u>270,347</u>
		38,055,664	2,605	38,058,269
		5,714,465	(44,135)	5,670,330
		<u>49,542,127</u>	<u>1,061,767</u>	<u>50,603,894</u>
		<u>\$ 55,256,592</u>	<u>\$ 1,017,632</u>	<u>\$ 56,274,224</u>

Balance Sheet - Governmental Funds

At June 30, 2011

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and pooled investments.....	\$ 10,677,156	\$ 2,990,065	\$ 35,384,567	\$ 2,791,122	\$ 51,842,910
Receivables					
Property Taxes, Net					
Current year delinquent	220,019	—	5,438	11,842	237,299
Succeeding year	15,174,957	—	372,177	800,004	16,347,138
Accrued interest.....	—	—	23,277	—	23,277
Due from other funds.....	2,762	—	632	82,549	85,943
Due from other governments.....	1,208,005	—	846,543	—	2,054,548
Interfund loan to agency.....	—	—	—	200,000	200,000
Other.....	8,062	—	—	65,665	73,727
Inventories and prepaid items.....	16,720	—	—	—	16,720
Cash held by agent	—	—	663,359	—	663,359
Total Assets.....	\$ 27,307,681	\$ 2,990,065	\$ 37,295,993	\$ 3,951,182	\$ 71,544,921
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 547,619	\$ —	\$ 1,347,129	\$ 146,742	\$ 2,041,490
Salaries and benefits payable.....	4,035,297	—	—	277	4,035,574
Due to other funds.....	124,673	—	—	1,944	126,617
Early retirement payable	—	—	—	268,803	268,803
Deferred Revenue					
Succeeding year property taxes.....	15,174,957	—	372,177	800,004	16,347,138
Other.....	659,628	—	1,087	2,055	662,770
Total Liabilities	20,542,174	—	1,720,393	1,219,825	23,482,392
Fund Balances					
Nonspendable					
Nonspendable	16,720	—	—	—	16,720
Restricted for					
Categorical funding	372,790	—	—	—	372,790
Scholarships.....	—	—	—	109,266	109,266
Capital projects.....	—	—	35,575,600	—	35,575,600
Student activities	—	—	—	225,627	225,627
Management levy purposes	—	—	—	2,391,145	2,391,145
Juvenile home	116,882	—	—	—	116,882
General purposes.....	143,587	—	—	—	143,587
Debt service.....	—	2,990,065	—	—	2,990,065
Unassigned	6,115,528	—	—	5,319	6,120,847
Total Fund Balances	6,765,507	2,990,065	35,575,600	2,731,357	48,062,529
Total Liabilities and Fund Balances	\$ 27,307,681	\$ 2,990,065	\$ 37,295,993	\$ 3,951,182	\$ 71,544,921

See accompanying notes to the financial statements.

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

At June 30, 2011

Total Fund Balances for Governmental Funds (Page 17)..... **\$ 48,062,529**

***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. 41,231,195

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 4,009,198

Long-term liabilities, including bonds payable, accrued interest, other post-employment benefits and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable.....	\$ (52,855)	
Bonds payable	(38,010,000)	
Unamortized discount	470,260	
Compensated absences	(172,735)	
Net OPEB liability	<u>(281,000)</u>	<u>(38,046,330)</u>

Net Assets of Governmental Activities (Page 15) **\$ 55,256,592**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2011

	General	Debt Service	Capital Projects	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Revenue					
Local Sources					
Local tax	\$ 14,863,707	\$ —	\$ 4,983,379	\$ 799,989	\$ 20,647,075
Tuition	1,045,534	—	—	—	1,045,534
Other	459,552	2,460	233,547	1,059,176	1,754,735
State sources	21,347,979	—	266	605	21,348,850
Federal sources	2,447,878	—	—	—	2,447,878
Total Revenue	<u>40,164,650</u>	<u>2,460</u>	<u>5,217,192</u>	<u>1,859,770</u>	<u>47,244,072</u>
Expenditures					
Current					
Instruction					
Regular instruction	14,114,646	—	—	—	14,114,646
Special instruction	7,641,949	—	—	—	7,641,949
Vocational instruction	562,895	—	—	—	562,895
Co-curricular instruction	2,708,067	—	—	1,008,089	3,716,156
Total Instruction	<u>25,027,557</u>	<u>—</u>	<u>—</u>	<u>1,008,089</u>	<u>26,035,646</u>
Support Services					
Student	921,853	—	—	—	921,853
Instructional staff	1,267,666	—	—	—	1,267,666
Administration	3,528,429	—	—	—	3,528,429
Operation and maintenance of plant	2,925,178	—	14,662	—	2,939,840
Transportation	1,334,757	—	—	—	1,334,757
Central	32	—	—	—	32
Community	11,603	—	—	—	11,603
Other support	—	—	—	763,222	763,222
Total Support Services	<u>9,989,518</u>	<u>—</u>	<u>14,662</u>	<u>763,222</u>	<u>10,767,402</u>
Noninstructional Programs					
Scholarships	—	—	—	19,535	19,535
Other Expenditures					
Facilities acquisition	—	—	8,031,028	—	8,031,028
Long-Term Debt					
Principal	—	2,830,000	—	—	2,830,000
Interest and fiscal charges	—	652,763	128,083	—	780,846
AEA flowthrough	1,841,165	—	—	—	1,841,165
Total Other Expenditures	<u>1,841,165</u>	<u>3,482,763</u>	<u>8,159,111</u>	<u>—</u>	<u>13,483,039</u>
Total Expenditures	<u>36,858,240</u>	<u>3,482,763</u>	<u>8,173,773</u>	<u>1,790,846</u>	<u>50,305,622</u>
Revenue Over (Under) Expenditures	<u>3,306,410</u>	<u>(3,480,303)</u>	<u>(2,956,581)</u>	<u>68,924</u>	<u>(3,061,550)</u>
Other Financing Sources (Uses)					
Revenue bonds issued	—	—	29,540,000	—	29,540,000
Discount on revenue bonds	—	—	(313,575)	—	(313,575)
Refunding bonds issued	—	5,845,000	—	—	5,845,000
Discount on refunding bonds	—	(29,225)	—	—	(29,225)
Refunding principal paid	—	(6,670,000)	—	—	(6,670,000)
Operating transfers in	—	3,262,000	—	—	3,262,000
Operating transfers out	—	—	(3,262,000)	—	(3,262,000)
Total Other Financing Sources (Uses)	<u>—</u>	<u>2,407,775</u>	<u>25,964,425</u>	<u>—</u>	<u>28,372,200</u>
Net Change in Fund Balances	<u>3,306,410</u>	<u>(1,072,528)</u>	<u>23,007,844</u>	<u>68,924</u>	<u>25,310,650</u>
Fund Balances - Beginning of Year, as restated (Note 17)	3,459,097	4,062,593	12,567,756	2,662,433	22,751,879
Fund Balances - End of Year	<u>\$ 6,765,507</u>	<u>\$ 2,990,065</u>	<u>\$ 35,575,600</u>	<u>\$ 2,731,357</u>	<u>\$ 48,062,529</u>

See accompanying notes to the financial statements.

Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities _____

Year Ended June 30, 2011

Change in Fund Balances - Total Governmental Funds (Page 19) \$ 25,310,650

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

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

Capital outlays.....	\$ 7,323,564	
Depreciation expense	(1,393,064)	
Net book value of assets disposed	<u>(31,608)</u>	5,898,892

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities. (131,160)

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 issues exceeded repayments, as follows:

Issued.....	\$ (35,385,000)	
Repaid.....	<u>9,500,000</u>	(25,885,000)

Discount on bonds issued during the year did not provide current financial resources to governmental funds but it decreases liabilities in the statement of net assets. 504,625

Amortization of discount on bonds payable issued in current year increases current financial resources to governmental funds but it increases liabilities in the statement of net assets. (34,365)

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. 173,674

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Compensated absences.....	\$ (1,251)	
Other post-employment benefits	<u>(121,600)</u>	<u>(122,851)</u>

Change in Net Assets of Governmental Activities (Page 16) \$ 5,714,465

Statement of Net Assets - Proprietary Funds

At June 30, 2011

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Internal Service Fund</u> Self-Insurance Fund
Assets		
Cash and cash equivalents	\$ 782,267	\$ 4,524,149
Receivables		
Accounts	—	47,790
Interfund	1,213	10,545
Inventories and prepaid expenses.....	107,701	—
Furniture and equipment	667,814	—
Less accumulated depreciation	<u>(507,402)</u>	<u>—</u>
Total Assets	<u>\$ 1,051,593</u>	<u>\$ 4,582,484</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,586	\$ 573,286
Salaries and benefits payable	<u>32,375</u>	<u>—</u>
Total Liabilities	<u>33,961</u>	<u>573,286</u>
Net Assets		
Invested in capital assets, net of related debt	160,412	—
Unrestricted	<u>857,220</u>	<u>4,009,198</u>
Total Net Assets	<u>1,017,632</u>	<u>4,009,198</u>
Total Liabilities and Net Assets	<u>\$ 1,051,593</u>	<u>\$ 4,582,484</u>

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2011

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Internal Service Fund</u> Self-Insurance Fund
Operating Revenue		
Local Sources		
Charges for service.....	\$ 827,530	\$ —
Other receipts	5,812	—
Self-insurance contributions	<u>—</u>	<u>4,376,363</u>
Total Operating Revenue	<u>833,342</u>	<u>4,376,363</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits.....	894,342	
Purchased services.....	953,595	—
Other	2,327	—
Depreciation	33,485	—
Self-insurance claims and fees.....	<u>—</u>	<u>4,528,032</u>
Total Operating Expenses	<u>1,883,749</u>	<u>4,528,032</u>
Loss From Operations	<u>(1,050,407)</u>	<u>(151,669)</u>
Nonoperating Revenue (Expenses)		
State sources.....	15,863	—
Federal sources.....	1,003,025	—
Interest on investments	2,605	—
Loss on disposal of assets	<u>(15,221)</u>	<u>20,509</u>
Total Nonoperating Revenue (Expenses)	<u>1,006,272</u>	<u>20,509</u>
Change in Net Assets	(44,135)	(131,160)
Net Assets - Beginning of Year	<u>1,061,767</u>	<u>4,140,358</u>
Net Assets - End of Year	<u>\$ 1,017,632</u>	<u>\$ 4,009,198</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2011

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Internal Service Fund</u> Self-Insurance Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 833,515	\$ —
Cash received from assessments made to other funds	—	4,385,910
Cash payments to employees for services.....	(900,788)	—
Cash payments for insurance claims.....	—	(4,412,709)
Cash payments to suppliers for goods and services	(838,994)	—
Net Cash Used in Operating Activities	<u>(906,267)</u>	<u>(26,799)</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	15,863	—
Federal grants received.....	841,037	—
Net Cash Provided by Noncapital Financing Activities	<u>856,900</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>2,605</u>	<u>20,508</u>
Net Decrease in Cash and Cash Equivalents	<u>(46,762)</u>	<u>(6,291)</u>
Cash and Cash Equivalents, at Beginning of Year.....	<u>829,029</u>	<u>4,530,440</u>
Cash and Cash Equivalents at End of Year	<u>\$ 782,267</u>	<u>\$ 4,524,149</u>
Reconciliation of Loss From Operations to Net Cash Used in Operating Activities		
Loss from operations	\$ (1,050,407)	\$ (151,669)
Adjustments to Reconcile Loss From Operations to Net Cash Used in Operating Activities		
Commodities used.....	123,137	—
Depreciation.....	33,485	—
Changes in Assets and Liabilities		
Decrease in receivables	173	9,547
Increase in inventories and prepaid items.....	(5,797)	—
Increase (decrease) in accounts payable and provision for self-insurance claims	(412)	115,323
Decrease in salaries and benefits payable.....	<u>(6,446)</u>	<u>—</u>
Net Cash Used in Operating Activities	<u>\$ (906,267)</u>	<u>\$ (26,799)</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2011, the District received \$161,988 of federal commodities.

Statement of Fiduciary Net Assets - Fiduciary Fund

At June 30, 2011

	Agency
Assets	
Cash and investments	\$ 205,525
Accounts receivable	330
Due from other governments	40
Due from other funds	<u>28,916</u>
Total Assets	<u>\$ 234,811</u>
Liabilities	
Accounts payable	\$ 200
Due to others	32,473
Due to other governments	2,138
Interfund loan	<u>200,000</u>
Total Liabilities	<u>\$ 234,811</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City 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 pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

For financial reporting purposes, the Mason City 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 Mason City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all 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 revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed 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 which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

(1) Summary of Significant Accounting Policies

Fund Financial Statements

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

The District had the following major governmental funds:

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

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

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's proprietary funds are the School Nutrition Fund used to account for the food service operations of the District and the Internal Service Fund used to account for the self-funded health insurance plan operated by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end or if reimbursable grant revenue is spent in the current fiscal year.

