

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2012**

Table of Contents

Board of Education and School District Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis (MD&A)	4-14
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	15
Statement of Activities.....	16
Governmental Fund Financial Statements	
Balance Sheet.....	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets ...	18
Statement of Revenue, Expenditures and Changes in Fund Balances.....	19
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statements of Activities.....	20
Proprietary Fund Financial Statements	
Statement of Net Assets	21
Statement of Revenue, Expenses and Changes in Net Assets	22
Statement of Cash Flows	23
Fiduciary Fund Financial Statements	
Statement of Fiduciary Assets and Liabilities - Agency Fund	24
Notes to the Financial Statements	25-41
Required Supplementary Information	
Schedule of Budgetary Comparison of Revenue, Expenditures/Expenses and Changes in Balances - Budget to Actual - All Governmental Funds and Proprietary Fund	42
Schedule of Funding Progress for the Retiree Health Plan	43
Supplementary Information	
Nonmajor Governmental Funds	
Combining Balance Sheet.....	44
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	45
Capital Projects Accounts	
Combining Balance Sheet.....	46
Combining Schedule of Revenue, Expenditures and Changes in Fund Balances	47
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	48
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	49
Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis).....	50
Schedule of Expenditures of Federal Awards	51-52
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	
	53-54
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	
	55-56
Schedule of Findings and Questioned Costs	57-60

Introductory Section



Board of Education and School District Officials

As of June 30, 2012

Name	Title	Term Expires
(Before September, 2011 Election)		
Board of Education		
Timothy Becker	President	September, 2013
Robert Thoms	Vice President	September, 2011
Michele Appelgate	Member	September, 2013
Gary Hoffman	Member	September, 2013
Darshini Jayawardena	Member	September, 2011
Paula Recinos	Member	September, 2011
Mark Young	Member	September, 2011
(After September, 2011 Election)		
Board of Education		
Timothy Becker	President	September, 2013
Mark Young	Vice President	September, 2015
Michele Appelgate	Member	September, 2013
Gary Hoffman (Resigned November 14, 2011)	Member	September, 2013
Darshini Jayawardena	Member	September, 2015
Paula Recinos	Member	September, 2015
Scott Warren	Member	September, 2015
Robert Thoms (Appointed November 21, 2011)	Member	September, 2013
Officials		
Dr. Anita Micich	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section

Independent Auditor's Report

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated February 12, 2013 on our consideration of the Mason City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the budgetary comparison information and the schedule of funding progress for the retiree health plan on pages 4 through 14 and 42 and 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board 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 auditing standards generally accepted in the United States of America, 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 the Mason City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2011 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on pages 44 through 52, including the schedule of expenditures of federal awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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 auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 12, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the District's financial activities for the fiscal year ended June 30, 2012. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

2012 FINANCIAL HIGHLIGHTS

General Fund revenue increased from \$40,164,650 in fiscal 2011 to \$40,520,387 in fiscal 2012, while General Fund expenditures increased from \$36,858,240 in fiscal 2011 to \$38,305,168 in fiscal 2012. This resulted in a 33% increase of \$2,215,219 in General Fund balance from \$6,765,507 in fiscal 2011 to \$8,980,726 in fiscal 2012.

The increase in General Fund revenue of \$355,737 was attributable to an increase in property taxes and state aid. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits, instructional supplies and property purchases.

USING THE 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 the Mason City 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 the Mason City 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 the Mason City Community School District acts solely as an agent or custodian for the benefit of those outside the District.

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

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

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

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

FIGURE A-1

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

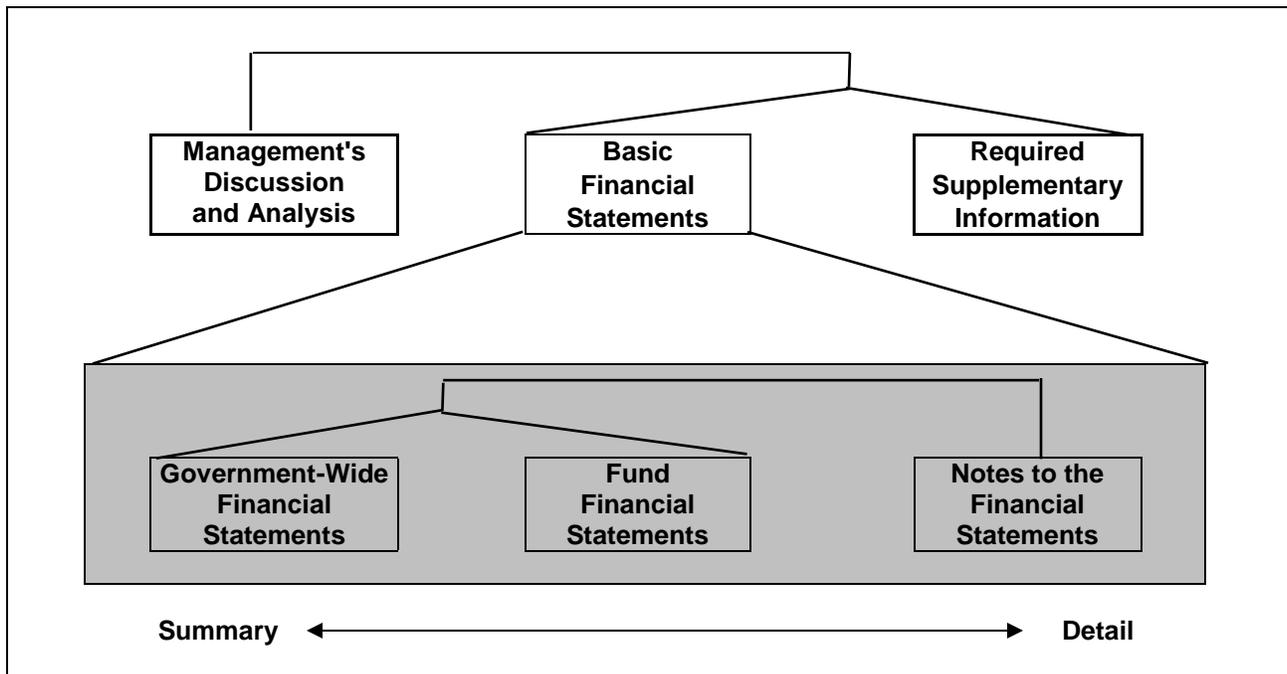


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 65,974,585	\$ 75,989,287	\$ 735,831	\$ 891,181	\$ 66,710,416	\$ 76,880,468
Capital assets	57,280,476	41,231,195	1,108,648	160,412	58,389,124	41,391,607
TOTAL ASSETS	<u>\$ 123,255,061</u>	<u>\$ 117,220,482</u>	<u>\$ 1,844,479</u>	<u>\$ 1,051,593</u>	<u>\$ 125,099,540</u>	<u>\$ 118,272,075</u>
Long-term liabilities	\$ 37,274,883	\$ 38,262,278	\$ —	\$ —	\$ 37,274,883	\$ 38,262,278
Other liabilities	22,837,442	23,701,612	33,410	33,961	22,870,852	23,735,573
TOTAL LIABILITIES	<u>\$ 60,112,325</u>	<u>\$ 61,963,890</u>	<u>\$ 33,410</u>	<u>\$ 33,961</u>	<u>\$ 60,145,735</u>	<u>\$ 61,997,851</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 20,410,476	\$ 3,221,195	\$ 1,108,648	\$ 160,412	\$ 21,519,124	\$ 3,381,607
Restricted	30,760,097	42,364,406	—	—	30,760,097	42,364,406
Unrestricted	11,972,163	9,670,991	702,421	857,220	12,674,584	10,528,211
TOTAL NET ASSETS	<u>\$ 63,142,736</u>	<u>\$ 55,256,592</u>	<u>\$ 1,811,069</u>	<u>\$ 1,017,632</u>	<u>\$ 64,953,805</u>	<u>\$ 56,274,224</u>

The District's combined net assets increased 15%, or approximately \$8.7 million, over the prior year. The largest portion of the District's net assets are invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$11.6 million, or 27%, from the prior year. The decrease was primarily a result of the spending of bond proceeds towards investments in capital assets.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$2.1 million, or 20%. This increase in unrestricted net assets was primarily a result of an increase in revenue due to increased federal capital grant funding and statewide sales, services and use tax allocations.

