

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

JUNE 30, 2012

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Independence Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September 2011 Election)

Dawnye Sturtz	President	2011
Charlie McCardle	Vice President	2011
Kathryn Jensen	Board Member	2011
Stacy Henderson	Board Member	2013
John Christensen	Board Member	2013

(After September 2011 Election)

Brian Eddy	President	2015
Stacy Henderson	Vice President	2013
Rusty Donnelly	Board Member	2015
Eric Smith	Board Member	2015
John Christensen	Board Member	2013

School Officials

Jean Peterson	Superintendent	2012
Lynnette Engel	Board Secretary/Treasurer	2012
Lynch Dallas, P.C.	Attorney	2012
Swisher & Cohrt, P.L.C.	Attorney	2012
Ahlers & Cooney, P.C.	Attorney	2012

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**Certified Public Accountants**  
**(a professional corporation)**  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Independence Community School District:

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Independence Community School District, Independence, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Independence Community School District at June 30, 2012 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2013 on our consideration of the Independence Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be considered in assessing the results of our audit.

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component units on pages 7 through 16 and 42 through 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information

for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2011 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the six years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. Supplementary information included in Schedules 1 through 11, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Independence Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$14,767,519 in fiscal 2011 to \$15,368,778 in fiscal 2012, while General Fund expenditures increased from \$14,091,989 in fiscal 2011 to \$14,713,272 in fiscal 2012. The District's General Fund balance increased from \$314,498 in fiscal 2011 to \$970,004 in fiscal 2012.
- The increase in General Fund revenues was attributable to an increase in local and state sources. The increase in expenditures was due to the increase in support services and instructional expenditures.
- The District's General Fund solvency ratio was 2.43% at June 30, 2012.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan and financial statements for the discretely presented component unit.

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

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

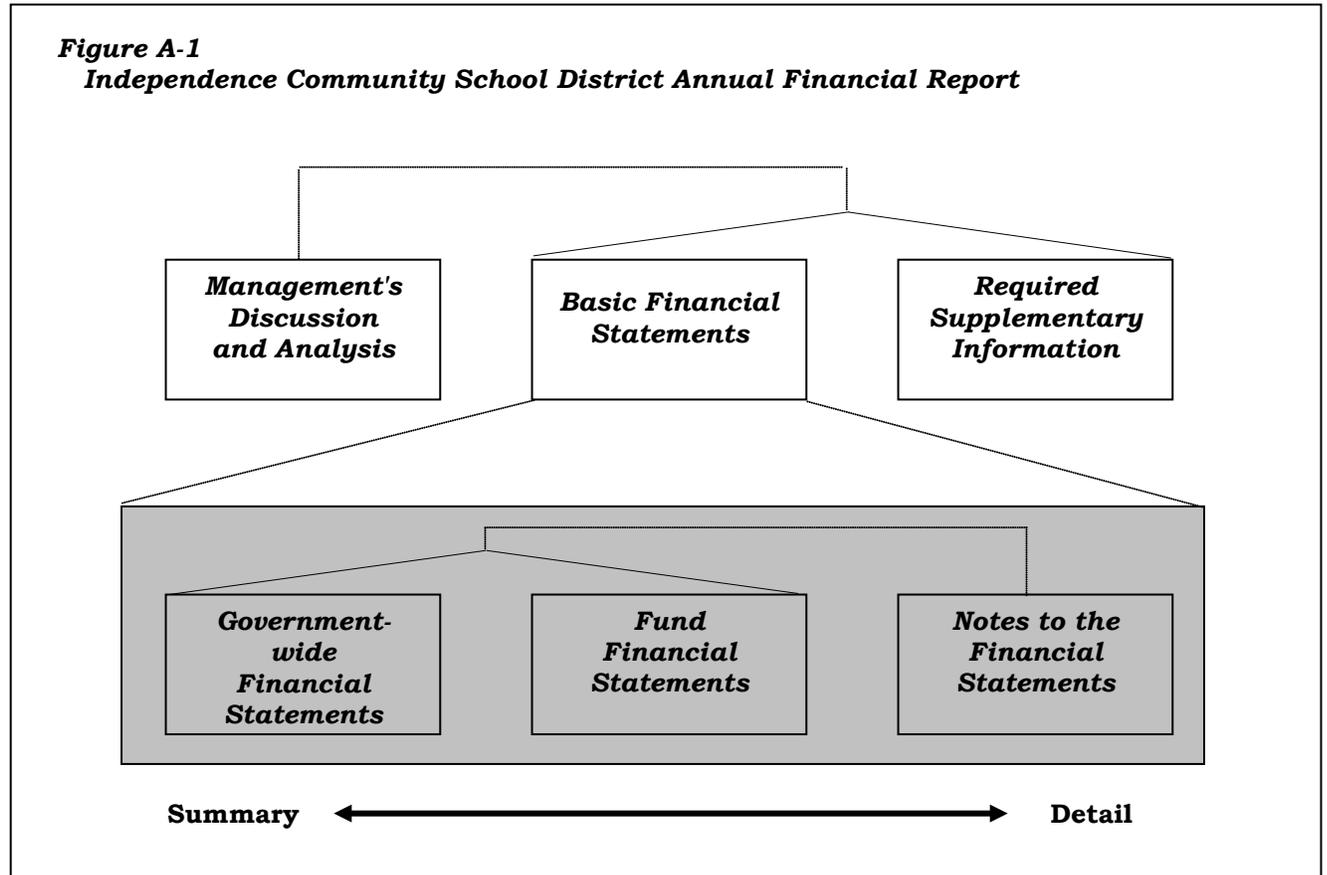


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.
- *Component unit:* The Mustang Foundation was created to financially support the Independence Community School District and post high school scholarship support to graduates of the school.

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

governmental activities, but provide more detail and additional information, such as cash flows. The District currently has one Internal Service Fund account accounting for self-funded insurance.

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

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

- Private Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - These are funds through which the District administers and accounts for certain revenue collected for District employee purchases.

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 and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2012 compared to June 30, 2011.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 30,195,612	10,981,391	215,428	144,199	30,411,040	11,125,590	173.34%
Capital assets	9,092,020	6,097,916	34,608	38,492	9,126,628	6,136,408	48.73%
Total assets	39,287,632	17,079,307	250,036	182,691	39,537,668	17,261,998	129.04%
Long-term obligations	18,875,806	738,973	6,143	4,028	18,881,949	743,001	2441.31%
Other liabilities	10,352,070	7,303,690	44,561	41,378	10,396,631	7,345,068	41.55%
Total liabilities	29,227,876	8,042,663	50,704	45,406	29,278,580	8,088,069	262.00%
Net assets:							
Invested in capital assets, net of related debt	5,110,093	5,932,916	34,608	38,492	5,144,701	5,971,408	-13.84%
Restricted	4,342,050	2,958,223	-	-	4,342,050	2,958,223	46.78%
Unrestricted	607,613	145,505	164,724	98,793	772,337	244,298	216.15%
Total net assets	\$ 10,059,756	9,036,644	199,332	137,285	10,259,088	9,173,929	11.83%

The District's combined net assets increased by 11.83%, or \$1,085,159, from the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$1,383,827, or 46.78% from the prior year. This was the result of an increase in the Statewide Sales, Services and Use Tax and Debt Service Funds.

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 \$528,039, or 216.15%. This increase in unrestricted net assets was a result of the District's increase in the General Fund carryover balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2012 compared to June 30, 2011.