Property tax, intergovernmental revenue (shared revenue, 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash, Investments and Cash Equivalents

The cash balances of most District funds are invested. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of one year or less from the date of acquisition.

Investments are stated at fair value which approximates cost except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes 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 taxes receivable have 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 becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2011, government commodities valued at \$73,037 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful lives are not capitalized. The District did not have any intangible assets at June 30, 2011. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings.....	2,000
Improvements other than buildings	2,000
Intangibles.....	100,000
Furniture and Equipment	
School Nutrition Fund equipment.....	500
Other furniture and equipment	2,000
Vehicles.....	2,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings.....	50 Years
Improvements other than buildings	25 Years
Technology equipment.....	5 Years
Other furniture and equipment	10 Years
Vehicles.....	8 Years
Intangibles.....	5 Years

Salaries and Benefits Payable

Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July and August have been accrued as liabilities.

Deferred Revenue

Although certain revenue is measurable, it is 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 year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of unspent grant proceeds as well as property taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue on the statement of net assets consists primarily of succeeding year property taxes receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2011. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Obligations

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:

Nonspendable - Amounts that cannot be spent because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

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.

(1) Summary of Significant Accounting Policies

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts. The District had no committed fund balance at June 30, 2011.

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.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements in other expenditures program functional area exceeded the amounts budgeted.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

The District's deposits in banks 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; 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 improvements certificates of a drainage district.

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

Notes to the Financial Statements

(2) Cash and Investments

The District's investments at June 30, 2011 were as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust - Diversified Portfolio	<u>\$ 6,498</u>

The District's investment in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2011.

(3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2011 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	
	Student Activities	\$ 1,781
	Agency	<u>981</u>
		<u>2,762</u>
Capital Projects	General	<u>632</u>
Internal Service	Agency	<u>10,545</u>
Enterprise		
School Nutrition	General	1,050
	Special Revenue	
	Student Activities	<u>163</u>
		<u>1,213</u>
Special Revenue		
Student Activities	General	82,181
Management Levy	General	<u>368</u>
		<u>82,549</u>
Agency	General	<u>40,442</u>
Total		<u>\$ 138,143</u>

Notes to the Financial Statements

(4) Interfund Transfers

The detail of the interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	<u>\$ 3,262,000</u>

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

(5) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 408,722	\$ —	\$ —	\$ 408,722
Construction in progress	<u>259,257</u>	<u>7,039,992</u>	<u>—</u>	<u>7,299,249</u>
Total Capital Assets Not Being Depreciated.....	<u>667,979</u>	<u>7,039,992</u>	<u>—</u>	<u>7,707,971</u>
Capital Assets Being Depreciated				
Buildings and improvements	52,031,179	—	—	52,031,179
Furniture and equipment.....	<u>2,973,070</u>	<u>283,572</u>	<u>144,011</u>	<u>3,112,631</u>
Total Capital Assets Being Depreciated.....	<u>55,004,249</u>	<u>283,572</u>	<u>144,011</u>	<u>55,143,810</u>
Less Accumulated Depreciation for				
Buildings and improvements	17,855,970	1,209,925	—	19,065,895
Furniture and equipment.....	<u>2,483,955</u>	<u>183,139</u>	<u>112,403</u>	<u>2,554,691</u>
Total Accumulated Depreciation	<u>20,339,925</u>	<u>1,393,064</u>	<u>112,403</u>	<u>21,620,586</u>
Net Total Capital Assets Being Depreciated.....	<u>34,664,324</u>	<u>(1,109,492)</u>	<u>31,608</u>	<u>33,523,224</u>
Net Governmental Activities				
Capital Assets	<u>\$ 35,332,303</u>	<u>\$ 5,930,500</u>	<u>\$ 31,608</u>	<u>\$ 41,231,195</u>
Business-Type Activities				
Furniture and equipment	\$ 784,197	\$ —	\$ 116,383	\$ 667,814
Less accumulated depreciation	<u>575,079</u>	<u>33,485</u>	<u>101,162</u>	<u>507,402</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 209,118</u>	<u>\$ (33,485)</u>	<u>\$ 15,221</u>	<u>\$ 160,412</u>

Notes to the Financial Statements

(5) Capital Assets

Depreciation expense was charged as follows:

Governmental Activities

Instruction	
Regular.....	\$ 1,169,302
Special	17,471
Other	76,752
Support Services	
Administration	45,175
Operation and maintenance of plant.....	65,803
Transportation.....	17,443
	1,391,946
Unallocated depreciation.....	1,118
Total Governmental Activities Depreciation Expense	<u>\$ 1,393,064</u>

Business-Type Activities

School Nutrition.....	<u>\$ 33,485</u>
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(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds....	\$ 2,415,000	\$ —	\$ 790,000	\$ 1,625,000	\$ 825,000
Revenue bonds	9,710,000	35,385,000	8,710,000	36,385,000	2,315,000
Unamortized discount.....	—	(504,625)	(34,365)	(470,260)	(46,471)
Compensated absences.....	171,484	172,735	171,484	172,735	172,735
Early retirement benefits.....	471,407	268,803	471,407	268,803	268,803
Net OPEB liability	159,400	121,600	—	281,000	—
Total	<u>\$ 12,927,291</u>	<u>\$ 35,443,513</u>	<u>\$ 10,108,526</u>	<u>\$ 38,262,278</u>	<u>\$ 3,535,067</u>

General Obligation Bonds Payable

At June 30, 2011, the District's general obligation bond indebtedness was as follows:

Year Ending June 30,	Bonds Issued July 7, 2009			
	Interest Rates	Principal	Interest	Total
2012.....	1.80%	\$ 825,000	\$ 32,050	\$ 857,050
2013.....	2.15	800,000	17,200	817,200
Total		<u>\$ 1,625,000</u>	<u>\$ 49,250</u>	<u>\$ 1,674,250</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds Payable

At June 30, 2011, the District's statewide sales and service tax revenue bonded indebtedness was as follows:

	QZAB Bonds Issued November 22, 2006			QSCB Bonds Issued July 1, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2012.....	0%	\$ —	\$ —	0%	\$ —	\$ —
2013.....	0	1,000,000	—	0	—	—
2014.....	—	—	—	0	—	—
2015.....	—	—	—	0	—	—
2016.....	—	—	—	0	—	—
2017-2021	—	—	—	0	—	—
2022-2026	—	—	—	0	—	—
2027-2030	—	—	—	0	14,540,000	—
Total		<u>\$ 1,000,000</u>	<u>\$ —</u>		<u>\$ 14,540,000</u>	<u>\$ —</u>