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

FIGURE A-4

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

	Governmental Activities		Business-Type Activities		Total District		Total Change
	2012	2011	2012	2011	2012	2011	2011-2012
REVENUE:							
Program Revenue:							
Charges for service	\$ 2,536,101	\$ 2,582,417	\$ 764,535	\$ 833,342	\$ 3,300,636	\$ 3,415,759	\$ (115,123)
Operating grants and contributions	6,461,638	6,605,991	1,060,792	1,018,888	7,522,430	7,624,879	(102,449)
Capital grants and contributions	1,624,675	—	1,011,186	—	2,635,861	—	2,635,861
General Revenue:							
Property tax	16,331,675	16,028,021	—	—	16,331,675	16,028,021	303,654
Statewide sales, services and use tax	5,287,746	4,619,054	—	—	5,287,746	4,619,054	668,692
Unrestricted state grants	17,218,697	17,038,912	—	—	17,218,697	17,038,912	179,785
Unrestricted investment earnings	277,157	267,742	2,713	2,605	279,870	270,347	9,523
Other	90,131	101,935	—	—	90,131	101,935	(11,804)
TOTAL REVENUE	49,827,820	47,244,072	2,839,226	1,854,835	52,667,046	49,098,907	3,568,139
PROGRAM EXPENSES:							
Instruction	28,828,032	27,426,167	—	—	28,828,032	27,426,167	1,401,865
Support services	10,333,076	10,770,874	—	—	10,333,076	10,770,874	(437,798)
Non-instructional programs	21,450	19,535	2,045,789	1,898,970	2,067,239	1,918,505	148,734
Other expenses	2,759,118	3,313,031	—	—	2,759,118	3,313,031	(553,913)
TOTAL EXPENSES	41,941,676	41,529,607	2,045,789	1,898,970	43,987,465	43,428,577	558,888
CHANGE IN NET ASSETS	\$ 7,886,144	\$ 5,714,465	\$ 793,437	\$ (44,135)	\$ 8,679,581	\$ 5,670,330	\$ 3,009,251

In fiscal year 2012, property tax, statewide sales, services and use tax and unrestricted state grants account for approximately 74% of total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 89% of the total expenses.

The District's total revenue was approximately \$52.7 million, of which approximately \$49.8 million was for governmental activities and \$2.8 million was for business-type activities.

As shown in Figure A-4, the District as a whole experienced a 7% increase in revenue and a 1% increase in expenses. Capital grants and contributions increased approximately \$2.6 million to fund the increase in expenses. The increase in expenses is related to instructional staff salaries and benefits.

Governmental Activities

Revenue for governmental activities were \$49,827,820 and expenses were \$41,941,676, which amounted to an increase in net assets of \$7,886,144. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

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

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 28,828,032	\$ 27,426,167	5.1 %	\$ 19,941,415	\$ 20,153,569	(1.1)%
Support services	10,333,076	10,770,874	(4.1)%	10,263,026	10,696,229	4.1 %
Non-instructional programs	21,450	19,535	9.8 %	21,450	19,535	9.8 %
Other expenses	<u>2,759,118</u>	<u>3,313,031</u>	<u>(16.7)%</u>	<u>1,093,371</u>	<u>1,471,866</u>	<u>(25.7)%</u>
TOTALS	<u>\$ 41,941,676</u>	<u>\$ 41,529,607</u>	<u>1.0 %</u>	<u>\$ 31,319,262</u>	<u>\$ 32,341,199</u>	<u>(3.2)%</u>

- The cost financed by users of the District's programs was \$2,536,101.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$6,461,638 and capital grants and contributions totaling \$1,624,675.
- The net cost of governmental activities was financed with \$21,619,421 in property and other taxes, \$17,218,697 in unrestricted state grants and \$277,157 in interest income.

Business-Type Activities

Revenue of the District's business-type activities was \$2,839,226, representing a 53% increase over the prior year and expenses were \$2,045,789, an increase of 8% over the prior year. The District's business-type activities include the School Nutrition Fund. Revenue from these activities were comprised of charges for service, federal and state reimbursements and investment income.

The new construction of the Mason City High School cafeteria kitchen, serving area and lunchroom was completed in March 2012. The lunchroom is an open and inviting space with new multi-colored booths, high-top round tables with seating for four and a few new tables in addition to the old tables with new black seats. The menu has been expanded and now serves pizza everyday along with hamburgers and french fries. Also added were panini and sub sandwiches. From August 2011 through December 2011, a total of 53,294 lunches were served at the Mason City High School. After the renovations were completed, from August 2012 through December 2012, a total of 66,289 meals were served for an increase of 12,995 lunches or 24%. The students are enjoying the new offerings along with the new fine dining experience at Mason City High School.

The District uses School Dining Services, which is a web-based software program to facilitate the District's hot lunch program. Parents are able to deposit money into their child's hot lunch account through RevTrak, which is also a web-based program. Parents may also print out a record of exactly what their child eats every day. The price of meals was increased by 10 cents in school year 2011-2012 for the second semester.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Individual Fund Analysis

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$38,748,913, below last year's ending fund balances of \$48,062,529. The main reason for the decrease in combined fund balances in 2012 was the spending of bond proceeds towards investments in capital assets.

Governmental Fund Highlights

The General Fund expenditures for negotiated salaries increased by \$432,770 from 2011 to 2012; whereas, the benefits increased by \$493,106 from 2011 to 2012. Salaries and benefits make up approximately 81% of the General Fund budget. The increase in salaries and benefits was attributed to the hiring of additional instructional staff and an increase of the Iowa Public Employees Retirement System (IPERS) contribution rate.

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

The District received \$1,000,000 in Qualified Zone Academy Bonds (QZAB) to remodel ten academic classrooms at Roosevelt Elementary School. The Local Option Sales and Services Tax will also be used to repay the principal on the QZAB. The Federal Taxpayer Relief Act of 1997 created the Qualified Zone Academy Bond Program (QZAB) to provide low or no interest financing for renovating school buildings and purchasing equipment. New construction does not apply under this program. As of July 1, 2012, all of the District's QZAB indebtedness will be paid off.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$1,017,632 in 2011 to \$1,811,069 in 2012, an increase of \$793,437, or approximately 78%. Total revenue in 2012 was \$2,839,226 which is an increase of \$984,391 from \$1,854,835 in 2011. Total expenses for 2012 were \$2,045,789 and in 2011 they were \$1,898,970 for an increase of \$146,819, or approximately 8%. The increase in revenue and expenditures was mainly due to construction projects for the Middle School and High School cafeterias.

Budgetary Highlights

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

Legal Budgetary Highlights

The District's total actual receipts were \$2,393,698 more than the total budgeted receipts; a variance of 5%. The most significant changes were due to reimbursements from the State Energy Program Grants (SEP) which was part of the ARRA construction funding and the FEMA Safe Room Grant. Both of these grants were federal programs. The construction at the John Adams Middle School was paid for in part by the SEP Grant.

Total expenditures were less than budgeted primarily due to the estimation of the construction work that would be completed at the High School and John Adams Middle School campus by June 30, 2012.

It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year. The District's total actual expenditures were \$63,285,642 compared to the budget amount of \$70,616,357 or a difference of \$7,330,715, which is a 10% variance. The majority of the variance in expenditures is due to the remodeling project at the High School and John Adams Middle School.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2012, the District had invested \$58,389,124, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6). This represents a net increase of 41% from the prior year. Depreciation expense was \$1,559,387 for Governmental Activities and \$71,248 for Business-Type Activities. Additional information about the District's capital assets is presented in Note 5 to the financial statements.

Governmental Activities account for \$57,280,476 of the District's capital assets with the remainder of \$1,108,648 in the Business-Type Activities.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$17,903,227 at June 30, 2012, compared to \$7,299,249 reported at June 30, 2011. This significant increase resulted from construction activity financed by \$14,500,000 of QSCB Revenue Bonds issued in fiscal year 2011 and the issuance of \$2,000,000 of QSCB Revenue Bonds, for the renovations of the High School and John Adams Middle School in fiscal year 2012.

FIGURE A-6

MASON CITY COMMUNITY SCHOOL DISTRICT CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities June 30,		Business-Type Activities June 30,		Total District June 30,		Total Change
	2012	2011	2012	2011	2012	2011	2011-2012
Land	\$ 315,602	\$ 408,722	\$ —	\$ —	\$ 315,602	\$ 408,722	(22.8%)
Construction in progress	17,903,227	7,299,249	—	—	17,903,227	7,299,249	145.3%
Buildings and improvements	38,409,355	32,965,284	—	—	38,409,355	32,965,284	16.5%
Furniture and equipment	<u>652,292</u>	<u>557,940</u>	<u>1,108,648</u>	<u>160,412</u>	<u>1,760,940</u>	<u>718,352</u>	<u>145.1%</u>
TOTALS	<u>\$ 57,280,476</u>	<u>\$ 41,231,195</u>	<u>\$ 1,108,648</u>	<u>\$ 160,412</u>	<u>\$ 58,389,124</u>	<u>\$ 41,391,607</u>	<u>41.1%</u>

Long-Term Debt

At June 30, 2012, the District had \$800,000 in general obligation bonds outstanding, \$35,000,000 in revenue bonds outstanding and \$1,000,000 in Qualified Zone Academy Bonds outstanding. The District retired debt in the amount of \$3,140,000 and issued revenue bonds in the amount of \$2,000,000 during the year ended June 30, 2012. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

FIGURE A-7

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

	Total District June 30, 2012	Total District June 30, 2011	Total Change 2011-2012	Debt Retired June 30, 2012
General obligation bonds	\$ 800,000	\$ 1,625,000	(50.8)%	\$ 825,000
Revenue bonds	35,070,000	35,385,000	(0.9)%	2,315,000
Qualified Zone Academy Bonds	<u>1,000,000</u>	<u>1,000,000</u>	<u>0.0 %</u>	<u>—</u>
TOTAL BONDS	<u>\$ 36,870,000</u>	<u>\$ 38,010,000</u>	<u>(3.0)%</u>	<u>\$ 3,140,000</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The District has experienced declining enrollment for the past 16 years. The District was averaging a 77 student decline in student enrollment during this time period. For the past five years, the decline in student enrollment has decreased to 63 students per year. The District cost per pupil for school year 2011-2012 was \$5,955. The decrease in school funding for the 63 students will be \$375,165. The District significantly reduced staff in school year 2009-2010 while increasing the general fund tax levy to compensate for the 11.5% across-the-board cut. The District received \$523,373 under the 101% budget guarantee adjustment for school year 2011-2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