Figure A-4  
Changes in Net Assets

	Governmental		Business Type		Total		Total Change 2011-12
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
Revenues:							
Program revenues:							
Charges for services	\$ 1,266,367	1,173,894	337,018	306,969	1,603,385	1,480,863	8.27%
Operating grants, contributions and restricted interest	1,492,259	2,530,084	350,465	302,488	1,842,724	2,832,572	-34.95%
Capital grants, contributions and restricted interest	2,359	-	750	-	3,109	-	100.00%
General revenues:							
Property tax	5,208,261	4,856,862	-	-	5,208,261	4,856,862	7.24%
Income surtax	599,418	611,152	-	-	599,418	611,152	-1.92%
Statewide sales, services and use tax	1,033,847	841,898	-	-	1,033,847	841,898	22.80%
Unrestricted state grants	7,534,426	6,251,644	-	-	7,534,426	6,251,644	20.52%
Nonspecific program federal revenues	235,688	223,074	-	-	235,688	223,074	5.65%
Other	100,845	91,492	2,834	9,591	103,679	101,083	2.57%
Total revenues	17,473,470	16,580,100	691,067	619,048	18,164,537	17,199,148	5.61%
Program expenses:							
Governmental activities:							
Instruction	11,250,401	10,703,011	-	-	11,250,401	10,703,011	5.11%
Support services	4,254,984	3,963,968	13,369	10,296	4,268,353	3,974,264	7.40%
Non-instructional programs	1,784	1,724	615,651	598,695	617,435	600,419	2.83%
Other expenses	943,189	906,884	-	-	943,189	906,884	4.00%
Total expenses	16,450,358	15,575,587	629,020	608,991	17,079,378	16,184,578	5.53%
Changes in net assets	1,023,112	1,004,513	62,047	10,057	1,085,159	1,014,570	6.96%
Net assets beginning of year	9,036,644	8,032,131	137,285	127,228	9,173,929	8,159,359	12.43%
Net assets end of year	\$ 10,059,756	9,036,644	199,332	137,285	10,259,088	9,173,929	11.83%

In fiscal 2012, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 82.27% of the revenue from governmental activities while charges for services and operating grants and contributions account for 99.48% of the revenue from business type activities.

The District's total revenues were approximately \$18.16 million of which approximately \$17.47 million was for governmental activities and approximately \$0.69 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced a 5.61% increase in revenues and a 5.53% increase in expenses.

### Governmental Activities

Revenues for governmental activities were \$17,473,470 and expenses were \$16,450,358.

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, for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 11,250,401	10,703,011	5.11%	9,100,614	7,654,982	18.88%
Support services	4,254,984	3,963,968	7.34%	4,235,771	3,960,787	6.94%
Non-instructional programs	1,784	1,724	3.48%	1,784	1,724	3.48%
Other expenses	943,189	906,884	4.00%	351,204	254,116	38.21%
Totals	\$ 16,450,358	15,575,587	5.62%	13,689,373	11,871,609	15.31%

- The cost financed by users of the District's programs was \$1,266,367.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,494,618.
- The net cost of governmental activities was financed with \$5,208,261 in property tax, \$599,418 in income surtax, \$1,033,847 in statewide sales, services and use tax, \$7,534,426 in unrestricted state grants, \$235,688 in nonspecific program federal revenues, \$32,944 in interest income and \$67,901 in other general revenues.

### Business-Type Activities

Revenues of the District's business type activities were \$691,067 and expenses were \$629,020. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$19,226,124, which is more than last year's ending fund balances of \$3,057,392. This increase is primarily a result of the District issuing \$18,115,000 of general obligation and revenue bonds, which have not yet been spent.

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### **Governmental Fund Highlights**

- The General Fund balance increased from \$314,498 to \$970,004, due in part to the increase in local and state source revenues.
- The Capital Projects Fund balance increased from \$1,946,398 to \$16,734,721. This was due to the district issuing \$18,115,000 of general obligation and revenue bonds during the year. The proceeds will be spent to build a new Junior/Senior High building.
- The Debt Service Fund balance increased from \$173,136 to \$652,269, due to the District transferring money to establish a reserve account as required for the District's revenue bond indebtedness.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$137,285 at June 30, 2011 to \$199,332 at June 30, 2012, representing an increase of 45.20%.

### **BUDGETARY HIGHLIGHTS**

The District's revenues were \$488,697 more than budgeted revenues, a variance of 2.77%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2012, the District had invested \$9.13 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 32.76% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$343,213.

The original cost of the District's capital assets was \$15.41 million. Governmental funds account for \$15.18 million with the remainder of \$0.23 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$3,331,489 at June 30, 2012, compared to \$54,578 reported at June 30, 2011. This significant increase resulted from the District beginning work on the new junior senior high school building.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
Land	\$ 1,141,353	1,141,353	-	-	1,141,353	1,141,353	0.00%
Construction in progress	3,331,489	54,578	-	-	3,331,489	54,578	98.36%
Buildings	3,767,859	4,060,857	-	-	3,767,859	4,060,857	-7.78%
Land improvements	162,590	164,871	-	-	162,590	164,871	-1.40%
Machinery and equipment	688,729	676,257	34,608	38,492	723,337	714,749	1.19%
Total	\$ 9,092,020	6,097,916	34,608	38,492	9,126,628	6,136,408	32.76%

### Long-Term Debt

At June 30, 2012, the District had \$18,881,949 in general obligation and other long-term debt outstanding. This represents an increase of 2,441.31% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Revenue Bond indebtedness at June 30, 2012 of \$8,115,000 payable from the Capital Project Fund.

The District had total outstanding General Obligation Bond indebtedness at June 30, 2012 of \$10,000,000 payable from the Debt Service Fund.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Levy Fund of \$396,922 at June 30, 2012.

The District had total outstanding Compensated Absences payable from the General Fund of \$50,608 at June 30, 2012.

The District had outstanding Net OPEB liability at June 30, 2012 of \$319,419.

Figure A-7  
Outstanding Long-Term Obligations

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	2012	2011	2012	2011	2012	2011	
Revenue Bonds	\$ 8,115,000	165,000	-	-	8,115,000	165,000	4818.18%
General Obligation Bonds	10,000,000	-	-	-	10,000,000	-	100.00%
Early Retirement	396,922	384,000	-	-	396,922	384,000	3.37%
Compensated Absences	50,608	41,538	-	-	50,608	41,538	21.84%
Net OPEB liability	313,276	148,435	6,143	4,028	319,419	152,463	109.51%
Totals	\$ 18,875,806	738,973	6,143	4,028	18,881,949	743,001	2441.31%

### ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.

- 
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

### **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 Lynnette Engel, Board Secretary, Independence Community School District, 1207 1<sup>st</sup> Street West, Independence, Iowa, 50644.

# **Basic Financial Statements**

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Mustang Foundation
<b>ASSETS</b>				
Cash and cash equivalents	\$ 21,742,074	184,929	21,927,003	1,092,206
Receivables:				
Property tax:				
Delinquent	65,655	-	65,655	-
Succeeding year	6,769,212	-	6,769,212	-
Income surtax	592,937	-	592,937	-
Accounts	20,634	-	20,634	-
Due from other governments	1,005,100	504	1,005,604	-
Inventories	-	29,995	29,995	-
Capital assets, net of accumulated depreciation/amortization	9,092,020	34,608	9,126,628	-
<b>TOTAL ASSETS</b>	<b>39,287,632</b>	<b>250,036</b>	<b>39,537,668</b>	<b>1,092,206</b>
<b>LIABILITIES</b>				
Accounts payable	2,132,589	7,472	2,140,061	-
Salaries and benefits payable	1,407,815	32,370	1,440,185	-
Accrued interest payable	42,454	-	42,454	-
Deferred revenue:				
Succeeding year property tax	6,769,212	-	6,769,212	-
Unearned revenue	-	4,719	4,719	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	400,000	-	400,000	-
General obligation bonds	790,000	-	790,000	-
Early retirement	148,368	-	148,368	-
Compensated absences	50,608	-	50,608	-
Portion due after one year:				
Revenue bonds	7,715,000	-	7,715,000	-
General obligation bonds	9,210,000	-	9,210,000	-
Early retirement	248,554	-	248,554	-
Net OPEB liability	313,276	6,143	319,419	-
<b>TOTAL LIABILITIES</b>	<b>29,227,876</b>	<b>50,704</b>	<b>29,278,580</b>	<b>-</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,110,093	34,608	5,144,701	-
Restricted for:				
Categorical funding	610,579	-	610,579	-
School infrastructure	2,462,959	-	2,462,959	-
Physical plant and equipment	138,689	-	138,689	-
Management levy purposes	272,001	-	272,001	-
Student activities	205,553	-	205,553	-
Debt service	652,269	-	652,269	-
Unrestricted	607,613	164,724	772,337	1,092,206
<b>TOTAL NET ASSETS</b>	<b>\$ 10,059,756</b>	<b>199,332</b>	<b>10,259,088</b>	<b>1,092,206</b>

SEE NOTES TO FINANCIAL STATEMENTS.

**INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government		Mustang Foundation	
					Governmental Activities	Business Type Activities		
<b>Functions/Programs:</b>								
Governmental activities:								
Instruction:								
Regular	\$ 5,454,217	287,307	219,377	-	(4,947,533)	-	(4,947,533)	-
Special	3,429,183	576,658	100,508	-	(2,752,017)	-	(2,752,017)	-
Other	2,367,001	402,402	563,535	-	(1,401,064)	-	(1,401,064)	-
	<u>11,250,401</u>	<u>1,266,367</u>	<u>883,420</u>	<u>-</u>	<u>(9,100,614)</u>	<u>-</u>	<u>(9,100,614)</u>	<u>-</u>
Support services:								
Student	512,985	-	-	-	(512,985)	-	(512,985)	-
Instructional staff	246,969	-	-	-	(246,969)	-	(246,969)	-
Administration	1,580,831	-	-	-	(1,580,831)	-	(1,580,831)	-
Operation and maintenance of plant	1,357,606	-	-	2,359	(1,355,247)	-	(1,355,247)	-
Transportation	556,593	-	16,854	-	(539,739)	-	(539,739)	-
	<u>4,254,984</u>	<u>-</u>	<u>16,854</u>	<u>2,359</u>	<u>(4,235,771)</u>	<u>-</u>	<u>(4,235,771)</u>	<u>-</u>
Non-instructional programs:								
Other enterprise operations	1,784	-	-	-	(1,784)	-	(1,784)	-
	<u>1,784</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,784)</u>	<u>-</u>	<u>(1,784)</u>	<u>-</u>
Long-term debt interest								
	166,621	-	-	-	(166,621)	-	(166,621)	-
	<u>166,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(166,621)</u>	<u>-</u>	<u>(166,621)</u>	<u>-</u>
Other expenditures:								
AEA flowthrough	591,985	-	591,985	-	-	-	-	-
Depreciation(unallocated)*	184,583	-	-	-	(184,583)	-	(184,583)	-
	<u>776,568</u>	<u>-</u>	<u>591,985</u>	<u>-</u>	<u>(184,583)</u>	<u>-</u>	<u>(184,583)</u>	<u>-</u>
Total governmental activities	<u>16,450,358</u>	<u>1,266,367</u>	<u>1,492,259</u>	<u>2,359</u>	<u>(13,689,373)</u>	<u>-</u>	<u>(13,689,373)</u>	<u>-</u>
Business Type activities:								
Support services:								
Administration	12,804	-	-	-	-	(12,804)	(12,804)	-
Operation and maintenance of plant	565	-	-	-	-	(565)	(565)	-
Non-instructional programs:								
Food service operations	615,651	337,018	350,465	750	-	72,582	72,582	-
Total business type activities	<u>629,020</u>	<u>337,018</u>	<u>350,465</u>	<u>750</u>	<u>-</u>	<u>59,213</u>	<u>59,213</u>	<u>-</u>
Total primary government	\$ <u>17,079,378</u>	<u>1,603,385</u>	<u>1,842,724</u>	<u>3,109</u>	<u>(13,689,373)</u>	<u>59,213</u>	<u>(13,630,160)</u>	<u>-</u>
Total component unit	\$ <u>228,543</u>	<u>25,557</u>	<u>1,172,083</u>	<u>-</u>				<u>969,097</u>
<b>General Revenues:</b>								
Property tax levied for:								
General purposes					\$ 4,940,665	-	4,940,665	-
Capital outlay					267,596	-	267,596	-
Income surtax					599,418	-	599,418	-
Statewide sales, services and use tax					1,033,847	-	1,033,847	-
Unrestricted state grants					7,534,426	-	7,534,426	-
Nonspecific program federal revenues					235,688	-	235,688	-
Unrestricted investment earnings					32,944	444	33,388	274
Other general revenues					67,901	2,390	70,291	-
					<u>14,712,485</u>	<u>2,834</u>	<u>14,715,319</u>	<u>274</u>
Total general revenues					<u>14,712,485</u>	<u>2,834</u>	<u>14,715,319</u>	<u>274</u>
Changes in net assets					1,023,112	62,047	1,085,159	969,371
Net assets beginning of year					9,036,644	137,285	9,173,929	122,835
Net assets end of year	\$				<u>10,059,756</u>	<u>199,332</u>	<u>10,259,088</u>	<u>1,092,206</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 2,439,431	17,718,459	652,269	864,980	21,675,139
Receivables:					
Property tax					
Delinquent	57,678	3,581	-	4,396	65,655
Succeeding year	4,990,795	283,692	1,044,725	450,000	6,769,212
Income surtax	592,937	-	-	-	592,937
Accounts	7,788	5,985	-	6,861	20,634
Due from other governments	714,835	290,265	-	-	1,005,100
<b>TOTAL ASSETS</b>	<b>\$ 8,803,464</b>	<b>18,301,982</b>	<b>1,696,994</b>	<b>1,326,237</b>	<b>30,128,677</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 841,913	1,283,569	-	7,107	2,132,589
Salaries and benefits payable	1,407,815	-	-	-	1,407,815
Deferred revenue:					
Succeeding year property tax	4,990,795	283,692	1,044,725	450,000	6,769,212
Income surtax	592,937	-	-	-	592,937
Total liabilities	<b>7,833,460</b>	<b>1,567,261</b>	<b>1,044,725</b>	<b>457,107</b>	<b>10,902,553</b>
Fund balances:					
Restricted for:					
Categorical funding	610,579	-	-	-	610,579
Construction	-	14,133,073	-	-	14,133,073
School infrastructure	-	2,462,959	-	-	2,462,959
Physical plant and equipment	-	138,689	-	-	138,689
Management levy purposes	-	-	-	668,923	668,923
Student activities	-	-	-	205,553	205,553
Debt service	-	-	652,269	-	652,269
Unassigned for:					
General Fund	359,425	-	-	-	359,425
Student activities	-	-	-	(5,346)	(5,346)
Total fund balances	<b>970,004</b>	<b>16,734,721</b>	<b>652,269</b>	<b>869,130</b>	<b>19,226,124</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,803,464</b>	<b>18,301,982</b>	<b>1,696,994</b>	<b>1,326,237</b>	<b>30,128,677</b>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2012

<b>Total fund balances of governmental funds(page 20)</b>	\$	19,226,124
 <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		9,092,020
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(42,454)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		66,935
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		592,937
Long-term liabilities, including bonds payable, early retirement payable, compensated absences payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(18,875,806)</u>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b><u>10,059,756</u></b>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	General	Capital Projects	Debt Service	Other Nonmajor Governmental	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 5,183,351	1,301,443	-	349,868	6,834,662
Tuition	814,874	-	-	-	814,874
Other	187,981	25,050	2,974	415,710	631,715
State sources	8,548,235	458	-	243	8,548,936
Federal sources	634,337	2,082	-	-	636,419
Total revenues	15,368,778	1,329,033	2,974	765,821	17,466,606
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular	5,133,205	128,990	-	126,613	5,388,808
Special	3,411,149	-	-	-	3,411,149
Other	2,047,903	5,568	-	307,576	2,361,047
	10,592,257	134,558	-	434,189	11,161,004
Support services:					
Student	505,937	-	-	-	505,937
Instructional staff	244,893	-	-	-	244,893
Administration	1,350,725	95,928	-	1,377	1,448,030
Operation and maintenance of plant	958,172	8,322	-	68,156	1,034,650
Transportation	467,519	75,248	-	16,329	559,096
	3,527,246	179,498	-	85,862	3,792,606
Non-instructional programs:					
Other enterprise operations	1,784	-	-	-	1,784
Capital outlay					
	-	3,525,532	-	-	3,525,532
Long-term debt:					
Principal	-	-	165,000	-	165,000
Interest and fiscal charges	-	-	127,302	-	127,302
	-	-	292,302	-	292,302
Other expenditures:					
AEA flowthrough	591,985	-	-	-	591,985
Total expenditures	14,713,272	3,839,588	292,302	520,051	19,365,213
Excess(Deficiency) of revenues over(under) expenditures	655,506	(2,510,555)	(289,328)	245,770	(1,898,607)
Other financing sources(uses):					
Proceeds from sale of real property	-	80,000	-	-	80,000
Premium on bond issuance	-	130,170	-	-	130,170
Revenue bond proceeds	-	8,115,000	-	-	8,115,000
General obligation bond proceeds	-	10,000,000	-	-	10,000,000
Discount on bond issuance	-	(257,831)	-	-	(257,831)
Transfer in	-	-	768,461	-	768,461
Transfer out	-	(768,461)	-	-	(768,461)
Total other financing sources(uses)	-	17,298,878	768,461	-	18,067,339
Net change in fund balances	655,506	14,788,323	479,133	245,770	16,168,732
Fund balances beginning of year	314,498	1,946,398	173,136	623,360	3,057,392
Fund balances end of year	\$ 970,004	16,734,721	652,269	869,130	19,226,124

