

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2012

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Sibley-Ocheyedan Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2011 Election)</b>		
Kyle Grimes	President	2011
Keith Newman	Vice President	2013
Paul Feldkamp	Board Member	2011
Jose Alvarado	Board Member	2013
Tracy Van Diepen	Board Member	2013
<b>Board of Education (After September 2011 Election)</b>		
Keith Newman	President	2013
Cindy Onken	Vice President	2013
Cindy Roth	Board Member	2015
Dr. Daniel Berkland	Board Member	2015
Tracy Van Diepen	Board Member	2013
Jose Alvarado	Board Member	2013
(Resigned October 2011)		
<b>School Officials</b>		
Tom Becker	Superintendent	2012
LaDonn Hartzell	District Secretary/ Business Manager/Treasurer	2012
Stephen Avery	Attorney	2012

*Sibley-Ocheyedan Community School District*

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Sibley-Ocheyedan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sibley-Ocheyedan Community School District, Sibley, Iowa, 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. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 Sibley-Ocheyedan Community School District at June 30, 2012, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 10, 2013 on our consideration of Sibley-Ocheyedan 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.

Members American Institute & Iowa Society of Certified Public Accountants

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan on pages 7 through 16 and 46 through 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sibley-Ocheydan Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2011 (none of which are presented herein) and expressed an unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2013

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

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

### **2012 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$7,990,129 in fiscal 2011 to \$8,102,451 in fiscal 2012, while General Fund expenditures increased from \$7,364,438 in fiscal 2011 to \$7,618,838 in fiscal 2012. This resulted in an increase in the District's General Fund balance from \$1,234,534 in fiscal 2011 to a balance of \$1,718,147 in fiscal 2012, which is a 39.17% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2012. The increase in expenditures was due primarily to increases in negotiated salaries and benefits received by District employees.

### **USING THIS ANNUAL REPORT**

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sibley-Ocheyedan 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 Sibley-Ocheyedan 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 Sibley-Ocheyedan Community School District acts solely as an agent or custodial for the benefit of those outside of School District.

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

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

Supplementary Information provides detailed information about the nonmajor governmental funds and Capital Project Accounts.