As of June 30, 2012

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and pooled investments	\$ 46,266,265	\$ 664,631	\$ 46,930,896
Receivables			
Property Tax, Net of Allowance			
Current year delinquent.....	157,513	—	157,513
Succeeding year	14,932,810	—	14,932,810
Accrued interest	15,527	—	15,527
Due from other funds	—	3,905	3,905
Due from other governments.....	3,007,331	—	3,007,331
Interfund loan to agency fund.....	200,000	—	200,000
Other.....	535,631	—	535,631
Inventories and prepaid items.....	25,083	67,295	92,378
Capital assets, net of accumulated depreciation	57,280,476	1,108,648	58,389,124
Restricted Assets			
Cash held by agent.....	834,425	—	834,425
Total Assets	<u>\$ 123,255,061</u>	<u>\$ 1,844,479</u>	<u>\$ 125,099,540</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 1,984,659	\$ 4,518	\$ 1,989,177
Salaries and benefits payable.....	4,067,767	28,892	4,096,659
Accrued interest payable	327,618	—	327,618
Retainage payable	795,526	—	795,526
Deposits payable	110,200	—	110,200
Due to other funds.....	4,672	—	4,672
Deferred Revenue			
Succeeding year property tax.....	14,932,810	—	14,932,810
Provision for self-insurance claims	614,190	—	614,190
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds	800,000	—	800,000
Revenue bonds.....	2,330,000	—	2,330,000
Qualified Zone Academy Bonds	165,575	—	165,575
Payable from Restricted Assets			
Qualified Zone Academy Bonds	834,425	—	834,425
Compensated absences.....	277,264	—	277,264
Early retirement benefits	208,840	—	208,840
Portion Due After One Year			
Revenue bonds, net of unamortized discounts and issuance costs	32,291,089	—	32,291,089
Net OPEB liability	367,690	—	367,690
Total Liabilities	<u>60,112,325</u>	<u>33,410</u>	<u>60,145,735</u>
Net Assets			
Invested in capital assets, net of related debt	20,410,476	1,108,648	21,519,124
Restricted for			
Categorical funding	440,135	—	440,135
Adopt-a-school.....	32,865	—	32,865
Debt service	5,814,652	—	5,814,652
Management levy purposes	2,596,262	—	2,596,262
Property, plant and equipment	3,964,232	—	3,964,232
Student activities.....	236,643	—	236,643
School infrastructure	17,161,989	—	17,161,989
General purposes	158,945	—	158,945
Other special revenue purposes	354,374	—	354,374
Unrestricted.....	11,972,163	702,421	12,674,584
Total Net Assets	<u>63,142,736</u>	<u>1,811,069</u>	<u>64,953,805</u>
Total Liabilities and Net Assets	<u>\$ 123,255,061</u>	<u>\$ 1,844,479</u>	<u>\$ 125,099,540</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2012

Functions/Programs	Expenses
Governmental Activities	
Instruction	
Regular	\$ 16,217,699
Special	7,836,533
Vocational	525,577
Co-curricular	<u>4,248,223</u>
Total Instruction.....	<u>28,828,032</u>
Support Services	
Student	1,127,782
Instructional staff.....	939,521
Administration	3,427,274
Operation and maintenance of plant	2,750,190
Transportation.....	1,464,515
Central	22
Community.....	8,341
Other support.....	<u>615,431</u>
Total Support Services	<u>10,333,076</u>
Noninstructional Programs	
Scholarships	<u>21,450</u>
Other Expenses	
Facilities acquisition	350,745
Long-term debt interest and fiscal charges.....	734,032
AEA flowthrough	1,665,747
Depreciation - unallocated*	<u>8,594</u>
Total Other Expenses.....	<u>2,759,118</u>
Total Governmental Activities	41,941,676
Business-Type Activities	
Noninstructional Programs	
Nutrition services.....	<u>2,045,789</u>
Total	<u>\$ 43,987,465</u>
General Revenue	
Property Taxes Levied for	
General purposes.....	
Management.....	
Capital outlay	
Statewide sales, services and use tax	
Unrestricted state grants	
Other	
Gain on sale of capital assets	
Unrestricted investment earnings	
Total General Revenue	
Change in Net Assets	
Net Assets - Beginning of Year.....	
Net Assets - End of Year	

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

See accompanying notes to the financial statements.

Program Revenue			Net (Expenses) Revenue and Changes in Net Assets		
Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
\$ 1,525,230	\$ 4,795,891	\$ 1,624,675	\$ (8,271,903)	\$ —	\$ (8,271,903)
23,086	—	—	(7,813,447)	—	(7,813,447)
—	—	—	(525,577)	—	(525,577)
917,735	—	—	(3,330,488)	—	(3,330,488)
<u>2,466,051</u>	<u>4,795,891</u>	<u>1,624,675</u>	<u>(19,941,415)</u>	<u>—</u>	<u>(19,941,415)</u>
—	—	—	(1,127,782)	—	(1,127,782)
—	—	—	(939,521)	—	(939,521)
16,423	—	—	(3,410,851)	—	(3,410,851)
—	—	—	(2,750,190)	—	(2,750,190)
53,627	—	—	(1,410,888)	—	(1,410,888)
—	—	—	(22)	—	(22)
—	—	—	(8,341)	—	(8,341)
—	—	—	(615,431)	—	(615,431)
<u>70,050</u>	<u>—</u>	<u>—</u>	<u>(10,263,026)</u>	<u>—</u>	<u>(10,263,026)</u>
—	—	—	(21,450)	—	(21,450)
—	—	—	(350,745)	—	(350,745)
—	—	—	(734,032)	—	(734,032)
—	1,665,747	—	—	—	—
—	—	—	(8,594)	—	(8,594)
—	<u>1,665,747</u>	<u>—</u>	<u>(1,093,371)</u>	<u>—</u>	<u>(1,093,371)</u>
2,536,101	6,461,638	1,624,675	(31,319,262)	—	(31,319,262)
<u>764,535</u>	<u>1,060,792</u>	<u>1,011,186</u>	<u>—</u>	<u>790,724</u>	<u>790,724</u>
\$ 3,300,636	\$ 7,522,430	\$ 2,635,861	(31,319,262)	790,724	(30,528,538)
			15,160,648	—	15,160,648
			799,249	—	799,249
			371,778	—	371,778
			5,287,746	—	5,287,746
			17,218,697	—	17,218,697
			13,548	—	13,548
			76,583	—	76,583
			277,157	2,713	279,870
			<u>39,205,406</u>	<u>2,713</u>	<u>39,208,119</u>
			7,886,144	793,437	8,679,581
			<u>55,256,592</u>	<u>1,017,632</u>	<u>56,274,224</u>
			\$ 63,142,736	\$ 1,811,069	\$ 64,953,805

Balance Sheet - Governmental Funds

As of June 30, 2012

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and pooled investments	\$ 12,319,194	\$ 21,585,074	\$ 7,240,765	\$ 41,145,033
Receivables				
Property Tax				
Current year delinquent.....	187,129	4,767	9,865	201,761
Succeeding year	13,047,385	385,420	1,500,005	14,932,810
Accrued interest	—	15,527	—	15,527
Due from other funds	803	122,434	94,175	217,412
Due from other governments....	1,111,174	1,896,157	—	3,007,331
Interfund loan to agency fund...	—	—	200,000	200,000
Other.....	2,654	—	532,977	535,631
Inventories and prepaid items.....	25,083	—	—	25,083
Restricted Assets				
Cash held by agent	—	834,425	—	834,425
Total Assets	\$ 26,693,422	\$ 24,843,804	\$ 9,577,787	\$ 61,115,013
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 458,430	\$ 1,468,475	\$ 57,754	\$ 1,984,659
Salaries and benefits payable.....	4,066,846	—	921	4,067,767
Retainage payable	—	795,526	—	795,526
Deposits payable.....	—	110,200	—	110,200
Due to other funds.....	98,813	122,434	803	222,050
Early retirement benefits payable	—	—	208,840	208,840
Deferred Revenue				
Succeeding year property tax...	13,047,385	385,420	1,500,005	14,932,810
Other.....	41,222	1,103	1,923	44,248
Total Liabilities	17,712,696	2,883,158	1,770,246	22,366,100
Fund Balances				
Nonspendable				
Nonspendable.....	25,083	—	—	25,083
Restricted for				
Categorical funding	440,135	—	—	440,135
Scholarships	—	—	110,350	110,350
Debt service	—	834,425	4,858,934	5,693,359
Management levy purposes	—	—	2,596,262	2,596,262
Student activities.....	—	—	236,643	236,643
School infrastructure	—	17,161,989	—	17,161,989
Physical plant and equipment ..	—	3,964,232	—	3,964,232
General purposes.....	195,583	—	—	195,583
Committed for				
Salary and benefit increases	1,500,000	—	—	1,500,000
New math initiative	250,000	—	—	250,000
Technology	1,000,000	—	—	1,000,000
Unassigned	5,569,925	—	5,352	5,575,277
Total Fund Balances	8,980,726	21,960,646	7,807,541	38,748,913
Total Liabilities and Fund Balances	\$ 26,693,422	\$ 24,843,804	\$ 9,577,787	\$ 61,115,013

See accompanying notes to the financial statements.