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

**Net change in fund balances - total governmental funds(page 22)** \$ 16,168,732

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year as follows:

Capital outlays	\$ 3,778,409	
Depreciation expense	(335,281)	
Loss on disposal	<u>(449,024)</u>	2,994,104

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds		6,864
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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. Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(18,115,000)	
Repaid	<u>165,000</u>	(17,950,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(39,319)
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Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis.		29,564
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	(12,922)	
Compensated absences	(9,070)	
Other postemployment benefits	<u>(164,841)</u>	<u>(186,833)</u>

**Changes in net assets of governmental activities(page 19)** \$ 1,023,112

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2012

	Business Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
<b><u>ASSETS</u></b>		
Current assets:		
Cash and pooled investments	\$ 184,929	66,935
Due from other governments	504	-
Inventories	29,995	-
Total current assets	<u>215,428</u>	<u>66,935</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	<u>34,608</u>	-
<b>TOTAL ASSETS</b>	<u>250,036</u>	<u>66,935</u>
<b><u>LIABILITIES</u></b>		
Current liabilities:		
Accounts payable	7,472	-
Salaries and benefits payable	32,370	-
Unearned revenue	4,719	-
Total current liabilities	<u>44,561</u>	-
Long-term liabilities:		
Net OPEB liability	<u>6,143</u>	-
<b>TOTAL LIABILITIES</b>	<u>50,704</u>	-
<b><u>NET ASSETS</u></b>		
Invested in capital assets	34,608	-
Unrestricted	164,724	66,935
Total net assets	<u>\$ 199,332</u>	<u>66,935</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Flex Benefit
<b>OPERATING REVENUE:</b>		
Local sources:		
Charges for service	\$ 337,018	141,797
Contributions	2,865	-
Miscellaneous	2,390	-
Total operating revenues	<u>342,273</u>	<u>141,797</u>
<b>OPERATING EXPENSES:</b>		
Support services:		
Student:		
Benefits	-	112,273
Administration:		
Salaries	10,947	-
Benefits	1,732	-
Services	125	-
	<u>12,804</u>	<u>-</u>
Operation and maintenance of plant:		
Supplies	565	-
Total support services	<u>13,369</u>	<u>112,273</u>
Non-instructional programs:		
Food service operations:		
Salaries	213,539	-
Benefits	50,600	-
Services	8,647	-
Supplies	333,270	-
Depreciation	7,932	-
Other	334	-
Total non-instructional programs	<u>614,322</u>	<u>-</u>
Total operating expenses	<u>627,691</u>	<u>112,273</u>
<b>OPERATING INCOME(LOSS)</b>	<u>(285,418)</u>	<u>29,524</u>
<b>NON-OPERATING REVENUES(EXPENSES):</b>		
State sources	5,864	-
Federal sources	341,736	-
Interest on investments	444	40
Loss on disposal of capital assets	(1,329)	-
Total non-operating revenues	<u>346,715</u>	<u>40</u>
Change in net assets before capital contributions	61,297	29,564
Capital contributions	<u>750</u>	<u>-</u>
Change in net assets	62,047	29,564
Net assets beginning of year	<u>137,285</u>	<u>37,371</u>
Net assets end of year	<u>\$ 199,332</u>	<u>66,935</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
YEAR ENDED JUNE 30, 2012

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Flex Benefit
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 337,595	-
Cash received from miscellaneous sources	5,255	141,797
Cash payments to employees for services	(277,006)	-
Cash payments to suppliers for goods or services	(297,997)	(112,273)
Net cash provided by(used in) operating activities	<u>(232,153)</u>	<u>29,524</u>
Cash flows from non-capital financing activities:		
State grants received	5,864	-
Federal grants received	281,392	-
Net cash provided by non-capital financing activities	<u>287,256</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(4,627)	-
Cash flows from investing activities:		
Interest on investments	444	40
Net increase in cash and cash equivalents	50,920	29,564
Cash and cash equivalents at beginning of year	134,009	37,371
Cash and cash equivalents at end of year	<u>\$ 184,929</u>	<u>66,935</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (285,418)	29,524
Adjustments to reconcile operating income(loss) to net cash used in operating activities:		
Commodities used	59,840	-
Depreciation	7,932	-
Increase in inventories	(19,805)	-
Increase in accounts payable	4,909	-
Decrease in salaries and benefits payable	(2,303)	-
Increase in unearned revenue	577	-
Increase in other postemployment benefits	2,115	-
Net cash provided by(used in) operating activities	<u>\$ (232,153)</u>	<u>29,524</u>

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

During the year ended June 30, 2012, the District received Federal commodities valued at \$59,840.

During the year ended June 30, 2012, the District received capital contributions from the General Fund of \$750.

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2012

	Agency
ASSETS	
Cash and pooled investments	\$ 9,864
TOTAL ASSETS	\$ 9,864
LIABILITIES	
Accounts payable	\$ 950
Due to other groups	8,914
TOTAL LIABILITIES	\$ 9,864

SEE NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2012

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Gifts and contributions	\$ 500
Total additions	500
 Deductions:	
Instruction:	
Regular:	
Scholarships awarded	500
Total deductions	500
 Change in net assets	-
 Net assets beginning of year	-
 Net assets end of year	\$ -

SEE NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2012

**Note 1. Summary of Significant Accounting Policies**

The Independence Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Independence, Iowa, and the predominate agricultural territory in Buchanan County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

For financial reporting purposes, Independence Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District.

These financial statements present Independence Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

**Discretely Presented Component Unit** – The Mustang Foundation was created to financially support the Independence Community School District and post high school scholarship support to graduates of the school. The Foundation is a separate legal entity with its own accounting records and board of trustees. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The foundation is accounted for as a component unit in these financial statements.

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

**B. Basis of Presentation**

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

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

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation/ammortization and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction, or improvement of those assets. Unspent bond proceeds for construction have been added back to invested in capital assets, net of related debt.

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

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

The District also reports the non-major following proprietary funds:

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

The Internal Service, Flex Benefit Fund is used to account for the flexible health and childcare benefits program offered by the District. The Internal Service Fund is charged back to the Governmental funds and shown combined in the Statement of Net Assets and the Statement of Activities.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

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

### C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded 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 1½% per month penalty for delinquent payments; is based on January 1, 2010 assessed property valuations; is for the tax accrual period July 1, 2011 through June 30, 2012 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2011.

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

Inventories - The Enterprise Fund inventories are accounted for using the consumption method by which inventory acquisitions are recorded in inventory accounts when purchased or received by other means and are charged to operations when consumed or sold. The Enterprise Fund inventory consists primarily of food, with purchased food recorded at the lower cost (first-in, first-out method) or market and food commodities which were received from the federal government recorded at the contributed value as of the date received.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 5,000
Buildings	5,000
Land improvements	5,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Intangibles	2-10 years
Machinery and equipment	5-50 years

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the school year, but which have balances payable in July and August 2012, have been accrued as a liability as it is applicable to the fiscal year ended June 30, 2012.

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

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Compensated absences are reported in governmental funds only if they have matured. The cost of vacation payments expected to be liquidated currently is recorded as a long-term liability on the Statement of Net Assets and will be paid in the future out of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be primarily paid by the General Fund.

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

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

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

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.

The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgeting and Budgetary Control - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012 expenditures in the other expenditures functional area exceeded the budgeted amounts.

**Note 2. Cash and Pooled Investments**

The District’s deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$14 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investments in the Iowa Schools Joint Investment Trust were rated AAA by Standard & Poor’s Financial Service.