	School Infrastructure (Refunding) Issued July 28, 2010			School Infrastructure Issued June 29, 2011		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2012.....	1.3%	\$ 2,315,000	\$ 78,658	2.0%	\$ —	\$ 297,651
2013.....	1.7	2,330,000	43,805	2.0	—	588,760
2014.....	2.0	1,200,000	12,000	2.0	900,000	579,760
2015.....	—	—	—	3.0	640,000	561,160
2016.....	—	—	—	3.0	650,000	541,810
2017-2021	—	—	—	3.00 - 3.5	3,685,000	2,387,906
2022-2026	—	—	—	3.75 - 4.5	4,520,000	1,638,122
2027-2030	—	—	—	4.63 - 5.0	4,605,000	480,194
Total		<u>\$ 5,845,000</u>	<u>\$ 134,463</u>		<u>\$ 15,000,000</u>	<u>\$ 7,075,363</u>

	Total		
	Principal	Interest	Total
2012.....	\$ 2,315,000	\$ 376,309	\$ 2,691,309
2013.....	3,330,000	632,565	3,962,565
2014.....	2,100,000	591,760	2,691,760
2015.....	640,000	561,160	1,201,160
2016.....	650,000	541,810	1,191,810
2017-2021	3,685,000	2,387,906	6,072,906
2022-2026	4,520,000	1,638,122	6,158,122
2027-2031	19,145,000	480,194	19,625,194
Total	<u>\$ 36,385,000</u>	<u>\$ 7,209,826</u>	<u>\$ 43,594,826</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay revenue bonds issued November 22, 2006, July 1, 2010, July 28, 2010 and June 29, 2011. Total principal and interest remaining to be paid on the bonds is \$43,594,826. For the current year, principal and interest paid and total revenue was \$2,424,500 and \$4,619,054, respectively.

The qualified zone academy bonds (QZABs) were issued November 22, 2006 for the purpose of equipping, rehabilitation and repair of Roosevelt Elementary School. The bonds were payable solely from the proceeds of the statewide sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The QZABs were issued at 0% interest. A tax credit rate of 5.57% entitles an eligible taxpayer who owns the bond on each credit allowance date, a federal income tax credit.

The resolution providing for the issuance of the QZABs includes the following provisions:

1. All proceeds from the statewide sales and services tax shall be placed in a special irrevocable trust fund (revenue fund).
2. Annual sinking fund deposits shall be made to an escrow fund. An escrow fund has been established to provide for the payment of the bonds at maturity and all annual sinking fund payments must be invested in qualified investments.
3. The QZABs are not subject to call prior to maturity.

On July 1, 2010, the District issued \$14,540,000 of school infrastructure (statewide) sales, services and use tax revenue qualified school construction bonds (QSCB), Series 2010. The bonds were issued for the purpose of financing a portion of the costs associated with the renovation project of the High School and John Adams Middle School. The bonds are payable from proceeds of any school infrastructure (statewide) sales, services and use tax revenue received by the District and mature July 1, 2027. The bonds have a 0% interest rate. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limit of the District.

The school infrastructure sales, services and use tax revenue bonds issued July 28, 2010 and June 29, 2011 were for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds issued July 28, 2010 and June 29, 2011 include the following provisions:

1. All proceeds from the statewide sales and services tax shall be placed in a revenue fund.
2. Monies in the revenue fund shall be disbursed to make deposits into a sinking fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.

Notes to the Financial Statements

(6) Long-Term Liabilities

3. Monies in the revenue fund shall next be disbursed to a reserve fund. The required amount is the lesser of the sum of 10% of the stated principal amount of the bonds; 125% of the average annual debt service on the bonds; and the maximum annual debt service on the bonds.
4. Any monies remaining in the revenue fund after the required transfers to the sinking fund and the reserve fund may be transferred to the project fund and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2011.

Refunded Bonds

The revenue bonds issued July 28, 2010 were used to advance refund revenue bonds issued July 1, 2004, and the District approved a refunding trust agreement with its refunding trustee. The agreement required the District to transfer cash and authorized the issuance of \$5,845,000 School Infrastructure Sales, Services and Use Tax Revenue Refunding Bonds. The trustee agreed to accept the cash and bond proceeds, invest the funds and call and retire debt principal plus interest. At closing, \$5,192,596 of Series 2010A bond proceeds were wire transferred directly to the refunding trust to purchase certain direct obligations of the United States Government which will mature at such times and in such amounts, including investment income therefrom, as will be sufficient to pay all of the principal and interest on the refunded bonds. Remaining bonds are callable at the dates and in the amounts noted below:

	July 1, 2011	July 1, 2012	July 1, 2013
Series 2004, School Infrastructure Local Option Sales and Services Tax Revenue Bonds.....	\$ 2,125,000	\$ 2,220,000	\$ 2,325,000

The refunding resulted in an economic gain of \$14,171.

Interfund Loan

During the year ended June 30, 2011, the Board approved an interfund loan from the management fund to the agency fund in the amount of \$200,000 including interest at 0.35% due upon receipt of Perkins Grant money.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 4.5% of their annual salary and the District is required to contribute 6.95% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$1,571,963, \$1,549,758 and \$1,566,099, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2011 was approximately \$10,700,000.

(9) Risk Management

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

(10) Area Education Agency Support

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 \$1,841,165 for the year ended June 30, 2011, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$50,000 per covered individual. Any amount in excess of \$50,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$4,100,000 for the year ended June 30, 2011.

The District has included \$571,204 in its June 30, 2011 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

The following is a summary of the claims activity for the year ended June 30, 2011:

Estimated cost incurred but not claimed - June 30, 2010.....	\$ 457,964
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2011	4,105,142
Claims paid during the year ended June 30, 2011	<u>3,991,902</u>
Estimated Costs Incurred But Not Claimed - June 30, 2011	<u>\$ 571,204</u>

Notes to the Financial Statements

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2011 was as follows:

Administrators.....	\$ 900
Teachers/Nurse	325
Custodian	225
Secretary	200
Para-Professional/Food Service Workers	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2011 totaled \$268,803. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the Special Revenue Fund.

(13) 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 443 active and 48 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield: Alliance Select. The dental benefit is administered by Delta Dental of Iowa. 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. There is no subsidy or OPEB liability associated with the dental benefit.