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

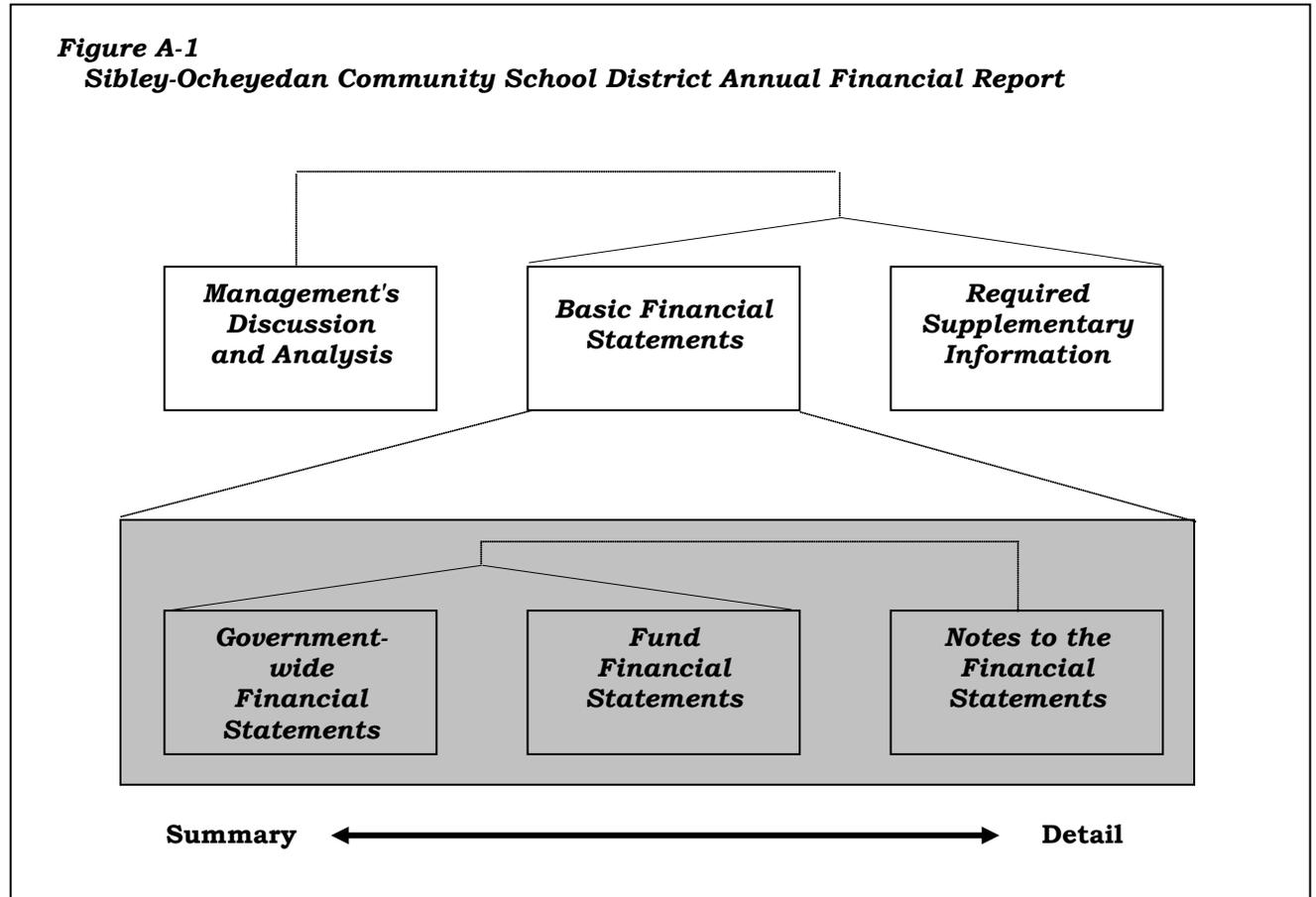


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Current and other assets	\$ 6,782,561	5,842,783	119,583	93,126	6,902,144	5,935,909	16.28%
Capital assets	6,775,733	7,325,632	38,832	33,692	6,814,565	7,359,324	-7.40%
Total assets	13,558,294	13,168,415	158,415	126,818	13,716,709	13,295,233	3.17%
Long-term obligations	2,553,475	2,735,791	21,711	14,160	2,575,186	2,749,951	-6.36%
Other liabilities	4,339,165	3,996,360	9,830	22,445	4,348,995	4,018,805	8.22%
Total liabilities	6,892,640	6,732,151	31,541	36,605	6,924,181	6,768,756	2.30%
Net assets:							
Invested in capital assets, net of related debt	4,587,431	4,845,681	38,832	33,692	4,626,263	4,879,373	-5.19%
Restricted	791,902	611,631	-	-	791,902	611,631	29.47%
Unrestricted	1,286,321	978,952	88,042	56,521	1,374,363	1,035,473	32.73%
Total net assets	\$ 6,665,654	6,436,264	126,874	90,213	6,792,528	6,526,477	4.08%

The District's combined net assets increased by 4.08%, or \$266,051, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased 29.47%, or \$180,271, over the prior year. This increase in restricted net assets is mainly attributable to increases in carryover fund balance for the Physical Plant and Equipment Levy Fund and the Statewide Sales, Services and Use Tax Fund.

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 \$338,890, or 32.73%. The increase in unrestricted net assets is mainly attributable to the increase in carryover fund balance for the General Fund.

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  
Changes of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2012	2011	2012	2011	2012	2011	2011-12
Revenues:							
Program revenues:							
Charges for services	\$ 672,086	695,867	276,111	242,146	948,197	938,013	1.09%
Operating grants and contributions and restricted interest	838,941	1,415,816	185,804	173,559	1,024,745	1,589,375	-35.53%
Capital grants and contributions and restricted interest	18,200	-	-	-	18,200	-	100.00%
General revenues:							
Property tax	3,575,350	3,406,209	-	-	3,575,350	3,406,209	4.97%
Income surtax	252,197	258,884	-	-	252,197	258,884	-2.58%
Statewide sales, services and use tax	567,553	505,339	-	-	567,553	505,339	12.31%
Unrestricted state grants	3,557,496	2,801,165	-	-	3,557,496	2,801,165	27.00%
Nonspecific program federal grants	82,099	-	-	-	82,099	-	100.00%
Unrestricted investment earnings	595	350	57	39	652	389	67.61%
Other	108,551	99,684	-	-	108,551	99,684	8.90%
Total revenues	9,673,068	9,183,314	461,972	415,744	10,135,040	9,599,058	5.58%
Program expenses:							
Governmental activities:							
Instructional	5,880,914	5,209,198	-	-	5,880,914	5,209,198	12.89%
Support services	2,617,998	2,477,898	8,780	-	2,626,778	2,477,898	6.01%
Non-instructional programs	-	-	416,531	399,736	416,531	399,736	4.20%
Long-term debt interest	124,963	102,376	-	-	124,963	102,376	22.06%
Other expenses	819,803	692,398	-	-	819,803	692,398	18.40%
Total expenses	9,443,678	8,481,870	425,311	399,736	9,868,989	8,881,606	11.12%
Changes in net assets	229,390	701,444	36,661	16,008	266,051	717,452	-62.92%
Beginning net assets	6,436,264	5,734,820	90,213	74,205	6,526,477	5,809,025	12.35%
Ending net assets	\$ 6,665,654	6,436,264	126,874	90,213	6,792,528	6,526,477	4.08%