**Note 3. Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The interest rate on the series 2011-12A warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 100 basis points. A summary of the District’s ISCAP activity for the year ended June 30, 2012 is as follows:

Series	Warrant Date	Final Warrant Maturity	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2011-12A	6/30/2011	6/23/2012	\$ -	\$ 750,000	\$ 750,000	\$ -

During the year ended June 20, 2012, the District paid \$1,317 of interest on the ISCAP warrants.

**Note 4. Transfers**

The detail of transfers for the year ended June 30, 2012 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 122,211
Debt Service	Capital Projects: New J/S High Rev Bond Fund	646,250
Total		\$ 768,461

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was for principal and interest payments on the District's revenue bond indebtedness.

The transfer from the Capital Projects: New J/S High Rev Bond Fund to the Debt Service Fund was to establish the reserve account for the District's revenue bond indebtedness.

**Note 5. Capital Assets**

A summary of changes in property and equipment comprising capital assets is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,141,353	-	-	1,141,353
Construction in progress	54,578	3,276,911	-	3,331,489
Total capital assets not being depreciated	1,195,931	3,276,911	-	4,472,842
Capital assets being depreciated:				
Buildings	8,365,235	311,339	1,105,361	7,571,213
Land improvements	1,125,877	26,989	-	1,152,866
Machinery and equipment	1,861,869	163,170	38,289	1,986,750
Total capital assets being depreciated	11,352,981	501,498	1,143,650	10,710,829
Less accumulated depreciation for:				
Buildings	4,304,378	155,313	656,337	3,803,354
Land improvements	961,006	29,270	-	990,276
Machinery and equipment	1,185,612	150,698	38,289	1,298,021
Total accumulated depreciation	6,450,996	335,281	694,626	6,091,651
Total capital assets being depreciated, net	4,901,985	166,217	449,024	4,619,178
Governmental activities capital assets, net	\$ 6,097,916	3,443,128	449,024	9,092,020
Business type activities:				
Machinery and equipment	\$ 230,176	5,377	3,274	232,279
Less accumulated depreciation	191,684	7,932	1,945	197,671
Business type activities capital assets, net	\$ 38,492	(2,555)	1,329	34,608

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 19,294
Special	5,957
Support services:	
Administration	13,570
Operation and maintenance of plant	23,783
Transportation	88,094
	<u>150,698</u>
Unallocated depreciation	<u>184,583</u>
Total governmental activities depreciation expense	<u><u>\$ 335,281</u></u>
Business type activities:	
Food services	<u><u>\$ 7,932</u></u>

**Note 6. Long-Term Debt**

A summary of changes in long-term debt for business type activities and governmental activities for the year ended June 30, 2012 are as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 165,000	8,115,000	165,000	8,115,000	400,000
General Obligation Bonds	-	10,000,000	-	10,000,000	790,000
Early Retirement	384,000	129,110	116,188	396,922	48,000
Compensated Absences	41,538	50,608	41,538	50,608	41,538
Net OPEB Liability	148,435	164,841	-	313,276	-
Total	<u>\$ 738,973</u>	<u>18,459,559</u>	<u>322,726</u>	<u>18,875,806</u>	<u>1,279,538</u>
	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
<u>Business Type Activities:</u>					
Net OPEB Liability	\$ 4,028	2,115	-	6,143	-

General Obligation

Details of the Districts June 30, 2012 general obligation bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue of March 27, 2012			
	Rate	Principal	Interest	Total
2013	2.00 %	\$ 790,000	254,725	1,044,725
2014	2.00	395,000	238,925	633,925
2015	2.00	400,000	231,025	631,025
2016	2.00	410,000	223,025	633,025
2017	2.00	420,000	214,825	634,825
2018-2022	2.00-2.35	2,220,000	944,215	3,164,215
2023-2027	2.50-2.90	2,495,000	670,915	3,165,915
2028-2032	3.00-3.40	2,870,000	287,390	3,157,390
Total		<u>\$ 10,000,000</u>	<u>3,065,045</u>	<u>13,065,045</u>

Revenue Bonds

On March 27, 2012, the District issued statewide sales, services and use tax revenue bonds of \$8,115,000 to finance school infrastructure. The revenue bonds will be paid with statewide sales, services and use tax collected in the Capital Projects Fund. Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 1, 2011				
	Rate	Principal	Interest	Total	
2013	2.00 %	\$ 400,000	212,857	612,857	
2014	2.00	375,000	204,857	579,857	
2015	2.00	385,000	197,358	582,358	
2016	2.00	395,000	189,657	584,657	
2017	2.00	410,000	181,758	591,758	
2018-2022	2.00-2.60	2,250,000	774,037	3,024,037	
2023-2027	2.75-3.25	2,675,000	460,125	3,135,125	
2028-2032	3.35-3.40	1,225,000	62,600	1,287,600	
Total		<u>\$ 8,115,000</u>	<u>2,283,249</u>	<u>10,398,249</u>	

The District has pledged future statewide sales, services and use tax revenues to repay the \$8,115,000. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2012. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitations of the District. The total principal and interest paid remaining to be paid is \$10,398,249. For the current year \$0 in principal and \$124,167 in interest was paid on the bonds and total statewide sales and services tax revenues were \$1,033,847.

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

- a) \$646,250 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- b) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

Early Retirement

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

The early retirement benefit for each eligible certified employee is equal to 50% of the employee's current base salary plus \$50 per day of sick leave accrued by June 30, 2012. The early retirement benefit for each eligible support staff employee is equal to 40% of the employee's current salary, less any overtime or other additional pay, in addition to \$30 per day of sick leave accrued by June 30, 2012. Early retirees

can elect for retirement benefits to be placed into a 403(b) plan in July following the start of retirement. Early retirees can elect to take the incentive in a cash payment in accordance with IRS guidelines. Early retirees can elect for the District to pay up to \$500 per month for ten years toward the employee's single coverage premium as long as the employee continues to participate in the medical insurance plan in accordance with IRS guidelines. In the event that the employee is no longer permitted to continue coverage by the insurer prior to the end of said ten year period, the District will continue to pay up to \$500 per month toward the employee's Medicare/Medicaid and supplemental health insurance coverage by use of an HRA or similar plan for the remainder of said ten year period, or upon death, whichever occurs first, all in accordance with IRS guidelines.

At June 30, 2012, the District has obligations to eight participants with a total liability of \$396,922. Actual early retirement expenditures for the year ended June 30, 2012 totaled \$116,188. The cost of early retirement payments expected to be paid are recorded as a long-term liability of the Governmental Activities in the Government-wide financial statements.

**Note 7. Other Postemployment Benefits(OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical and prescription drug benefits for retirees and their spouses. There are 153 active and 20 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2012, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 139,344
Interest on net OPEB obligation	5,426
Adjustment to annual required contribution	47,886
Annual OPEB cost	<u>192,656</u>
Contributions made	<u>(25,700)</u>
Increase in net OPEB obligation	166,956
Net OPEB obligation beginning of year	<u>152,463</u>
Net OPEB obligation end of year	<u><u>\$ 319,419</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2011. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$25,700 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

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, 2012 are summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 81,467	34.40 %	\$ 100,895
2011	79,594	35.21	152,463
2012	192,656	13.34	319,419

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$954,112 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$954,112. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$7,888,119, and the ratio of the UAAL to covered payroll was 12.1%. As of June 30, 2012, 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 health care 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, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions includes a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the Group Annuity Mortality Table Projected to 2000, applied on a gender-specific basis. Annual retirement probabilities were developed based upon sample rates varying by age and employee type.

Current claim costs of the medical plan are as follows: Alliance Select single for \$558.24 per month; Alliance Select family for \$1,395.60 per month; Blue Access 2 single for \$520.17 per month; Blue Access 2 family for \$1,300.43 per month; Blue Access 3 single for \$470.80 per month; and Blue Access 3 family for \$1,177.00 per month. Post age 65 expected claims cost are assumed to equal retiree contributions. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

**Note 8. Pension and Retirement Benefits**

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

Plan members are required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$672,082, \$573,153 and \$568,274, respectively, equal to the required contributions for each year.