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

As of June 30, 2012

Total Fund Balances for Governmental Funds (Page 17).... **\$ 38,748,913**

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds..... 57,280,476

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 4,507,008

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

Accrued interest payable	\$	(327,618)	
Bonds payable		(36,870,000)	
Unamortized bond discounts and issuance costs		448,911	
Compensated absences.....		(277,264)	
Net OPEB liability		(367,690)	(37,393,661)

Net Assets of Governmental Activities (Page 15) **\$ 63,142,736**

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

Year Ended June 30, 2012

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Local Sources				
Local tax	\$ 15,160,648	\$ 5,659,524	\$ 799,249	\$ 21,619,421
Tuition	1,138,074	—	—	1,138,074
Other	447,068	184,508	965,732	1,597,308
State sources	21,795,082	145,039	575	21,940,696
Federal sources	1,979,515	1,476,223	—	3,455,738
Total Revenue	<u>40,520,387</u>	<u>7,465,294</u>	<u>1,765,556</u>	<u>49,751,237</u>
Expenditures				
Current				
Instruction				
Regular	15,145,617	—	—	15,145,617
Special	7,886,574	—	—	7,886,574
Vocational	530,104	—	—	530,104
Co-curricular	3,302,960	—	907,058	4,210,018
Total Instruction	<u>26,865,255</u>	<u>—</u>	<u>907,058</u>	<u>27,772,313</u>
Support Services				
Student	1,098,559	—	—	1,098,559
Instructional staff	947,148	—	—	947,148
Administration	3,401,533	—	—	3,401,533
Operation and maintenance of plant	2,868,419	26,182	—	2,894,601
Transportation	1,450,144	—	—	1,450,144
Central	22	—	—	22
Community	8,341	—	—	8,341
Other support	—	—	615,431	615,431
Total Support Services	<u>9,774,166</u>	<u>26,182</u>	<u>615,431</u>	<u>10,415,779</u>
Noninstructional Programs				
Scholarships	—	—	21,450	21,450
Other Expenditures				
Facilities acquisition	—	17,786,644	—	17,786,644
Long-Term Debt				
Principal	—	—	3,140,000	3,140,000
Interest and fiscal charges	—	28,662	409,258	437,920
AEA flowthrough	1,665,747	—	—	1,665,747
Total Other Expenditures	<u>1,665,747</u>	<u>17,815,306</u>	<u>3,549,258</u>	<u>23,030,311</u>
Total Expenditures	<u>38,305,168</u>	<u>17,841,488</u>	<u>5,093,197</u>	<u>61,239,853</u>
Revenue Over (Under) Expenditures	<u>2,215,219</u>	<u>(10,376,194)</u>	<u>(3,327,641)</u>	<u>(11,488,616)</u>
Other Financing Sources (Uses)				
Revenue bonds issued	—	2,000,000	—	2,000,000
Proceeds from the sale of capital assets	—	175,000	—	175,000
Operating transfers in	—	—	5,413,760	5,413,760
Operating transfers out	—	(5,413,760)	—	(5,413,760)
Total Other Financing Sources (Uses)	<u>—</u>	<u>(3,238,760)</u>	<u>5,413,760</u>	<u>2,175,000</u>
Net Change in Fund Balances ...	2,215,219	(13,614,954)	2,086,119	(9,313,616)
Fund Balances - Beginning of Year	6,765,507	35,575,600	5,721,422	48,062,529
Fund Balances - End of Year	<u>\$ 8,980,726</u>	<u>\$ 21,960,646</u>	<u>\$ 7,807,541</u>	<u>\$ 38,748,913</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2012

Net Change in Fund Balances - Total Governmental Funds (Page 19) \$ (9,313,616)

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

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

Capital outlays.....	\$ 17,707,085	
Depreciation expense.....	(1,559,387)	
Net book value of assets disposed.....	<u>(98,417)</u>	16,049,281

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities. 497,810

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

Issued.....	\$ (2,000,000)	
Repaid.....	<u>3,140,000</u>	1,140,000

Discount on bonds issued during the year did not provide current financial resources to governmental funds but it decreases liabilities in the statement of net assets. 26,581

Amortization of discount on bonds payable issued in current year increases current financial resources to governmental funds but it increases liabilities in the statement of net assets. (47,930)

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. (274,763)

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

Compensated absences.....	\$ (104,529)	
Other post-employment benefits.....	<u>(86,690)</u>	<u>(191,219)</u>

Change in Net Assets of Governmental Activities (Page 16) \$ 7,886,144

Statement of Net Assets - Proprietary Funds

As of June 30, 2012

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	Internal <u>Service Fund</u> Self-Insurance Fund
Assets		
Cash and cash equivalents.....	\$ 664,631	\$ 5,121,232
Due from other funds.....	3,905	—
Inventories.....	67,295	—
Capital assets, net of accumulated depreciation.....	<u>1,108,648</u>	<u>—</u>
Total Assets	<u>\$ 1,844,479</u>	<u>\$ 5,121,232</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 4,518	\$ 614,190
Salaries and benefits payable.....	28,892	—
Due to other funds.....	<u>—</u>	<u>34</u>
Total Liabilities	<u>33,410</u>	<u>614,224</u>
Net Assets		
Invested in capital assets, net of related debt	1,108,648	—
Unrestricted.....	<u>702,421</u>	<u>4,507,008</u>
Total Net Assets	<u>1,811,069</u>	<u>4,507,008</u>
Total Liabilities and Net Assets	<u>\$ 1,844,479</u>	<u>\$ 5,121,232</u>

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

Year Ended June 30, 2012

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Internal Service Fund</u> Self-Insurance Fund
Operating Revenue		
Local Sources		
Charges for service	\$ 752,092	\$ —
Other receipts	12,443	—
Self-insurance contributions	—	4,598,604
Total Operating Revenue	<u>764,535</u>	<u>4,598,604</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	918,853	—
Purchased services	47,405	—
Supplies	1,005,919	—
Other	2,364	—
Depreciation	71,248	—
Self-insurance claims and fees	—	4,123,818
Total Operating Expenses	<u>2,045,789</u>	<u>4,123,818</u>
Income (Loss) From Operations	<u>(1,281,254)</u>	<u>474,786</u>
Nonoperating Revenue		
State sources	14,082	—
Federal sources	1,046,710	—
Capital contributions	1,011,186	—
Interest on investments	2,713	23,024
Total Nonoperating Revenue	<u>2,074,691</u>	<u>23,024</u>
Change in Net Assets	793,437	497,810
Net Assets - Beginning of Year	<u>1,017,632</u>	<u>4,009,198</u>
Net Assets - End of Year	<u>\$ 1,811,069</u>	<u>\$ 4,507,008</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2012

	Business-Type Activities - Enterprise Fund School Nutrition	Internal Service Fund Self-Insurance Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 761,843	\$ —
Cash received from assessments made to other funds	—	4,656,939
Cash payments to employees for services	(922,336)	—
Cash payments for insurance claims	—	(4,082,880)
Cash payments to suppliers for goods or services.....	(904,994)	—
Net Cash Provided by (Used in) Operating Activities.....	<u>(1,065,487)</u>	<u>574,059</u>
Cash Flows From Noncapital Financing Activities		
State grants received.....	14,082	—
Federal grants received.....	939,354	—
Net Cash Provided by Noncapital Financing Activities....	<u>953,436</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets.....	<u>(8,298)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>2,713</u>	<u>23,024</u>
Net Increase (Decrease) in Cash and Cash Equivalents.....	(117,636)	597,083
Cash and Cash Equivalents - Beginning of Year	<u>782,267</u>	<u>4,524,149</u>
Cash and Cash Equivalents - End of Year	<u>\$ 664,631</u>	<u>\$ 5,121,232</u>
Reconciliation of Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Income (loss) from operations.....	\$ (1,281,254)	\$ 474,786
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Provided by (Used in) Operating Activities		
Commodities used	141,998	—
Depreciation.....	71,248	—
Changes in Assets and Liabilities		
(Increase) decrease in receivables	(2,692)	58,335
Decrease in inventories	5,764	—
Increase in accounts payable and provision for self-insurance claims	2,932	40,938
Decrease in salaries and benefits payable.....	<u>(3,483)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (1,065,487)</u>	<u>\$ 574,059</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2012, the District received \$107,356 of federal commodities.

The District purchased \$1,019,484 of equipment, of which \$1,011,186 was paid from the Capital Projects Fund and transferred to the School Nutrition Fund as a capital contribution, resulting in cash paid for equipment of \$8,298 for the year ended June 30, 2012.