In fiscal year 2012, property tax, income surtax and unrestricted state grants account for 76.35% of governmental activities revenue while charges for service and sales and operating grants, contributions and restricted interest accounted for almost 100.00% of business type activities revenue.

The District's total revenues were approximately \$10.13 million of which \$9.67 million was for governmental activities and approximately \$0.46 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.58% increase in revenues and a 11.12% increase in expenses. Property tax increased \$169,141 and statewide sales, services and use tax increased \$62,214 to fund increases in expenditures. The increase in expenses related to increases in negotiated salary and benefits as well as increases in expenses related to the Net OPEB liability.

### Governmental Activities

Revenues for governmental activities were \$9,673,068 and expenses were \$9,443,678 for the year ended June 30, 2012.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, long-term debt interest and other expenses for the year ended June 30, 2012 compared to the year ended June 30, 2011.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2012	2011	Change 2011-12	2012	2011	Change 2011-12
Instruction	\$ 5,880,914	5,209,198	12.89%	4,730,375	3,441,631	37.45%
Support services	2,617,998	2,477,898	5.65%	2,534,948	2,465,921	2.80%
Long-term debt interest	124,963	102,376	22.06%	124,963	102,376	22.06%
Other expenses	819,803	692,398	18.40%	524,165	360,259	45.50%
Totals	\$ 9,443,678	8,481,870	11.34%	7,914,451	6,370,187	24.24%

For the year ended June 30, 2012:

- The cost financed by users of the District's programs was \$672,086.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$857,141.
- The net cost of governmental activities was financed with \$3,575,350 in property tax, \$252,197 in income surtax, \$567,553 in statewide sales, services and use tax, \$3,557,496 in unrestricted state grants, \$82,099 in nonspecific program federal grants, \$595 in interest income and \$108,551 in other general revenues.

### Business type Activities

Revenues of the District's business type activities during the year ended June 30, 2012 were \$461,972, representing a 11.12% increase over the prior year, while expenses totaled \$425,311, a 6.40% increase over the prior year. The District's business type activities are comprised in the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,225,452, above last year's ending fund balances of \$1,613,696. However, the primary reason for the increase in combined fund balances is because of the increase in fund balance in the General Fund and the Statewide Sales, Services and Use Tax Fund.

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## **Governmental Fund Highlights**

- The District's General Fund financial position is the product of many factors. Growth during the year in local source revenues resulted in an increase in revenues. The increase in salaries and benefits is one of the reasons for the increase in expenditures. The increase in revenues was enough to offset the increase in expenditures; the net result was an increase in fund balance from \$1,234,534 in fiscal 2011 to \$1,718,147 in fiscal 2012.
- The Capital Projects account balances overall increased from \$240,865 in fiscal 2011 to \$395,449 in fiscal 2012. The increase in fund balance for the Capital Projects accounts is a result of increased local taxes received during the year. Due to reclassification as a result of GASB Statement No. 54, the Physical Plant and Equipment Levy is considered a Capital Project account along with the Statewide Sales, Services and Use Tax Fund.
- During the year ended June 30, 2012, the Statewide Sales, Services and Use Tax Fund increased from \$192,575 to \$324,711. The increase in fund balance can be attributed to increased sales tax revenue received as compared to the previous year. The Physical Plant and Equipment Levy Fund increased from \$48,290 to \$70,738.