**Note 9. Risk Management**

Independence Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

**Note 10. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$591,985 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**Note 11. Construction Commitments**

The District has entered into various contracts totaling \$20,185,000 for the construction of a new High School. As of June 30, 2012, costs of \$1,888,758 had been incurred against the contracts. The balance of \$18,296,242 remaining at June 30, 2012 will be paid as work on the projects progresses.

**Note 12. Deficit Balances**

The District has various accounts in the Special Revenue, Student Activity Fund with deficit balances totaling \$5,346.

**Note 13. Categorical Funding**

The District's restricted balance for categorical funding at June 30, 2012 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Home school assistance program	\$ 29,827
Limited english proficiency weighting	9,235
Statewide voluntary preschool	52,930
Gifted and talented	120,586
Dropout and dropout prevention	122,703
Professional development	41,861
Teacher salary supplement	146,279
Beginning teacher mentoring and induction program	3,925
Professional development for model core curriculum	83,233
	<hr/>
Total restricted for categorical funding	<u>\$ 610,579</u>

**Note 14. Budget Overexpenditure**

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures functional area exceeded the certified budget.

## **Required Supplementary Information**

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 8,281,251	342,717	8,623,968	8,452,487	8,452,487	171,481
State sources	8,548,936	5,864	8,554,800	8,623,739	8,623,739	(68,939)
Federal sources	636,419	341,736	978,155	592,000	592,000	386,155
<b>Total revenues</b>	<b>17,466,606</b>	<b>690,317</b>	<b>18,156,923</b>	<b>17,668,226</b>	<b>17,668,226</b>	<b>488,697</b>
Expenditures/Expenses:						
Instruction	11,161,004	-	11,161,004	10,945,000	11,400,000	238,996
Support services	3,792,606	13,369	3,805,975	4,070,600	4,070,600	264,625
Non-instructional programs	1,784	615,651	617,435	687,750	687,750	70,315
Other expenditures	4,409,819	-	4,409,819	1,200,480	4,000,000	(409,819)
<b>Total expenditures/expenses</b>	<b>19,365,213</b>	<b>629,020</b>	<b>19,994,233</b>	<b>16,903,830</b>	<b>20,158,350</b>	<b>164,117</b>
Excess(deficiency) of revenues over(under) expenditures/expenses	(1,898,607)	61,297	(1,837,310)	764,396	(2,490,124)	652,814
Other financing sources, net	18,067,339	750	18,068,089	-	-	18,068,089
Excess(deficiency) of revenues and other financing sources over(under) expenditures/ expenses	16,168,732	62,047	16,230,779	764,396	(2,490,124)	18,720,903
Balance beginning of year	3,057,392	137,285	3,194,677	3,172,248	3,172,248	22,429
Balance end of year	\$ 19,226,124	199,332	19,425,456	3,936,644	682,124	18,743,332

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2012

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budget expenditures by \$3,254,520.

During the year ended June 30, 2012, the expenditures in other expenditures functional area exceeded the certified budget.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
2010	July 1, 2008	\$ -	\$ 616,003	\$ 616,003	0.0 %	8,799,125	7.0 %
2011	July 1, 2008	-	616,003	616,003	0.0	7,191,123	8.6
2012	July 1, 2008	-	954,112	954,112	0.0	7,888,119	12.1

See Note 7 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.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS - CASH BASIS  
COMPONENT UNIT  
DECEMBER 31, 2011

	Mustang Foundation
ASSETS	
Cash and cash equivalents	\$ 1,092,206
LIABILITIES	-
NET ASSETS	\$ 1,092,206

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
COMPONENT UNIT  
YEAR ENDED DECEMBER 31, 2011

	Mustang Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 1,172,083
Investment income	274
Fundraising events	25,557
Total revenue	1,197,914
Expenses:	
Grants and similar amounts paid:	
Grants	207,103
Other:	
Bank fees	77
Accounting	991
Advertising	4,470
Office expenses	3,906
Fundraising supplies	11,996
Total expenses	228,543
Excess of revenue over expenses	969,371
Net assets beginning of year	122,835
Net assets end of year	\$ 1,092,206

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## **Supplementary Information**

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2012

	Manage- ment Levy	Student Activity	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 664,625	200,355	864,980
Receivables:			
Property tax:			
Delinquent	4,396	-	4,396
Succeeding year	450,000	-	450,000
Accounts	-	6,861	6,861
<b>TOTAL ASSETS</b>	<b>\$ 1,119,021</b>	<b>207,216</b>	<b>1,326,237</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 98	7,009	7,107
Deferred revenue:			
Succeeding year property tax	450,000	-	450,000
Total liabilities	450,098	7,009	457,107
Fund balances:			
Restricted for:			
Management levy purposes	668,923	-	668,923
Student activities	-	205,553	205,553
Unassigned	-	(5,346)	(5,346)
Total fund balances	668,923	200,207	869,130
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 1,119,021</b>	<b>207,216</b>	<b>1,326,237</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2012

	Manage- ment Levy	Student Activity	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 349,868	-	349,868
Other	21,228	394,482	415,710
State sources	243	-	243
<b>TOTAL REVENUES</b>	<b>371,339</b>	<b>394,482</b>	<b>765,821</b>
<b>EXPENDITURES:</b>			
Current:			
Instruction			
Regular	126,613	-	126,613
Other	-	307,576	307,576
Support services:			
Administration	1,377	-	1,377
Operation and maintenance of plant	68,156	-	68,156
Transportation	16,329	-	16,329
<b>TOTAL EXPENDITURES</b>	<b>212,475</b>	<b>307,576</b>	<b>520,051</b>
Net change in fund balances	158,864	86,906	245,770
Fund balances beginning of year	510,059	113,301	623,360
Fund balances end of year	\$ 668,923	200,207	869,130

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET  
CAPITAL PROJECT ACCOUNTS

JUNE 30, 2012

	Capital Projects Funds				Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	New J/S High GO Bond Fund	New J/S High Rev Bond Fund	
<b>ASSETS</b>					
Cash and pooled investments	\$ 2,201,793	149,326	7,928,428	7,438,912	17,718,459
Receivables:					
Property tax:					
Delinquent	-	3,581	-	-	3,581
Succeeding year	-	283,692	-	-	283,692
Accounts	-	1,985	4,000	-	5,985
Due from other governments	287,906	-	-	2,359	290,265
<b>TOTAL ASSETS</b>	<b>\$ 2,489,699</b>	<b>438,584</b>	<b>7,932,428</b>	<b>7,441,271</b>	<b>18,301,982</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 26,740	16,203	1,240,035	591	1,283,569
Deferred revenue					
Succeeding year property tax	-	283,692	-	-	283,692
Total liabilities	26,740	299,895	1,240,035	591	1,567,261
Fund balances:					
Restricted for:					
Construction	-	-	6,692,393	7,440,680	14,133,073
School infrastructure	2,462,959	-	-	-	2,462,959
Physical plant and equipment	-	138,689	-	-	138,689
	2,462,959	138,689	6,692,393	7,440,680	16,734,721
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 2,489,699</b>	<b>438,584</b>	<b>7,932,428</b>	<b>7,441,271</b>	<b>18,301,982</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS

YEAR ENDED JUNE 30, 2012

	Capital Project Funds				Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	New J/S High GO Bond Fund	New J/S High Rev Bond Fund	
REVENUES:					
Local sources:					
Local tax	\$ 1,033,847	267,596	-	-	1,301,443
Other	-	11,515	4,768	8,767	25,050
State sources	-	181	-	277	458
Federal sources	-	-	-	2,082	2,082
<b>TOTAL REVENUES</b>	<b>1,033,847</b>	<b>279,292</b>	<b>4,768</b>	<b>11,126</b>	<b>1,329,033</b>
EXPENDITURES:					
Current:					
Instruction					
Regular	44,151	84,839	-	-	128,990
Other	-	5,568	-	-	5,568
Support services:					
Administration	17,985	1,898	73,269	2,776	95,928
Operation and maintenance of plant	5,790	2,532	-	-	8,322
Transportation	-	75,248	-	-	75,248
Capital outlay	318,777	58,890	3,147,865	-	3,525,532
<b>TOTAL EXPENDITURES</b>	<b>386,703</b>	<b>228,975</b>	<b>3,221,134</b>	<b>2,776</b>	<b>3,839,588</b>
Excesss (Deficiency) of revenues over (under) expenditures	647,144	50,317	(3,216,366)	8,350	(2,510,555)
OTHER FINANCING (SOURCES) USES:					
Proceeds from sale of real property	-	80,000	-	-	80,000
Premium on bond issuance	-	-	83,021	47,149	130,170
Revenue bond proceeds	-	-	-	8,115,000	8,115,000
General obligation bond proceeds	-	-	10,000,000	-	10,000,000
Discount on bond issuance	-	-	(174,262)	(83,569)	(257,831)
Transfers out	(122,211)	-	-	(646,250)	(768,461)
<b>Total other financing (sources) uses</b>	<b>(122,211)</b>	<b>80,000</b>	<b>9,908,759</b>	<b>7,432,330</b>	<b>17,298,878</b>
Net change in fund balances	524,933	130,317	6,692,393	7,440,680	14,788,323
Fund balances beginning of year	1,938,026	8,372	-	-	1,946,398
Fund balances end of year	\$ 2,462,959	138,689	6,692,393	7,440,680	16,734,721