Statement of Fiduciary Assets and Liabilities - Agency Fund

As of June 30, 2012

Assets

Cash and pooled investments	\$ 194,378
Due from other governments	43,526
Due from other funds	<u>767</u>

Total Assets **\$ 238,671**

Liabilities

Accounts payable	\$ 30
Due to others	38,641
Interfund loan	<u>200,000</u>

Total Liabilities **\$ 238,671**

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and the statement of activities report information on all the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

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

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

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

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

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

(1) Summary of Significant Accounting Policies

Fund Financial Statements

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenue and other revenue 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 District's proprietary funds are the School Nutrition Fund used to account for the food service operations of the District and the Internal Service Fund used to account for the self-funded health insurance plan operated by the District.

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

Measurement Focus and Basis of Accounting

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

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

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

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

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

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

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

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

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

Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents

The cash balances of most District funds are pooled and invested. Investments include nonnegotiable 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, have a maturity date no longer than three months.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Tax Receivable

Property tax in the governmental funds is accounted for using the modified accrual basis of accounting.

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% per month penalty for delinquent payments; is based on January 1, 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 amounts due from the State of Iowa, various shared revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. As of June 30, 2012, government commodities valued at \$38,395 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures/expenses are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. The District did not have any intangible assets at June 30, 2012. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

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

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Capital assets are depreciated/amortized using the straight-line method over the following estimated useful lives:

Buildings	50 Years
Improvements other than buildings	25 Years
Furniture and equipment	5 - 10 Years
Intangibles.....	5 Years

Salaries and Benefits Payable

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

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred revenue consists of property tax receivable and other receivables not collected within 60 days after year end.

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

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2012. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity

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

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

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

(1) Summary of Significant Accounting Policies

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in the preceding classifications.

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

Estimates and Assumptions

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

(2) Cash and 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 improvements certificates of a drainage district.

The District's investments at June 30, 2012 consisted of certificates of deposit at local banks.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2012.

Notes to the Financial Statements

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2012 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue Student Activities	<u>\$ 803</u>
Capital Projects Statewide Sales, Services and Use Tax	Capital Projects Physical Plant and Equipment Levy	<u>122,434</u>
Enterprise School Nutrition	General	<u>3,905</u>
Special Revenue Student Activities Management Levy	General General	93,717 <u>458</u> <u>94,175</u>
Agency	General Internal Service	<u>733</u> <u>34</u> <u>767</u>
Total		<u>\$ 222,084</u>

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	<u>\$ 5,413,760</u>

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

Notes to the Financial Statements

(5) Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
Governmental Activities				
Capital Assets Not Being Depreciated				
Land.....	\$ 408,722	\$ —	\$ 93,120	\$ 315,602
Construction in progress	<u>7,299,249</u>	<u>17,012,385</u>	<u>6,408,407</u>	<u>17,903,227</u>
Total Capital Assets Not Being Depreciated.....	<u>7,707,971</u>	<u>17,012,385</u>	<u>6,501,527</u>	<u>18,218,829</u>
Capital Assets Being Depreciated				
Buildings and improvements	52,031,179	6,816,921	—	58,848,100
Furniture and equipment	<u>3,112,631</u>	<u>286,186</u>	<u>107,790</u>	<u>3,291,027</u>
Total Capital Assets Being Depreciated.....	<u>55,143,810</u>	<u>7,103,107</u>	<u>107,790</u>	<u>62,139,127</u>
Less Accumulated Depreciation for				
Buildings and improvements	19,065,895	1,372,850	—	20,438,745
Furniture and equipment	<u>2,554,691</u>	<u>186,537</u>	<u>102,493</u>	<u>2,638,735</u>
Total Accumulated Depreciation	<u>21,620,586</u>	<u>1,559,387</u>	<u>102,493</u>	<u>23,077,480</u>
Total Capital Assets Being Depreciated, Net	<u>33,523,224</u>	<u>5,543,720</u>	<u>5,297</u>	<u>39,061,647</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 41,231,195</u>	<u>\$ 22,556,105</u>	<u>\$ 6,506,824</u>	<u>\$ 57,280,476</u>
Business-Type Activities				
Furniture and equipment	\$ 667,814	\$ 1,019,484	\$ —	\$ 1,687,298
Less accumulated depreciation	<u>507,402</u>	<u>71,248</u>	<u>—</u>	<u>578,650</u>
Business-Type Activities				
Capital Assets, Net.....	<u>\$ 160,412</u>	<u>\$ 948,236</u>	<u>\$ —</u>	<u>\$ 1,108,648</u>

Notes to the Financial Statements

(5) Capital Assets

Depreciation expense was charged to the following functions:

Governmental Activities

Instruction

Regular	\$ 1,292,032
Special	17,270
Co-curricular	67,855

Support Services

Student.....	40,447
Administration	58,184
Operation and maintenance of plant.....	59,588
Transportation.....	15,417

1,550,793

Unallocated depreciation..... 8,594

Total Governmental Activities Depreciation Expense **\$ 1,559,387**

Business-Type Activities

School Nutrition..... **\$ 71,248**

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2012 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation					
bonds.....	\$ 1,625,000	\$ —	\$ 825,000	\$ 800,000	\$ 800,000
Qualified Zone					
Academy Bonds.....	1,000,000	—	—	1,000,000	1,000,000
Revenue bonds	35,385,000	2,000,000	2,315,000	35,070,000	2,330,000
Unamortized discount					
and issuance costs	(470,260)	(26,581)	(47,930)	(448,911)	—
Compensated absences	172,735	277,264	172,735	277,264	277,264
Early retirement benefits	268,803	208,840	268,803	208,840	208,840
Net OPEB liability	281,000	86,690	—	367,690	—
Total	<u>\$ 38,262,278</u>	<u>\$ 2,546,213</u>	<u>\$ 3,533,608</u>	<u>\$ 37,274,883</u>	<u>\$ 4,616,104</u>

General Obligation Bonds

Details of the District's June 30, 2012 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bonds Issued July 7, 2009			
	Interest Rate	Principal	Interest	Total
2013.....	2.15%	<u>\$ 800,000</u>	<u>\$ 17,200</u>	<u>\$ 817,200</u>

For the current year, total interest and principal was \$857,050.

Notes to the Financial Statements

(6) Long-Term Liabilities

Revenue Bonds

Details of the District's June 30, 2012 statewide sales, services and use tax revenue bonded indebtedness are as follows:

	QZAB Bonds Issued November 22, 2006			QSCB Bonds Issued July 1, 2010		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30,						
2013	0%	\$ 1,000,000	\$ —	0%	\$ —	\$ —
2014	—	—	—	0	—	—
2015	—	—	—	0	—	—
2016	—	—	—	0	—	—
2017	—	—	—	0	—	—
2018-2022	—	—	—	0	—	—
2023-2027	—	—	—	0	—	—
2028-2030	—	—	—	0	14,540,000	—
Total		\$ 1,000,000	\$ —		\$ 14,540,000	\$ —
	School Infrastructure (Refunding) Issued July 28, 2010			School Infrastructure Issued June 29, 2011		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
Year Ending June 30,						
2013	1.7%	\$ 2,330,000	\$ 43,805	2.00%	\$ —	\$ 588,760
2014	2.0	1,200,000	12,000	2.00	900,000	579,760
2015	—	—	—	3.00	640,000	561,160
2016	—	—	—	3.00	650,000	541,810
2017	—	—	—	3.00	685,000	521,785
2018-2022	—	—	—	3.00 - 3.75	3,830,000	2,266,156
2023-2027	—	—	—	4.00 - 4.63	4,720,000	1,440,656
2028-2030	—	—	—	5.00	3,575,000	277,625
Total		\$ 3,530,000	\$ 55,805		\$ 15,000,000	\$ 6,777,712
	QSCB Bonds Issued August 9, 2011			Total		
	Interest Rates	Principal	Interest	Principal	Interest	Total
Year Ending June 30,						
2013	0%	\$ —	\$ —	\$ 3,330,000	\$ 632,565	\$ 3,962,565
2014	0	—	—	2,100,000	591,760	2,691,760
2015	0	—	—	640,000	561,160	1,201,160
2016	0	—	—	650,000	541,810	1,191,810
2017	0	—	—	685,000	521,785	1,206,785
2018-2022	0	—	—	3,830,000	2,266,156	6,096,156
2023-2027	0	—	—	4,720,000	1,440,656	6,160,656
2028-2030	0	2,000,000	—	20,115,000	277,625	20,392,625
Total		\$ 2,000,000	\$ —	\$ 36,070,000	\$ 6,833,517	\$ 42,903,517

Notes to the Financial Statements

(6) Long-Term Liabilities

The District has pledged future statewide sales, services and use tax revenue to repay revenue bonds issued November 22, 2006, July 1, 2010, July 28, 2010, June 29, 2011 and August 9, 2011. Total principal and interest remaining to be paid on the bonds is \$42,903,517. For the current year, principal and interest paid on the bonds was \$2,691,308 and total statewide sales, services and use tax revenue was \$5,287,746.

The revenue bonds dated November 22, 2006 were Qualified Zone Academy Bonds (QZABs) issued for the purpose of equipping, rehabilitation and repair of Roosevelt Elementary School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and mature November, 2012. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The QZABs were issued at 0% interest. A tax credit rate of 5.57% entitles an eligible taxpayer who owns the bond on each credit allowance date, a federal income tax credit.