## **Proprietary Fund Highlights**

The School Nutrition Fund's increase in revenues was more than enough to offset the continued increase in food costs, and salaries and benefits. Overall, net assets increased from \$90,213 at June 30, 2011 to \$126,874 at June 30, 2012, representing an increase of 40.64%.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Sibley-Ocheyedan Community School District amended its budget one time to reflect additional expenditures in the other expenditures functional area.

The District's revenues were \$260,795 more than budgeted revenues, a variance of 2.64%. The most significant variances resulted from the District receiving more in federal sources than what was originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2012, the District had invested \$6,814,565, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net decrease of 7.40% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$650,838.

The original cost of the District's capital assets was \$14,012,037. Governmental funds account for \$13,926,113 with the remainder of \$85,924 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$226,254 at June 30, 2011 as compared to \$205,660 at June 30, 2012. During the year ended June 30, 2012, the District purchased a new lift bus and computer equipment.

Figure A-6  
Capital Assets, Net of Depreciation as Restated

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
Land	\$ 25,000	25,000	-	-	25,000	25,000	0.00%
Buildings	6,529,548	7,049,824	-	-	6,529,548	7,049,824	-7.38%
Land improvements	54,357	58,246	-	-	54,357	58,246	-6.68%
Machinery and equipment	166,828	192,562	38,832	33,692	205,660	226,254	-9.10%
Total	\$ 6,775,733	7,325,632	38,832	33,692	6,814,565	7,359,324	-7.40%

### Long-Term Debt

At June 30, 2012, the District had \$2,575,186 in a general obligation bonds/notes, revenue bonds and other long-term debt outstanding. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds/notes payable of \$1,720,000 at June 30, 2012. Principal of \$355,000 will be due in fiscal 2013.

The District had outstanding revenue bonds payable of \$270,000 at June 30, 2012. Principal of \$135,000 will be due in fiscal 2013.

The District had outstanding Belt sander/table saw lease payable of \$10,592 at June 30, 2012. Principal of \$4,956 is due during fiscal 2013.

The District had outstanding computer lease payable of \$187,710 at June 30, 2012. Principal of \$91,581 is due during fiscal 2013.

The District has a Net pension liability of \$25,034 at June 30, 2012.

The District has a Net OPEB liability of \$361,850 as of June 30, 2012. Governmental activities account for \$340,139 while business type activities account for \$21,711.

Figure A-7

	Outstanding Long-Term Obligations						
	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2012	2011	2012	2011	2012	2011	2011-12
General Obligation Bonds/Notes	\$ 1,720,000	2,065,000	-	-	1,720,000	2,065,000	-16.71%
Revenue Bonds	270,000	400,000	-	-	270,000	400,000	-32.50%
Belt Sander/Table Saw Lease	10,592	14,951	-	-	10,592	14,951	-29.16%
Computer Lease	187,710	-	-	-	187,710	-	100.00%
Net Pension Liability	25,034	34,000	-	-	25,034	34,000	100.00%
Net OPEB Liability	340,139	221,840	21,711	14,160	361,850	236,000	53.33%
Total	\$ 2,553,475	2,735,791	21,711	14,160	2,575,186	2,749,951	-6.36%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- It is a concern of this District that certain costs continue to increase, such as those associated with negotiated agreements with unions, i.e. salaries and benefits. The District continues to approve an Early Retirement Plan in an effort to achieve costs savings through higher paid teachers retiring early and hiring less experienced teachers as replacements that typically will be paid less, thus resulting in a cost savings to the District.
- With the legislature not setting the allowable growth in a timely basis, the District will find it hard to make future funding predictions.
- The District's certified enrollment in October 2011 showed a decrease of 24,996 students. Future decreasing enrollment is predicted in the long-term and will have to be a focus point for future budgets.
- Construction of the High School Storage Shed was completed during fiscal year 2012.
- On July 1, 2011, the IPERS rate increased the employer benefit costs during fiscal 2012 to 8.07%. This will increase to 8.67% for fiscal year 2013.

## 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 LaDonn Hartzell, District Secretary/Business Manager/Treasurer, Sibley-Ocheyedan Community School District, 120 11<sup>th</sup> Avenue NE, Sibley, Iowa, 51249.