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
INTEREST	\$ 1,260	450	10	1,700
HIGH SCHOOL:				
DRAMA	94	930	111	913
SPEECH	4,830	5,493	4,878	5,445
VOCAL MUSIC	1,731	16,625	10,887	7,469
CHOIR TRIP	12,591	2,457	5,872	9,176
BAND	6,473	13,014	8,152	11,335
FOOTBALL CONCESSIONS	815	22,284	23,099	-
BOYS CROSS COUNTRY	1,344	323	853	814
BOYS BASKETBALL	649	1,878	1,882	645
FOOTBALL	936	9,502	9,836	602
BOYS SOCCER	(1,825)	2,440	612	3
BASEBALL	4,847	10,330	12,597	2,580
BOYS TRACK	325	108	162	271
BOYS TENNIS	1,013	-	46	967
BOYS GOLF	123	1,403	1,089	437
WRESTLING	(29)	2,732	2,549	154
GIRLS BASKETBALL	2,080	4,934	3,422	3,592
VOLEYBALL	5,111	7,378	3,287	9,202
GIRLS SOCCER	898	3,393	3,906	385
SOFTBALL	(280)	840	214	346
GIRLS TRACK	174	396	570	-
GIRLS TENNIS	253	1,083	1,165	171
GIRLS GOLF	323	242	484	81
ACTIVITY	16,772	86,146	84,842	18,076
CONCESSIONS	-	20,600	20,367	233
MUSICAL	10,699	11,659	10,111	12,247
BAND TRIP	6,023	99,358	21,999	83,382
AWARDS	500	-	-	500
YEARBOOK	(619)	11,130	15,857	(5,346)
STUDENT COUNCIL	7,341	6,175	6,682	6,834
FRENCH CLUB	161	-	-	161
GRADUATING CLASS	100	-	-	100
CHEERLEADERS	2,431	4,352	5,861	922
MIDDLE SCHOOL:				
BOYS CROSS COUNTRY	-	311	-	311
BOYS BASKETBALL	1,011	-	-	1,011
FOOTBALL	253	-	-	253
BOYS TRACK	(56)	75	19	-
WRESTLING	2,186	989	2,288	887
GIRLS BASKETBALL	630	-	-	630
VOLLEYBALL	879	-	-	879
GIRLS TRACK	251	-	-	251
FUNDRAISING	12,772	17,065	23,592	6,245
BCSC	1,467	901	557	1,811
EAST ELEMENTARY	327	-	327	-
WEST ELEMENTARY	6,437	27,486	19,391	14,532
TOTALS	\$ 113,301	394,482	307,576	200,207

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

INTERNAL SERVICE FUNDS  
COMBINING STATEMENT OF NET ASSETS

JUNE 30, 2012

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
ASSETS:			
Cash and pooled investments	\$ 31,730	35,205	66,935
LIABILITIES:			
	-	-	-
NET ASSETS	\$ 31,730	35,205	66,935

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

INTERNAL SERVICE FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2012

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
OPERATING REVENUES:			
Local sources:			
Charges for service	\$ 31,730	110,067	141,797
Total operating revenues	31,730	110,067	141,797
OPERATING EXPENSES:			
Support services:			
Student:			
Benefits	-	112,273	112,273
Total operating expenses	-	112,273	112,273
OPERATING INCOME(LOSS)	31,730	(2,206)	29,524
NON-OPERATING REVENUES:			
Interest income	-	40	40
Change in net assets	31,730	(2,166)	29,564
Net assets beginning of year	-	37,371	37,371
Net assets end of year	\$ 31,730	35,205	66,935

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

## INDEPENDENCE COMMUNITY SCHOOL DISTRICT

INTERNAL SERVICE FUND  
COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2012

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
Cash flows from operating activities:			
Cash received from miscellaneous	\$ 31,730	110,067	141,797
Cash payments to suppliers for goods or services	-	(112,273)	(112,273)
Net cash provided by operating activities	31,730	(2,206)	29,524
Cash flows from investing activities:			
Interest on investments	-	40	40
Net increase in cash and cash equivalents	31,730	(2,166)	29,564
Cash and cash equivalents at beginning of year	-	37,371	37,371
Cash and cash equivalents at end of year	\$ 31,730	35,205	66,935

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**INDEPENDENCE COMMUNITY SCHOOL DISTRICT**

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITES  
 AGENCY FUND

YEAR ENDED JUNE 30, 2012

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>ASSETS</b>				
Cash and pooled investments	\$ 9,491	2,588	2,215	9,864
Accounts receivable	70	-	70	-
	<u>\$ 9,561</u>	<u>2,588</u>	<u>2,285</u>	<u>9,864</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 73	950	73	950
Due to other groups	9,488	1,638	2,212	8,914
	<u>\$ 9,561</u>	<u>2,588</u>	<u>2,285</u>	<u>9,864</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
ALL GOVERNMENTAL FUNDS

FOR THE LAST TEN YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2012	2011	2010	2009
Revenues:				
Local sources:				
Local tax	\$ 6,834,662	6,291,619	6,315,555	5,699,240
Tuition	814,874	760,709	807,405	925,280
Other	631,715	572,231	673,449	840,882
State sources	8,548,936	8,135,000	7,255,815	8,060,702
Federal sources	636,419	802,248	1,419,772	518,891
Total	\$ 17,466,606	16,561,807	16,471,996	16,044,995
Expenditures:				
Instruction	\$ 11,161,004	10,846,258	10,674,290	11,240,539
Support services:				
Student	505,937	442,707	449,996	515,751
Instructional staff	244,893	319,871	402,599	484,002
Administration	1,448,030	1,342,968	1,470,517	1,338,352
Operation and maintenance of plant	1,034,650	1,064,889	1,061,730	1,104,252
Transportation	559,096	510,183	470,334	617,555
Non-instructional programs	1,784	1,724	1,514	1,440
Capital outlay	3,525,532	480,325	361,533	458,891
Long-term debt:				
Principal	165,000	160,000	169,334	391,363
Interest and fiscal charges	127,302	9,270	14,500	202,724
Other expenditures:				
Judgments against LEA	-	-	-	173,805
AEA flow-through	591,985	652,768	635,787	554,260
Total	\$ 19,365,213	15,830,963	15,712,134	17,082,934

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SCHEDULE 10

2008	2007	2006	2005	2004	2003
5,508,630	5,260,463	5,011,553	4,665,107	4,467,364	4,000,592
826,479	739,581	662,747	606,646	640,397	749,227
1,086,553	812,275	634,415	799,629	603,915	538,604
7,801,675	7,439,792	7,073,499	6,761,303	6,382,559	6,493,857
443,153	951,267	656,204	685,363	919,975	513,828
<u>15,666,490</u>	<u>15,203,378</u>	<u>14,038,418</u>	<u>13,518,048</u>	<u>13,014,210</u>	<u>12,296,108</u>
10,264,546	9,683,436	8,905,082	9,099,199	8,900,972	8,374,669
497,687	414,230	429,335	339,021	357,768	335,202
1,062,218	530,699	554,042	408,158	330,864	291,618
1,441,608	1,332,379	1,099,365	1,009,887	1,023,851	1,010,558
1,160,954	1,068,259	1,046,250	987,515	986,309	996,777
439,476	577,204	443,561	396,293	372,190	401,680
1,558	8,733	1,474	-	4,220	4,594
299,440	1,449,724	425,213	704,941	360,022	230,843
282,699	235,000	100,000	100,000	95,000	105,000
16,261	40,470	14,836	12,787	15,557	38,820
-	-	-	-	-	-
524,432	497,369	465,666	443,869	450,291	480,925
<u>15,990,879</u>	<u>15,837,503</u>	<u>13,484,824</u>	<u>13,501,670</u>	<u>12,897,044</u>	<u>12,270,686</u>