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

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

On July 1, 2010 and August 9, 2011, the District issued \$14,540,000 and \$2,000,000, respectively, of school infrastructure (statewide) sales, services and use tax revenue qualified school construction bonds (QSCB). The bonds were issued for the purpose of financing a portion of the costs associated with the renovation project of the High School and John Adams Middle School. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and both issues mature July 1, 2027. The bonds have a 0% interest rate. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limit of the District.

The school infrastructure (statewide) sales, services and use tax revenue bonds issued June 29, 2011 were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenue received by the District and are payable through July 1, 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

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

1. All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
2. 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.

Notes to the Financial Statements

(6) Long-Term Liabilities

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

The District was in compliance with all of the provisions for the year ended June 30, 2012.

Refunded Bonds

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

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

Interfund Loan

During the year ended June 30, 2012, the Board approved an interfund loan from the management fund to the agency fund in the amount of \$200,000 including interest at 0.35% due upon receipt of Perkins Grant money.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 5.38% of their annual salary and the District is required to contribute 8.07% of annual covered salary. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$1,849,771, \$1,571,963 and \$1,549,758, respectively, equal to the required contributions for each year.

Notes to the Financial Statements

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2012 was approximately \$11,000,000.

(9) Risk Management

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

(10) Area Education Agency Support

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$1,665,747 for the year ended June 30, 2012, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Employee Health Care Plan

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

Claim costs are limited to \$75,000 per covered individual. Any amount in excess of \$75,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$3,700,000 for the year ended June 30, 2012.

The District has included \$541,067 in its June 30, 2012 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

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

The following is a summary of the claims activity for the year ended June 30, 2012:

Estimated cost incurred but not claimed - June 30, 2011.....	\$ 571,204
Claims incurred and claimed and estimated costs incurred but claimed for the year ended June 30, 2012.....	3,726,705
Claims paid during the year ended June 30, 2012.....	<u>3,756,842</u>
Estimated Costs Incurred But Not Claimed - June 30, 2012.....	<u>\$ 541,067</u>

Notes to the Financial Statements

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten consecutive years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2012 was as follows:

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

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

Early retirement benefits expense for the year ended June 30, 2012 totaled \$208,840. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the Special Revenue Fund.

(13) Other Postemployment Benefits (OPEB)

Plan Description

The District operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees and retirees and their spouses. There are 443 active and 48 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a self-funded medical plan, is administered by Wellmark Blue Cross Blue Shield: Alliance Select. The dental benefit is administered by Delta Dental of Iowa. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability. There is no subsidy or OPEB liability associated with the dental benefit.

Funding Policy

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

Annual OPEB Cost and Net OPEB Obligation

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

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

The following table shows the components of the District's annual OPEB cost for 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.....	\$ 252,000
Interest on net OPEB obligation.....	12,490
Adjustment to annual required contribution.....	<u>(10,800)</u>
Annual OPEB Cost	253,690
Contributions made	<u>(167,000)</u>
Increase in Net OPEB Obligation	86,690
Net OPEB Obligation - Beginning of Year.....	<u>281,000</u>
Net OPEB Obligation - End of Year	<u>\$ 367,690</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end-of-year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plan's actual contributions for the year ended June 30, 2012.

For the fiscal year 2012, the District contributed \$167,000 to the medical plan.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2012 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 252,000	69.9%	\$ 159,400
June 30, 2011	252,600	51.9	281,000
June 30, 2012	253,690	65.8	367,690

Funded Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date for the period of July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$2,714,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,714,000. The covered payroll (annual payroll of active employees covered by the plan) was \$23,436,244 and the ratio of the UAAL to the covered payroll was 11.6%. 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 healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress for the retiree health plan, presented as required supplementary information in the section following the notes to financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Notes to the Financial Statements

(13) Other Postemployment Benefits (OPEB)

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

As of the July 1, 2010 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 5%. The medical trend rate is reduced by 0.5% each year until reaching the 5% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

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

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

(14) Operating Lease

The District leases several office copiers and modular classrooms under operating leases expiring in 2013 through 2015.

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

Year Ending June 30,	
2013	\$ 201,384
2014	3,459
2015	865
Total Minimum Payments Required	<u>\$ 205,708</u>

Rental expense for all operating leases was \$216,254 for the year ended June 30, 2012.

Notes to the Financial Statements

(15) Categorical Funding

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

Program	Amount
Limited English proficiency	\$ 28,997
Statewide voluntary four-year-old preschool program.....	225,635
Education quality, professional development.....	99,328
Beginning teacher mentoring and induction.....	3,814
Beginning administrator mentoring and induction	1,464
Nonpublic textbook services	31,265
Teacher salary supplement	49,632
	<u>\$ 440,135</u>

(16) Construction Commitment

The District has entered into contracts totaling approximately \$34 million for several remodeling projects. As of June 30, 2012, costs of approximately \$24 million had been incurred against the contracts. The balance of approximately \$10 million remaining at June 30, 2012 will be paid as work on the projects progress.

(17) Subsequent Events

In July, 2012, the Board approved the issuance of \$5,510,000 school infrastructure sales, services and use tax revenue bonds, Series 2012.

Required Supplementary Information

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

Year Ended June 30, 2012

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total	Original and Final Budget	Over (Under) Budget
Revenue					
Local sources	\$ 24,354,803	\$ 767,248	\$ 25,122,051	\$ 24,652,229	\$ 469,822
Intermediate sources	—	—	—	25,000	(25,000)
State sources	21,940,696	14,082	21,954,778	22,533,350	(578,572)
Federal sources	<u>3,455,738</u>	<u>1,046,710</u>	<u>4,502,448</u>	<u>1,975,000</u>	<u>2,527,448</u>
Total Revenue	<u>49,751,237</u>	<u>1,828,040</u>	<u>51,579,277</u>	<u>49,185,579</u>	<u>2,393,698</u>
Expenditures/Expenses					
Instruction	27,772,313	—	27,772,313	29,535,000	(1,762,687)
Support services	10,415,779	—	10,415,779	11,796,000	(1,380,221)
Noninstructional programs	21,450	2,045,789	2,067,239	2,225,000	(157,761)
Other expenditures	<u>23,030,311</u>	<u>—</u>	<u>23,030,311</u>	<u>27,060,357</u>	<u>(4,030,046)</u>
Total Expenditures/ Expenses	<u>61,239,853</u>	<u>2,045,789</u>	<u>63,285,642</u>	<u>70,616,357</u>	<u>(7,330,715)</u>
Revenue Under Expenditures/Expenses	(11,488,616)	(217,749)	(11,706,365)	(21,430,778)	9,724,413
Other Financing Sources (Net)	<u>2,175,000</u>	<u>1,011,186</u>	<u>3,186,186</u>	<u>—</u>	<u>3,186,186</u>
Revenue and Other Financing Sources Over (Under) Expenditures/ Expenses and Other Financing Uses	(9,313,616)	793,437	(8,520,179)	(21,430,778)	12,910,599
Balance - Beginning of Year	<u>48,062,529</u>	<u>1,017,632</u>	<u>49,080,161</u>	<u>33,847,453</u>	<u>15,232,708</u>
Balance - End of Year	<u>\$ 38,748,913</u>	<u>\$ 1,811,069</u>	<u>\$ 40,559,982</u>	<u>\$ 12,416,675</u>	<u>\$ 28,143,307</u>

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

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

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

During the year ended June 30, 2012, expenditures did not exceed the amounts budgeted and the District did not exceed its General Fund unspent authorized budget.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2010	7-1-08	\$ —	\$ 2,244,000	\$ 2,244,000	0.0%	\$ 20,026,581	11.2%
2011	7-1-10	—	2,714,000	2,714,000	0.0	23,395,155	11.6
2012	7-1-10	—	2,714,000	2,714,000	0.0	23,436,244	11.6

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

Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

As of June 30, 2012

	Debt Service	Special Revenue Funds			Total
		Management Account	Student Activities	Expendable Trust	
Assets					
Cash and pooled investments	\$ 4,443,934	\$ 2,603,325	\$ 77,804	\$ 115,702	\$ 7,240,765
Receivables					
Property Tax					
Current year delinquent....	—	9,865	—	—	9,865
Succeeding year	—	1,500,005	—	—	1,500,005
Due from other funds	—	458	93,717	—	94,175
Interfund loan to Agency					
Fund.....	—	200,000	—	—	200,000
Other.....	415,000	—	117,977	—	532,977
Total Assets	\$ 4,858,934	\$ 4,313,653	\$ 289,498	\$ 115,702	\$ 9,577,787
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ —	\$ 6,623	\$ 51,131	\$ —	\$ 57,754
Salaries and benefits payable	—	—	921	—	921
Due to other funds	—	—	803	—	803
Early retirement payable.....	—	208,840	—	—	208,840
Deferred Revenue					
Succeeding year property					
tax	—	1,500,005	—	—	1,500,005
Other.....	—	1,923	—	—	1,923
Total Liabilities	—	1,717,391	52,855	—	1,770,246
Fund Balances					
Restricted for					
Scholarships	—	—	—	110,350	110,350
Management levy purposes	—	2,596,262	—	—	2,596,262
Student activities	—	—	236,643	—	236,643
Debt service	4,858,934	—	—	—	4,858,934
Unassigned	—	—	—	5,352	5,352
Total Fund Balances ...	4,858,934	2,596,262	236,643	115,702	7,807,541
Total Liabilities and Fund					
Balances	\$ 4,858,934	\$ 4,313,653	\$ 289,498	\$ 115,702	\$ 9,577,787