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.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

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.....	\$ 252,000
Interest on net OPEB obligation	7,000
Adjustment to annual required contribution	<u>(6,400)</u>
Annual OPEB Cost (Expense)	252,600
Contributions made	<u>(131,000)</u>
Increase in Net OPEB Obligation.....	121,600
Net OPEB Obligation - Beginning of Year	<u>159,400</u>
Net OPEB Obligation - End of Year.....	<u>\$ 281,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2011.

For the fiscal year 2011, the District contributed \$131,000 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2011 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2009	\$ 230,000	61.7%	\$ 88,000
June 30, 2010	252,000	69.9	159,400
June 30, 2011	252,600	51.9	281,000

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period of July 1, 2010 through June 30, 2011, the actuarial accrued liability was \$2.714 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.714 million. The covered payroll (annual payroll of active employees covered by the plan) was \$23,395,155 and the ratio of the UAAL to the covered payroll was 11.6%. 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 Financial Statements, presents 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.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

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 the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Valuation Report as of June 30, 2009 and applying the termination factors used in IPERS Actuarial Report as of June 30, 2009.

Projected claim costs of the medical plan are \$654 per month for retirees less than 65 and for retirees who have attained age 65. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

(14) Operating Lease

The District leases several office copiers under an operating lease expiring in 2013.

The following is a schedule by years of future minimum lease payments required under the operating lease that has initial or remaining noncancelable lease terms in excess of one year:

Year Ending June 30,	
2012.....	\$ 37,428
2013.....	<u>9,357</u>
Total Minimum Payments Required.....	<u>\$ 46,785</u>

Rental expense for all operating leases was \$37,428 for the year ended June 30, 2011.

(15) Categorical Funding

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

Program	Amount
Limited English proficiency	\$ 29,845
Statewide voluntary four-year-old preschool program.....	152,930
Returning dropout and dropout prevention program	63,067
Education quality, professional development	99,055
Beginning teacher mentoring and induction	1,064
Beginning administrator mentoring and induction	1,464
Nonpublic textbook services.....	25,365
	<u>\$ 372,790</u>

Notes to the Financial Statements

(16) Construction Commitment

The District has entered into contracts totaling approximately \$19 million for a remodeling project. As of June 30, 2011, costs of approximately \$6 million had been incurred against the contracts. The balance of approximately \$13 million remaining at June 30, 2011 will be paid as work on the projects progress.

(17) Accounting Change/Restatement

Government 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:

	Capital Projects	Special Revenue, Physical Plant and Equipment Levy
Balances - June 30, 2010, as previously reported	\$ 8,499,674	\$ 4,068,082
Change in fund type classification per implementation of GASB Statement No. 54	<u>4,068,082</u>	<u>(4,068,082)</u>
Balances - July 1, 2010, as Restated	<u>\$ 12,567,756</u>	<u>\$ —</u>

(18) Subsequent Events

Subsequent to June 30, 2011, the Board approved the construction contract for the John Adams Middle School and Mason City High School renovation project for approximately \$3.4 million. In July, 2011, the Board approved a resolution authorizing and providing for the terms of issuance and securing payment of \$2,000,000 school infrastructure sales, services and use tax revenue bonds, Series 2011, which have not been issued yet.

Required Supplementary Information

Schedule of Budgetary Comparison of Revenue, Expenditures and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2011

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total	Original and Final Budget	Over (Under) Budget
Revenue					
Local sources	\$ 23,447,344	\$ 835,947	\$ 24,283,291	\$ 26,709,961	\$ (2,426,670)
State sources.....	21,348,850	15,863	21,364,713	23,299,205	(1,934,492)
Federal sources.....	<u>2,447,878</u>	<u>1,003,025</u>	<u>3,450,903</u>	<u>2,275,000</u>	<u>1,175,903</u>
Total Revenue	<u>47,244,072</u>	<u>1,854,835</u>	<u>49,098,907</u>	<u>52,284,166</u>	<u>(3,185,259)</u>
Expenditures/Expenses					
Instruction	26,035,646	—	26,035,646	28,000,000	(1,964,354)
Support services.....	10,767,402	—	10,767,402	12,710,311	(1,942,909)
Noninstructional programs..	19,535	1,898,970	1,918,505	1,995,000	(76,495)
Other expenditures.....	<u>13,483,039</u>	<u>—</u>	<u>13,483,039</u>	<u>6,337,378</u>	<u>7,145,661</u>
Total Expenditures/ Expenses	<u>50,305,622</u>	<u>1,898,970</u>	<u>52,204,592</u>	<u>49,042,689</u>	<u>3,161,903</u>
Revenue Over (Under) Expenditures/Expenses	(3,061,550)	(44,135)	(3,105,685)	3,241,477	(6,347,162)
Other Financing Sources (Uses), Net	<u>28,372,200</u>	<u>—</u>	<u>28,372,200</u>	<u>(6,730,000)</u>	<u>35,102,200</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses	25,310,650	(44,135)	25,266,515	(3,488,523)	28,755,038
Balance - Beginning of Year	<u>22,751,879</u>	<u>1,061,767</u>	<u>23,813,646</u>	<u>16,263,339</u>	<u>7,550,307</u>
Balance - End of Year.....	<u>\$ 48,062,529</u>	<u>\$ 1,017,632</u>	<u>\$ 49,080,161</u>	<u>\$ 12,774,816</u>	<u>\$ 36,305,345</u>

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 and statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

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

During the year ended June 30, 2011, disbursements in the other expenditures program function exceeded the amount budgeted.

Schedule of Funding Progress for the Retiree Health Plan ---

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2009	7-1-08	\$ —	\$ 2,244,000	\$ 2,244,000	0.0%	\$ 19,903,966	11.3%
2010	7-1-08	—	2,244,000	2,244,000	0.0	20,026,581	11.2
2011	7-1-10	—	2,714,000	2,714,000	0.0	23,395,155	11.6

See Note 13 in the accompanying notes to the financial statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2011