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 YEAR ENDED JUNE 30, 2012

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 12	43,700
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 12	297,062 *
			<u>340,762</u>
TEAM NUTRITION GRANT	10.574	FY 12	<u>974</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 12	170,715
TITLE I - SCHOOLS IN NEED OF ASSISTANCE	84.010	FY 12	5,150
			<u>175,865</u>
TITLE I STATE AGENCY PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	FY 12	<u>36,771</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 12	<u>1,700</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 12	<u>60,142</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 12	<u>8,567</u>
SAFE AND DRUG-FREE SCHIOOLS & COMMUNITIES- NATIONAL PROGRAMS	84.394	FY 12	<u>3,512</u>
EDUCATION JOBS FUND	84.410	FY 11	231,238
EDUCATION JOBS FUND	84.410	FY 12	4,450
			<u>235,688</u>
AREA EDUCATION AGENCY 267:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 12	<u>11,584</u>
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 12	<u>74,516</u>
DEPARTMENT OF HOMELAND SECURITY:			
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT DIVISON:			
HAZARD MITIGATION GRANT	97.039	FY 12	<u>2,082</u>
TOTAL			<u>\$ 952,163</u>

\* Includes \$59,840 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

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

To the Board of Education of the  
Independence Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Independence Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 7, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct 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 on a timely basis.

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

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a significant deficiency.

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Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Independence Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Independence Community School District's responses and, accordingly, we express no opinion on them.

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

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

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

**Certified Public Accountants**

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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 Internal Control  
over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Independence Community School District

Compliance

We have audited the compliance of Independence Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Independence Community School District's major federal programs for the year ended June 30, 2012. Independence Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Independence Community School District's management. Our responsibility is to express an opinion on Independence Community School District's compliance based on our audit.

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

In our opinion, Independence Community School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

The management of Independence 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 Independence Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independence Community School District's internal control over compliance.

**Members American Institute & Iowa Society of Certified Public Accountants**

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

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-12 and III-B-12 to be significant deficiencies.

Independence Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Independence Community School District's responses and, accordingly, we express no opinion on them.

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 7, 2013

INDEPENDENCE COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2012

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Clustered Program:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
  - Individual Program:
    - CFDA Number 84.410 - Education Jobs Fund
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Community School District did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-12 Journal Entry Approval - We noted during our audit that manual journal entries are entered into the accounting software by one individual and are not reviewed by another individual.

Recommendation - The District should have a separate individual from the person entering, review all manual journal entries entered into the software system.

Response - All journal entries will be reviewed by another member of the central office staff prior to being executed.

Conclusion - Response accepted.

Other Matters:

II-B-12 Commodity Pricing - We noted during the audit that the commodity food listing was not priced out using commodity values provided by the Department of Education and therefore the amount of inventory was under reported on the Balance Sheet.

Recommendation - The District should review their procedures to ensure that the commodity food is priced out correctly.

Response - The District will add all appropriate costs to the inventory going forward.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2012  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

III-A-12 Bread Bids - The District appeared to receive and subsequently awarded the bid for bread to IBC. IBC provided a bid for 24oz bread at \$1.48, however, the invoices tested appeared to reflect a pricing of \$1.48 for a 20oz loaf of bread. This appears to be in noncompliance of the federal grant which requires procurement processes and procedures. Further information provided by Wonder Bakery indicated that the 24 oz. bread was discontinued, in October, and then substituted the 20oz bread instead; however the price was not adjusted to a lower amount. The District did not receive quotes on the 20 oz. bread, and therefore, we were unable to determine if the cost of the bread was excessive based on the proposal. However, it would appear that the substituted bread which is a 20% reduction in volume would not carry the same price.

Recommendation - We suggest that the District follow up with the Department of Education as to what steps would appear to be appropriate to this situation. In the future the District should ensure goods, which the District receives bids for, are received and billed in accordance with the bids received.

Response - The Department of Education has been contacted and the District will continue to monitor sizes and amounts of products more closely.

Conclusion - Response accepted.

III-B-12 Free and Reduced Lunch Applications - We noted during our audit that four of the ten free and reduced lunch applications in our testing were marked as approved for free or reduced lunches which were not properly determined and did not have the proper documentation to make a determination.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - All Free and Reduced Applications will be reviewed and approved by the District's Director of Food and Nutrition.

Conclusion - Response accepted.

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget - District disbursements for the year ended June 30, 2012 exceeded the certified budgeted amount in the other expenditures functional area.

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

Response - The District will closely monitor new construction expenses for possible future amendments.

Conclusion - Response accepted.

IV-B-12 Questionable Disbursements - We noted during our audit that the District purchased gift cards from the General Fund. The invoice support included an approved purchase order however; the purchase does not appear to be appropriate as the gift cards do not appear to provide the District with adequate support to determine the final purchases and determine if the amounts are allowable with public funds. These disbursements do not appear to meet public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - Gift cards will not be purchased in the future.

Conclusion - Response accepted.

IV-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-12 Business Transactions - Business transactions between the District and District officials are noted as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jami Tekippe, Secretary Spouse owns Hardware Hank	Supplies	\$2,949
Vern Lohman, Bus Driver Son and daughter-in-law own Vern's True Value	Supplies	\$16,704
Brian Eddy, Board President Co-owner of Fusion Forward	Services	\$13,455
Angela Webb, Secretary Spouse owns Webb Concrete	Services	\$26,989

In accordance with the Attorney General's opinion dated November 9, 1976, the above Transactions with the spouse of Jami Tekippe, son and daughter-in-law of Vern Lohman and spouse of Angela Webb do not appear to represent a conflict of interest.

In accordance with the Chapter 279.7A of the Code of Iowa, the above transaction with Brian Eddy does not appear to represent a conflict of interest, as the District received bids for the work performed by Fusion Forward.

- IV-E-12 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Iowa Department of Education.
- IV-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-12 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-K-12 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
- IV-L-12 Financial Condition - The District had various deficit accounts in the Special Revenue, Student Activity Fund totaling \$5,346 at June 30, 2012.

Recommendation - The District should continue to monitor these accounts and investigate alternatives to eliminate the deficits accounts. The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts.

Response - The District will monitor spending and investigate alternatives to eliminate the deficit accounts.

Conclusion - Response accepted.

- IV-M-12 Statewide Sales, Services and Use Tax - No instances of non-compliance 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, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 1,938,026
Revenues:		
Sales tax revenues		<u>1,033,847</u>
		2,971,873
Expenditures:		
School infrastructure construction	\$ 318,777	
Equipment	67,811	
Other	115	
Transfers to other funds:		
Debt service fund	<u>122,211</u>	<u>508,914</u>
Ending balance		<u><u>\$ 2,462,959</u></u>

For the year ended June 30, 2012 the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.

IV-N-12 Public Hearings for Construction Contracts - We noted during our audit that a public hearing was not held for the public improvements associated with the construction of the JR/SR High School. For public improvements with estimated total cost exceeding the competitive bid threshold established by Chapter 26.3 of the Code of Iowa of \$125,000, a public hearing must be held and bidding requirements of Chapters 26.2 through 26.13 must be followed. The District did appear to seek sealed competitive bids however; we noted the District did not hold a public hearing with regard to the construction project.

Recommendation - The District should consult legal counsel with regard to this matter. In the future the District should ensure that a public hearing be held and bidding requirements of Chapters 26.2 through 26.13 be followed for all construction projects.

Response - We are working with legal counsel to resolve the matter, including holding a public hearing and awarding the contract to the successful bidder and the possibility of seeking a legalizing act from the Iowa Legislature.

Conclusion - Response accepted.