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

Year Ended June 30, 2012

	Debt Service	Special Revenue Funds			Total
		Management Account	Student Activities	Expendable Trust	
Revenue					
Local Sources					
Local tax	\$ —	\$ 799,249	\$ —	\$ —	\$ 799,249
Other.....	4,367	20,724	918,074	22,567	965,732
State sources	—	575	—	—	575
Total Revenue.....	<u>4,367</u>	<u>820,548</u>	<u>918,074</u>	<u>22,567</u>	<u>1,765,556</u>
Expenditures					
Current					
Instruction					
Co-curricular	—	—	907,058	—	907,058
Support Services					
Other support	—	615,431	—	—	615,431
Noninstructional Programs					
Scholarships	—	—	—	21,450	21,450
Other Expenditures					
Long-Term Debt					
Principal	3,140,000	—	—	—	3,140,000
Interest and fiscal charges	409,258	—	—	—	409,258
Total Other Expenditures	3,549,258	—	—	—	3,549,258
Total Expenditures	<u>3,549,258</u>	<u>615,431</u>	<u>907,058</u>	<u>21,450</u>	<u>5,093,197</u>
Revenue Over (Under)					
Expenditures	(3,544,891)	205,117	11,016	1,117	(3,327,641)
Other Financing Sources					
Operating transfers in	<u>5,413,760</u>	—	—	—	<u>5,413,760</u>
Net Change in Fund Balances	1,868,869	205,117	11,016	1,117	2,086,119
Fund Balances - Beginning of Year	<u>2,990,065</u>	<u>2,391,145</u>	<u>225,627</u>	<u>114,585</u>	<u>5,721,422</u>
Fund Balances - End of Year	<u>\$ 4,858,934</u>	<u>\$ 2,596,262</u>	<u>\$ 236,643</u>	<u>\$ 115,702</u>	<u>\$ 7,807,541</u>

Combining Balance Sheet - Capital Projects Accounts

As of June 30, 2012

	<u>Capital Projects Accounts</u>		Total Capital Projects Fund
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Assets			
Cash and pooled investments	\$ 17,665,440	\$ 3,919,634	\$ 21,585,074
Receivables			
Property Tax			
Current year delinquent	—	4,767	4,767
Succeeding year	—	385,420	385,420
Accrued interest	15,527	—	15,527
Due from other funds	—	122,434	122,434
Due from other governments	1,896,157	—	1,896,157
Restricted Assets			
Cash held by agent	<u>834,425</u>	<u>—</u>	<u>834,425</u>
Total Assets	<u>\$ 20,411,549</u>	<u>\$ 4,432,255</u>	<u>\$ 24,843,804</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 1,386,975	\$ 81,500	\$ 1,468,475
Retainage payable	795,526	—	795,526
Deposits payable	110,200	—	110,200
Due to other funds	122,434	—	122,434
Deferred Revenue			
Succeeding year property tax	—	385,420	385,420
Other	—	1,103	1,103
Total Liabilities	<u>2,415,135</u>	<u>468,023</u>	<u>2,883,158</u>
Fund Balances			
Restricted for			
Debt service	834,425	—	834,425
School infrastructure	17,161,989	—	17,161,989
Physical plant and equipment	—	3,964,232	3,964,232
Total Fund Balances	<u>17,996,414</u>	<u>3,964,232</u>	<u>21,960,646</u>
Total Liabilities and Fund Balances	<u>\$ 20,411,549</u>	<u>\$ 4,432,255</u>	<u>\$ 24,843,804</u>

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

Year Ended June 30, 2012

	Capital Projects Accounts		Total Capital Projects Fund
	Statewide Sales, Services and Use Tax	Physical Plant and Equip- ment Levy	
Revenue			
Local Sources			
Local taxes	\$ 5,287,746	\$ 371,778	\$ 5,659,524
Other	165,611	18,897	184,508
State sources	144,781	258	145,039
Federal sources.....	1,476,223	—	1,476,223
Total Revenue	7,074,361	390,933	7,465,294
Expenditures			
Support Services			
Operation and maintenance of plant.....	—	26,182	26,182
Other Expenditures			
Facilities acquisition.....	17,334,246	452,398	17,786,644
Long-Term Debt			
Interest and fiscal charges	28,662	—	28,662
Total Other Expenditures	17,362,908	452,398	17,815,306
Total Expenditures	17,362,908	478,580	17,841,488
Revenue Under Expenditures	(10,288,547)	(87,647)	(10,376,194)
Other Financing Sources (Uses)			
Revenue bonds issued.....	2,000,000	—	2,000,000
Proceeds from the sale of capital assets	—	175,000	175,000
Operating transfers out.....	(5,413,760)	—	(5,413,760)
Total Other Financing Sources (Uses)	(3,413,760)	175,000	(3,238,760)
Revenue and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(13,702,307)	87,353	(13,614,954)
Fund Balance - Beginning of Year	31,698,721	3,876,879	35,575,600
Fund Balance - End of Year	\$ 17,996,414	\$ 3,964,232	\$ 21,960,646

See accompanying notes to the financial statements.

Schedule of Changes in Special Revenue Fund, Student Activity Accounts —

Year Ended June 30, 2012

Account	Balance - Beginning of Year	Revenue and Transfers	Expenditures and Transfers	Balance - End of Year
Administration.....	\$ 27,165	\$ 33,938	\$ 31,517	\$ 29,586
Special Olympics.....	83	4,725	4,808	—
Talent Development	579	526	566	539
High School Speech and Drama.....	6,097	5,752	10,050	1,799
High School Vocal Music.....	46,379	110,276	98,258	58,397
High School Instrumental Music	23,373	37,374	41,882	18,865
High School Athletics.....	870	320,009	320,879	—
Dance Team.....	—	3,536	3,536	—
Cheerleading	—	21,407	21,407	—
General Athletics	—	138,841	138,841	—
Concession Stand	401	63,951	57,403	6,949
Tournaments	940	41,554	39,680	2,814
National Art Honor Society	901	300	—	1,201
Foreign Language	203	371	365	209
AFS International Club	1,203	1	—	1,204
Model U.N.	1,130	5	1,135	—
Literary Club	237	—	—	237
Math Club.....	1,568	1	—	1,569
Science Club	413	—	123	290
Home Economics	243	—	—	243
Adult Living.....	449	—	—	449
Gay/Straight Alliance	269	56	166	159
Industrial Tech - Special Project	563	—	—	563
Prom	9,102	6,772	3,940	11,934
Student Council	6,734	8,238	13,529	1,443
Mohawk Press.....	2,100	—	2,039	61
Yearbook.....	—	37,389	37,389	—
Ambassadors	1,053	—	—	1,053
National Honor Society.....	—	271	271	—
Alternative School	3,088	510	522	3,076
Middle School Athletics	25	21,703	21,545	183
Middle School Vocal Music.....	327	—	158	169
John Adams Middle School	21,344	5,358	5,593	21,109
Harding Elementary.....	8,001	6,223	12,142	2,082
Hoover Elementary.....	752	3,870	4,622	—
Hoover Technology	—	11,050	—	11,050
Jefferson Elementary.....	—	2,176	2,142	34
Lincoln Intermediate	42,110	14,749	16,711	40,148
Roosevelt Elementary	—	8,219	8,219	—
Student Parking.....	4,643	1,426	282	5,787
MCHS PTO	—	6,880	6,880	—
MCHS JEL	5,740	—	—	5,740
MCHS Sod House	17	—	—	17
MCHS Table Tennis	—	107	—	107
MCHS Best Buddies.....	4,535	510	458	4,587
MCHC/ISU Prosper Grant	2,990	—	—	2,990
	<u>\$ 225,627</u>	<u>\$ 918,074</u>	<u>\$ 907,058</u>	<u>\$ 236,643</u>

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

Year Ended June 30, 2012

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and pooled investments	\$ 205,525	\$ 1,302,247	\$ 1,313,394	\$ 194,378
Accounts receivable	330	—	330	—
Due from other governments	40	43,526	40	43,526
Due from other funds	<u>28,916</u>	<u>767</u>	<u>28,916</u>	<u>767</u>
Total Assets	<u>\$ 234,811</u>	<u>\$ 1,346,540</u>	<u>\$ 1,342,680</u>	<u>\$ 238,671</u>
Liabilities				
Accounts payable	\$ 200	\$ 30	\$ 200	\$ 30
Due to others	32,473	1,146,510	1,140,342	38,641
Due to other governments	2,138	—	2,138	—
Interfund loan	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>
Total Liabilities	<u>\$ 234,811</u>	<u>\$ 1,346,540</u>	<u>\$ 1,342,680</u>	<u>\$ 238,671</u>