	<u>Special Revenue Funds</u>			Total
	Management Account	Student Activities	Expendable Trust	
Assets				
Cash and pooled investments	\$ 2,551,537	\$ 125,000	\$ 114,585	\$ 2,791,122
Receivables				
Property Taxes, Net				
Current year delinquent.....	11,842	—	—	11,842
Succeeding year	800,004	—	—	800,004
Due from other funds	368	82,181	—	82,549
Interfund loan to agency.....	200,000	—	—	200,000
Other	—	65,665	—	65,665
Total Assets	<u>\$ 3,563,751</u>	<u>\$ 272,846</u>	<u>\$ 114,585</u>	<u>\$ 3,951,182</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 101,744	\$ 44,998	\$ —	\$ 146,742
Salaries and benefits payable	—	277	—	277
Due to other funds	—	1,944	—	1,944
Early retirement payable.....	268,803	—	—	268,803
Deferred Revenue				
Succeeding year property taxes.....	800,004	—	—	800,004
Other	2,055	—	—	2,055
Total Liabilities	<u>1,172,606</u>	<u>47,219</u>	<u>—</u>	<u>1,219,825</u>
Fund Balances				
Restricted for				
Scholarships.....	—	—	109,266	109,266
Management levy purposes	2,391,145	—	—	2,391,145
Student activities	—	225,627	—	225,627
Unassigned.....	—	—	5,319	5,319
Total Fund Balances	<u>2,391,145</u>	<u>225,627</u>	<u>114,585</u>	<u>2,731,357</u>
Total Liabilities and Fund Balances	<u>\$ 3,563,751</u>	<u>\$ 272,846</u>	<u>\$ 114,585</u>	<u>\$ 3,951,182</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2011

	Special Revenue Funds			Total
	Management Account	Student Activities	Expendable Trust	
Revenue				
Local Sources				
Local tax.....	\$ 799,989	\$ —	\$ —	\$ 799,989
Other	56,059	983,989	19,128	1,059,176
State sources.....	605	—	—	605
Total Revenue.....	856,653	983,989	19,128	1,859,770
Expenditures				
Instruction				
Co-curricular instruction	—	1,008,089	—	1,008,089
Support Services				
Other support	763,222	—	—	763,222
Noninstructional Programs				
Scholarships.....	—	—	19,535	19,535
Total Expenditures.....	763,222	1,008,089	19,535	1,790,846
Net Change in Fund Balances.....	93,431	(24,100)	(407)	68,924
Fund Balances - Beginning				
of Year.....	2,297,714	249,727	114,992	2,662,433
Fund Balances - End of Year.....	\$ 2,391,145	\$ 225,627	\$ 114,585	\$ 2,731,357

Combining Balance Sheet - Capital Projects Accounts

At June 30, 2011

	<u>Capital Projects Accounts</u>		Total Capital Projects Fund
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Assets			
Cash and pooled investments	\$ 31,333,220	\$ 4,051,347	\$ 35,384,567
Receivables			
Property Taxes, Net			
Current year delinquent	—	5,438	5,438
Succeeding year	—	372,177	372,177
Accrued interest	23,277	—	23,277
Due from other funds	—	632	632
Due from other governments	846,543	—	846,543
Restricted Assets			
Cash held by agent	<u>663,359</u>	<u>—</u>	<u>663,359</u>
Total Assets	<u>\$ 32,866,399</u>	<u>\$ 4,429,594</u>	<u>\$ 37,295,993</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,167,678	\$ 179,451	\$ 1,347,129
Deferred Revenue			
Succeeding year property taxes	—	372,177	372,177
Other	<u>—</u>	<u>1,087</u>	<u>1,087</u>
Total Liabilities	<u>1,167,678</u>	<u>552,715</u>	<u>1,720,393</u>
Fund Balances			
Restricted for			
School infrastructure	31,698,721	—	31,698,721
Physical plant and equipment	<u>—</u>	<u>3,876,879</u>	<u>3,876,879</u>
Total Fund Balances	<u>31,698,721</u>	<u>3,876,879</u>	<u>35,575,600</u>
Total Liabilities and Fund Balances	<u>\$ 32,866,399</u>	<u>\$ 4,429,594</u>	<u>\$ 37,295,993</u>

Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Capital Projects Accounts

Year Ended June 30, 2011

	Capital Projects Accounts		Total Capital Projects Fund
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Revenue			
Local Sources			
Local taxes	\$ 4,619,054	\$ 364,325	\$ 4,983,379
Other.....	180,338	53,209	233,547
State sources.....	—	266	266
Total Revenue	4,799,392	417,800	5,217,192
Expenditures			
Support Services			
Operation and maintenance of plant	—	14,662	14,662
Other Expenditures			
Facilities acquisition.....	7,436,687	594,341	8,031,028
Long-Term Debt			
Interest and fiscal charges.....	128,083	—	128,083
Total Other Expenditures.....	7,564,770	594,341	8,159,111
Total Expenditures	7,564,770	609,003	8,173,773
Revenue Under Expenditures	(2,765,378)	(191,203)	(2,956,581)
Other Financing Sources (Uses)			
General obligation bond issued.....	29,540,000	—	29,540,000
Discount on general obligation bonds	(313,575)	—	(313,575)
Operating transfers out.....	(3,262,000)	—	(3,262,000)
Total Other Financing Sources (Uses)	25,964,425	—	25,964,425
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	23,199,047	(191,203)	23,007,844
Fund Balance - Beginning of Year.....	8,499,674	4,068,082	12,567,756
Fund Balance - End of Year	\$ 31,698,721	\$ 3,876,879	\$ 35,575,600

See accompanying notes to the financial statements.

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2011

Account	Balance - Beginning of Year	Revenue and Transfers	Expenditures and Transfers	Balance - End of Year
Administration.....	\$ 29,242	\$ 46,635	\$ 48,712	\$ 27,165
Special Olympics.....	—	1,690	1,607	83
Talent Development.....	579	430	430	579
High School Speech and Drama.....	6,747	4,788	5,438	6,097
High School Vocal Music.....	54,400	170,916	178,937	46,379
High School Instrumental Music.....	24,532	35,509	36,668	23,373
High School Athletics.....	156	339,515	338,801	870
Cheerleading.....	—	14,970	14,970	—
General Athletics.....	—	123,833	123,833	—
Concession Stand.....	12,405	65,499	77,503	401
Tournaments.....	4,448	33,833	37,341	940
National Art Honor Society.....	1,162	85	346	901
Foreign Language.....	118	1,048	963	203
AFS International Club.....	1,203	—	—	1,203
Model U.N.....	2,146	—	1,016	1,130
Literary Club.....	237	—	—	237
Math Club.....	1,568	—	—	1,568
Science Club.....	331	82	—	413
Home Economics.....	243	—	—	243
Adult Living.....	449	—	—	449
Gay/Straight Alliance.....	—	489	220	269
Industrial Tech - Special Project.....	563	—	—	563
Prom.....	6,345	6,321	3,564	9,102
Student Council.....	7,792	9,330	10,388	6,734
Mohawk Press.....	2,100	—	—	2,100
Yearbook.....	(16,121)	26,022	9,901	—
Ambassadors.....	1,053	—	—	1,053
National Honor Society.....	—	539	539	—
Alternative School.....	2,357	2,389	1,658	3,088
Middle School Athletics.....	25	13,318	13,318	25
Middle School Vocal Music.....	327	—	—	327
John Adams Middle School.....	17,828	11,219	7,703	21,344
Roosevelt Middle School.....	54,359	—	54,359	—
Harding Elementary.....	8,274	7,146	7,419	8,001
Hoover Elementary.....	—	7,917	7,165	752
Jefferson Elementary.....	6,459	31,203	37,662	—
Lincoln Intermediate.....	—	57,424	15,314	42,110
Madison Elementary.....	539	—	539	—
Roosevelt Elementary.....	1,712	6,293	8,005	—
Student Parking.....	4,257	386	—	4,643
MCHS JEL.....	5,740	—	—	5,740
MCHS Sod House.....	17	—	—	17
MCHS Trapshooting.....	—	533	533	—
MCHS Best Buddies.....	2,385	2,450	300	4,535
MCHC/ISU Prosper Grant.....	3,750	—	760	2,990
	<u>\$ 249,727</u>	<u>\$ 1,021,812</u>	<u>\$ 1,045,912</u>	<u>\$ 225,627</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ▬