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

For the Last Ten Years

	2012	2011	2010	2009
Revenue				
Local Sources				
Local tax	\$ 21,619,421	\$ 20,647,075	\$ 18,792,533	\$ 18,482,676
Tuition.....	1,138,074	1,045,534	969,895	773,756
Other.....	1,597,308	1,754,735	1,557,159	1,735,786
Intermediate sources	—	—	—	—
State sources	21,940,696	21,348,850	18,898,633	21,634,299
Federal sources.....	<u>3,455,738</u>	<u>2,447,878</u>	<u>4,124,438</u>	<u>1,008,833</u>
Total	<u>\$ 49,751,237</u>	<u>\$ 47,244,072</u>	<u>\$ 44,342,658</u>	<u>\$ 43,635,350</u>
Expenditures				
Instruction				
Regular	\$ 15,145,617	\$ 14,114,646	\$ 14,567,967	\$ 14,329,253
Special.....	7,886,574	7,641,949	8,173,084	8,951,060
Vocational.....	530,104	562,895	719,311	800,266
Co-curricular	4,210,018	3,716,156	3,271,661	2,769,624
Support Services				
Student	1,098,559	921,853	1,033,000	965,307
Instructional staff.....	947,148	1,267,666	781,290	953,723
Administration	3,401,533	3,528,429	3,515,080	3,685,363
Operation and maintenance of plant	2,894,601	2,939,840	2,943,584	3,244,035
Transportation.....	1,450,144	1,334,757	1,263,411	1,277,202
Central	22	32	133,686	155,736
Community.....	8,341	11,603	21,734	20,581
Other support.....	615,431	763,222	452,308	405,477
Noninstructional programs.....	21,450	19,535	26,285	31,434
Other Expenditures				
Facilities acquisition	17,786,644	8,031,028	996,763	506,723
Long-Term Debt				
Principal	3,140,000	2,830,000	5,955,000	2,595,000
Interest and other charges.....	437,920	780,846	571,464	757,028
AEA flowthrough.....	<u>1,665,747</u>	<u>1,841,165</u>	<u>1,827,794</u>	<u>1,556,509</u>
Total	<u>\$ 61,239,853</u>	<u>\$ 50,305,622</u>	<u>\$ 46,253,422</u>	<u>\$ 43,004,321</u>

2008	2007	2006	2005	2004	2003
\$ 18,369,828	\$ 17,944,250	\$ 17,655,326	\$ 16,907,057	\$ 15,233,474	\$ 12,978,548
689,366	688,651	559,101	673,039	587,095	568,980
2,169,005	2,397,408	2,144,816	2,102,912	1,324,786	1,541,293
3,239	3,070	3,150	21,812	—	—
20,938,336	20,594,807	19,990,995	19,381,781	18,956,646	18,954,174
<u>1,198,706</u>	<u>1,252,122</u>	<u>1,139,746</u>	<u>1,193,538</u>	<u>1,250,640</u>	<u>895,238</u>
<u>\$ 43,368,480</u>	<u>\$ 42,880,308</u>	<u>\$ 41,493,134</u>	<u>\$ 40,280,139</u>	<u>\$ 37,352,641</u>	<u>\$ 34,938,233</u>
\$ 13,925,271	\$ 14,094,556	\$ 12,851,648	\$ 12,499,642	\$ 12,867,538	\$ 12,580,788
8,582,024	7,961,424	7,930,603	8,343,099	8,948,307	8,090,177
823,893	725,538	623,236	583,875	419,619	397,634
2,697,209	2,274,720	2,104,340	1,374,316	1,386,706	1,495,486
856,993	946,822	914,875	945,606	893,804	897,688
768,295	859,849	826,137	1,906,887	1,037,506	1,040,758
3,736,825	3,496,479	3,214,801	2,854,026	2,243,707	2,191,715
2,900,385	2,924,864	2,743,789	2,531,780	2,474,640	2,431,820
1,180,755	1,070,857	1,118,067	729,202	544,964	635,345
—	3,947	57,608	25,733	216,516	216,645
31,535	27,220	28,998	29,456	16,764	25,582
411,467	432,686	418,981	427,280	362,371	270,042
35,969	47,893	39,145	286,515	35,141	31,300
712,643	4,398,636	15,709,139	3,296,605	1,385,571	974,171
2,510,000	2,450,000	2,335,000	575,000	550,000	525,000
842,650	941,675	1,029,600	676,450	304,605	319,012
<u>1,473,782</u>	<u>1,441,443</u>	<u>1,384,649</u>	<u>1,343,115</u>	<u>1,357,515</u>	<u>1,425,447</u>
<u>\$ 41,489,696</u>	<u>\$ 44,098,609</u>	<u>\$ 53,330,616</u>	<u>\$ 38,428,587</u>	<u>\$ 35,045,274</u>	<u>\$ 33,548,610</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Child Nutrition Cluster			
School Breakfast Program.....	10.553	FY 12	\$ 154,151
National School Lunch Program	10.555	FY 12	<u>892,559</u>
Total U.S. Department of Agriculture			<u>1,046,710</u>
U.S. Department of Defense			
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention -			
Allocation to States.....	16.540	FY 12	<u>23,610</u>
Department of Energy			
Pass-Through From State of Iowa			
ARRA - State Energy Program.....	81.041		<u>390,363</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I, Part A Cluster			
Title I Grants to Local Educational Agencies.....	84.010	FY 12	731,488
ARRA - Title I Grants to Local Educational Agencies, Recovery Act.....	84.389	FY 12	<u>49,138</u>
Total Title I, Part A Cluster.....			<u>780,626</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth.....	84.013	FY 12	<u>70,357</u>
Career and Technical Education - Basic Grants to States	84.048*	FY 12	<u>226,887</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States.....	84.126	FY 12	<u>725</u>
Fund for the Improvement of Education	84.215	FY 12	<u>2,430</u>
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	FY 12	<u>270</u>
Improving Teacher Quality State Grants	84.367	FY 12	<u>163,359</u>
Grants for State Assessments and Related Activities..	84.369	FY 12	<u>44,405</u>
Education Jobs Fund	84.410	FY 12	<u>408,361</u>
Total Pass-Through From Iowa Department of Education			<u>1,697,420</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States.....	84.027	FY 12	<u>230,991</u>
Total U.S. Department of Education			<u>1,928,411</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Pass-Through From Iowa Department of Education			
Temporary Assistance for Needy Families	93.558	FY 12	<u>\$ 11,400</u>
Department of Homeland Security			
Pass-Through From State of Iowa			
Hazard Mitigation Grant	97.039		<u>1,085,860</u>
Total			<u>\$ 4,486,354</u>

* Includes \$192,247 of expenditures paid through the agency fund, and therefore, these expenditures are not reflected in the fund financial statements or the government-wide statements.

Note 1. Basis of Presentation

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

Note 2. Subrecipients

The Mason City Community School District provided \$192,247 of federal awards to various school districts as part of the Career and Technical Education - Basic Grants to States.

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 12, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

Compliance and Other Matters

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

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

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 12, 2013

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

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

Compliance

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

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

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

Internal Control Over Compliance

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

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

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

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of the Mason City Community School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on the Mason City Community School District's compliance but not to provide an opinion on the effectiveness of the Mason City Community School District's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Mason City Community School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
February 12, 2013

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

Child Nutrition Cluster	School Breakfast Program
10.553	National School Lunch Program
10.555	
81.041	ARRA - State Energy Program
84.410	Education Jobs Fund
97.039	Hazard Mitigation Grant
Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> no

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Part II: Findings Related to the Financial Statements

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Internal Control Deficiencies

There were no matters reported.

Part IV: Other Findings Related to Statutory Reporting

12-IV-A Certified Budget - Expenditures for the year ended June 30, 2012 did not exceed the certified budget amounts.

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

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

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

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

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

12-IV-G Certified Enrollment

Finding - During the audit, two variances were noted between the District's records and the Project Easier and Certified Enrollment (PEACE) report submitted to the Iowa Department of Education. The certified enrollment report is prepared from documentation maintained by the District to support the basic enrollment certified to the Iowa Department of Education in October, 2011. The variances resulted in no net effect in the number of certified students.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Auditor's Recommendation - The District should ensure that their system reconciles to the PEACE system for the number of students being reported within the certified enrollment. The Iowa Department of Management and Iowa Department of Education should be notified of the variances.

District's Response - The District will continue to monitor supporting information and reconciliation of data submitted to the Iowa Department of Education.

Auditor's Conclusion - Response accepted.

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

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales and services tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2012, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning balance.....		\$ 31,698,721
Revenue		
Statewide sales, services and use tax revenue	\$ 5,287,746	
Other local revenue.....	165,611	
Sale of long-term debt.....	2,000,000	
Other state revenue.....	144,781	
Federal revenue.....	<u>1,476,223</u>	9,074,361
Expenditures/Transfers Out		
School infrastructure construction.....	\$ 17,334,246	
Other.....	28,662	
Transfers to Other Funds		
Debt Service Fund.....	<u>5,413,760</u>	<u>22,776,668</u>
Ending Balance.....		<u>\$ 17,996,414</u>

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

For the year ended June 30, 2012, the District reduced the following levy as a result of the monies received under Chapter 423E or 423F of the Code of Iowa:

	Rate of Levy Reduction Per \$1,000 of Taxable Valuation	Property Tax Dollars
Physical plant and equipment levy (PPEL)	0.33	\$ 372,177