Year Ended June 30, 2011

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and investments	\$ 44,636	\$ 725,298	\$ 564,409	\$ 205,525
Accounts receivable	—	330	—	330
Due from other governments.....	—	40	—	40
Due from other funds.....	<u>162,938</u>	<u>28,916</u>	<u>162,938</u>	<u>28,916</u>
Total Assets	<u>\$ 207,574</u>	<u>\$ 754,584</u>	<u>\$ 727,347</u>	<u>\$ 234,811</u>
Liabilities				
Accounts payable	\$ 53	\$ 200	\$ 53	\$ 200
Due to others	43,786	552,246	563,559	32,473
Due to other funds	13,735	—	13,735	—
Due to other governments.....	—	2,138	—	2,138
Interfund loan.....	<u>150,000</u>	<u>200,000</u>	<u>150,000</u>	<u>200,000</u>
Total Liabilities	<u>\$ 207,574</u>	<u>\$ 754,584</u>	<u>\$ 727,347</u>	<u>\$ 234,811</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

For the Last Ten Years

	2011	2010	2009	2008
Revenue				
Local Sources				
Property taxes	\$ 20,647,075	\$ 18,792,533	\$ 18,482,676	\$ 18,369,828
Tuition	1,045,534	969,895	773,756	689,366
Other	1,754,735	1,557,159	1,735,786	2,169,005
Intermediate sources	—	—	—	3,239
State sources.....	21,348,850	18,898,633	21,634,299	20,938,336
Federal sources.....	<u>2,447,878</u>	<u>4,124,438</u>	<u>1,008,833</u>	<u>1,198,706</u>
Total	<u>\$ 47,244,072</u>	<u>\$ 44,342,658</u>	<u>\$ 43,635,350</u>	<u>\$ 43,368,480</u>
Expenditures				
Instruction				
Regular instruction	\$ 14,114,646	\$ 14,567,967	\$ 14,329,253	\$ 13,925,271
Special instruction.....	7,641,949	8,173,084	8,951,060	8,582,024
Vocational instruction.....	562,895	719,311	800,266	823,893
Co-curricular instruction	3,716,156	3,271,661	2,769,624	2,697,209
Other instruction.....	—	—	—	—
Support Services				
Student services	921,853	1,033,000	965,307	856,993
Instructional staff services.....	1,267,666	781,290	953,723	768,295
Administration services.....	3,528,429	3,515,080	3,685,363	3,736,825
Operation and maintenance of plant services	2,939,840	2,943,584	3,244,035	2,900,385
Transportation services.....	1,334,757	1,263,411	1,277,202	1,180,755
Central support services	32	133,686	155,736	—
Community services.....	11,603	21,734	20,581	31,535
Other support services.....	763,222	452,308	405,477	411,467
Noninstructional programs.....	19,535	26,285	31,434	35,969
Other Expenditures				
Facilities acquisition	8,031,028	996,763	506,723	712,643
Long-Term Debt				
Principal.....	2,830,000	5,955,000	2,595,000	2,510,000
Interest and other charges	780,846	571,464	757,028	842,650
AEA flowthrough.....	<u>1,841,165</u>	<u>1,827,794</u>	<u>1,556,509</u>	<u>1,473,782</u>
Total	<u>\$ 50,305,622</u>	<u>\$ 46,253,422</u>	<u>\$ 43,004,321</u>	<u>\$ 41,489,696</u>

2007	2006	2005	2004	2003	2002
\$ 17,944,250	\$ 17,655,326	\$ 16,907,057	\$ 15,233,474	\$ 12,978,548	\$ 12,221,369
688,651	559,101	673,039	587,095	568,980	553,071
2,397,408	2,144,816	2,102,912	1,324,786	1,541,293	1,581,319
3,070	3,150	21,812	—	—	—
20,594,807	19,990,995	19,381,781	18,956,646	18,954,174	17,815,730
<u>1,252,122</u>	<u>1,139,746</u>	<u>1,193,538</u>	<u>1,250,640</u>	<u>895,238</u>	<u>703,233</u>
<u>\$ 42,880,308</u>	<u>\$ 41,493,134</u>	<u>\$ 40,280,139</u>	<u>\$ 37,352,641</u>	<u>\$ 34,938,233</u>	<u>\$ 32,874,722</u>
\$ 14,094,556	\$ 12,851,648	\$ 12,499,642	\$ 12,867,538	\$ 12,580,788	\$ 12,946,298
7,961,424	7,930,603	8,343,099	8,948,307	8,090,177	5,802,878
725,538	623,236	583,875	419,619	397,634	409,424
2,274,720	2,104,340	1,374,316	1,386,706	1,495,486	1,463,748
—	—	—	—	—	1,249,819
946,822	914,875	945,606	893,804	897,688	944,005
859,849	826,137	1,906,887	1,037,506	1,040,758	1,025,978
3,496,479	3,214,801	2,854,026	2,243,707	2,191,715	2,208,921
2,924,864	2,743,789	2,531,780	2,474,640	2,431,820	2,295,120
1,070,857	1,118,067	729,202	544,964	635,345	578,785
3,947	57,608	25,733	216,516	216,645	243,636
27,220	28,998	29,456	16,764	25,582	32,074
432,686	418,981	427,280	362,371	270,042	194,706
47,893	39,145	286,515	35,141	31,300	36,946
4,398,636	15,709,139	3,296,605	1,385,571	974,171	808,401
2,450,000	2,335,000	575,000	550,000	525,000	500,000
941,675	1,029,600	676,450	304,605	319,012	340,263
<u>1,441,443</u>	<u>1,384,649</u>	<u>1,343,115</u>	<u>1,357,515</u>	<u>1,425,447</u>	<u>1,373,373</u>
<u>\$ 44,098,609</u>	<u>\$ 53,330,616</u>	<u>\$ 38,428,587</u>	<u>\$ 35,045,274</u>	<u>\$ 33,548,610</u>	<u>\$ 32,454,375</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 11	\$ 125,469
National School Lunch Program.....	10.555	FY 11	872,714
Summer Food Service Program for Children	10.559	FY 11	<u>4,842</u>
Total U.S. Department of Agriculture			<u>1,003,025</u>
U.S. Department of Defense			
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention -			
Allocation to States.....	16.540	FY 11	<u>23,610</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title 1 Cluster			
Title 1 Grants to Local Educational Agencies.....	84.010	FY 11	655,577
ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act	84.389	FY 11	<u>187,519</u>
Total Title I Cluster			<u>843,096</u>
Title 1 Program for Neglected and Delinquent Children	84.013	FY 11	<u>38,839</u>
Career and Technical Education - Basic Grants to States...	84.048*	FY 11	<u>195,291</u>
Safe and Drug-Free Schools and Communities - State Grants.....	84.186	FY 11	<u>4,586</u>
Fund for the Improvement of Education.....	84.215	FY 11	<u>3,166</u>
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	FY 11	<u>285</u>
Improving Teacher Quality State Grants.....	84.367	FY 11	<u>208,341</u>
Grants for State Assessments and Related Activities.....	84.369	FY 11	<u>7,249</u>
State Fiscal Stabilization Cluster			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	FY 11	238,396
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services Recovery Act	84.397	FY 11	<u>198,091</u>
Total State Fiscal Stabilization Cluster.....			<u>436,487</u>
Education Jobs Fund	84.410	FY 11	<u>448,002</u>
Total Pass-Through From Iowa Department of Education			<u>2,185,342</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2011

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
Pass-Through From Area Education Agency 267			
Special Education Cluster			
Special Education - Grants to States.....	84.027	FY 11	\$ 235,129
Special Education - Preschool Grants.....	84.173	FY 11	3,305
ARRA - Special Education Grants to States			
Recovery Act	84.391	FY 11	<u>158,889</u>
Total Special Education Cluster			<u>397,323</u>
English Language Acquisition Grants	84.365	FY 11	<u>901</u>
Total Pass-Through From Area Education Agency 267			<u>398,224</u>
Total U.S. Department of Education			<u>2,583,566</u>
Department of Veterans Affairs			
Pass-Through From Cerro Gordo County			
Medical Assistance Program	93.778		<u>5,252</u>
Total			<u>\$ 3,615,453</u>

* Includes \$159,842 of expenditures paid through the agency fund, and therefore, these expenditures are not reflected in the fund financial statements or the government-wide statements.

Basis of Presentation

The schedule of expenditures of federal awards includes the federal grant activity of the Mason City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

The Mason City Community School District provided \$159,842 of federal awards to various school districts as part of the Career and Technical Education - Basic Grants to States.

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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

Board of Education
Mason City Community School District
Mason City, Iowa

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 Mason City 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 January 25, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mason City Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Mason City Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mason City 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 that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements 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 did not note any such deficiencies.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not note any such deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason City 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about 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 Mason City Community School District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Mason City Community School District's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the District's responses, we did not audit the Mason City Community School District's responses and, accordingly, we express no opinion on them.

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

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Mason City, Iowa
January 25, 2012

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Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Education
Mason City Community School District
Mason City, Iowa

Compliance

We have audited the compliance of the Mason City Community School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Mason City Community School District's major federal programs are identified in Part I of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Mason City Community School District's management. Our responsibility is to express an opinion on the Mason City Community School District's compliance based on our audit.

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

In our opinion, the Mason City Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Mason City Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Mason City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance

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

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
January 25, 2012

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	___ yes <u>X</u> no
Significant deficiency identified not considered to be material weaknesses?	___ yes <u>X</u> none reported
Noncompliance material to financial statements noted?	___ yes <u>X</u> no

Federal Awards

Internal control over major programs:	
Material weakness identified?	___ yes <u>X</u> no
Significant deficiency identified not considered to be material weakness?	___ yes <u>X</u> none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133?	___ yes <u>X</u> no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

Title 1 Program Cluster	
84.010	Title 1 Grants to Local Educational Agencies
84.389	ARRA - Title 1 Grants to Local Educational Agencies - Recovery Act
Special Education Cluster	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
84.391	ARRA - Special Education - Grants to States, Recovery Act
State Fiscal Stabilization Fund Cluster	
84.394	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.397	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
84.410	Education Jobs Fund

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

X yes ___ no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part IV: Other Findings Related to Required Statutory Reporting

11-IV-A Certified Budget

Finding - Disbursements for the year ended June 30, 2011 exceeded the certified budget amounts in total and in the other expenditures program function.

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

District's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

11-IV-B Questionable Expenditures - 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.

11-IV-C Travel Expense - No disbursements 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.

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

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

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

- 11-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
- 11-IV-H Supplementary Weighting** - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- 11-IV-I Deposits and Investments** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 11-IV-J Certified Annual Report** - The certified annual report was filed with the Iowa Department of Education.
- 11-IV-K Categorical Funding** - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- 10-IV-L Statewide Sales, Services and Use Tax** - No instances of noncompliance with the use of the statewide sales and services 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 and services 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		\$ 8,499,674
Revenue		
Statewide sales, services and use tax revenue	\$ 4,619,054	
Other local revenue	180,338	
Sale of long-term debt	<u>29,540,000</u>	34,339,392
Expenditures/Transfers Out		
School infrastructure construction	\$ 7,436,687	
Discount on sale of long-term debt.....	313,575	
Other	128,083	
Transfers to Other Funds		
Debt Service Fund.....	<u>3,262,000</u>	<u>11,140,345</u>
Ending Balance		<u>\$ 31,698,721</u>

Schedule of Findings and Questioned Costs

Year Ended June 30, 2011

The statewide sales, services and use tax revenue received during the year ended June 30, 2011 is equivalent to a reduction in the following levies:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars
Debt service levy	4.1830212	\$ 4,619,054

11-IV-M Deficit Balances - No accounts with deficit balances at June 30, 2011 were noted.