BASIC FINANCIAL STATEMENTS

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

	Governmental Activities	Business type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 2,657,036	112,610	2,769,646
Receivables:			
Property tax:			
Delinquent	69,727	-	69,727
Succeeding year	3,461,178	-	3,461,178
Income surtax	239,229	-	239,229
Accounts	8,574	92	8,666
Due from other governments	346,817	-	346,817
Inventories	-	6,881	6,881
Capital assets, net of accumulated depreciation	6,775,733	38,832	6,814,565
<b>TOTAL ASSETS</b>	<b>13,558,294</b>	<b>158,415</b>	<b>13,716,709</b>
<b>LIABILITIES</b>			
Accounts payable	213,430	405	213,835
Salaries and benefits payable	637,408	2,678	640,086
Accrued interest payable	21,285	-	21,285
Deferred revenue:			
Succeeding year property tax	3,461,178	-	3,461,178
Other	5,864	-	5,864
Unearned revenue	-	6,747	6,747
Long-term liabilities:			
Portion due within one year:			
General obligation bonds/notes payable	355,000	-	355,000
Revenue bonds payable	135,000	-	135,000
Belt sander/Table saw lease payable	4,956	-	4,956
Computer lease payable	91,581	-	91,581
Portion due after one year:			
General obligation bonds/notes payable	1,365,000	-	1,365,000
Revenue bonds payable	135,000	-	135,000
Belt sander/Table saw lease payable	5,636	-	5,636
Computer lease payable	96,129	-	96,129
Net OPEB liability	340,139	21,711	361,850
Net pension liability	25,034	-	25,034
<b>TOTAL LIABILITIES</b>	<b>6,892,640</b>	<b>31,541</b>	<b>6,924,181</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,587,431	38,832	4,626,263
Restricted for:			
Categorical funding	284,597	-	284,597
Debt service	11,539	-	11,539
Management levy purposes	5,829	-	5,829
School infrastructure	324,711	-	324,711
Physical plant and equipment	70,738	-	70,738
Student activities	94,488	-	94,488
Unrestricted	1,286,321	88,042	1,374,363
<b>TOTAL NET ASSETS</b>	<b>\$ 6,665,654</b>	<b>126,874</b>	<b>6,792,528</b>

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges	Operating Grants,	Capital Grants,	Govern- mental Activities	Business Type Activities	Total
		for Services	Contributions and Restricted Interest	Contributions and Restricted Interest			
<b>Functions/Programs:</b>							
Governmental activities:							
Instruction:							
Regular	\$ 3,743,806	262,626	95,841	-	(3,385,339)	-	(3,385,339)
Special	919,692	100,225	118,405	-	(701,062)	-	(701,062)
Other	1,217,416	257,145	316,297	-	(643,974)	-	(643,974)
	<u>5,880,914</u>	<u>619,996</u>	<u>530,543</u>	<u>-</u>	<u>(4,730,375)</u>	<u>-</u>	<u>(4,730,375)</u>
Support services:							
Student	261,559	-	6,422	-	(255,137)	-	(255,137)
Instructional staff	305,382	-	-	-	(305,382)	-	(305,382)
Administration	850,157	-	-	-	(850,157)	-	(850,157)
Operation and maintenance of plant	823,318	23,396	-	18,200	(781,722)	-	(781,722)
Transportation	377,582	28,694	6,338	-	(342,550)	-	(342,550)
	<u>2,617,998</u>	<u>52,090</u>	<u>12,760</u>	<u>18,200</u>	<u>(2,534,948)</u>	<u>-</u>	<u>(2,534,948)</u>
Long-term debt interest	124,963	-	-	-	(124,963)	-	(124,963)
Other expenses:							
AEA flowthrough	295,638	-	295,638	-	-	-	-
Depreciation(unallocated)*	524,165	-	-	-	(524,165)	-	(524,165)
	<u>819,803</u>	<u>-</u>	<u>295,638</u>	<u>-</u>	<u>(524,165)</u>	<u>-</u>	<u>(524,165)</u>
Total governmental activities	9,443,678	672,086	838,941	18,200	(7,914,451)	-	(7,914,451)
Business type activities:							
Support services:							
Administration	3,157	-	-	-	-	(3,157)	(3,157)
Operation and maintenance of plant	5,623	-	-	-	-	(5,623)	(5,623)
Total support services	<u>8,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,780)</u>	<u>(8,780)</u>
Non-instructional programs:							
Nutrition services	416,531	276,111	185,804	-	-	45,384	45,384
Total business type activities	<u>425,311</u>	<u>276,111</u>	<u>185,804</u>	<u>-</u>	<u>-</u>	<u>36,604</u>	<u>36,604</u>
Total	<u>\$ 9,868,989</u>	<u>948,197</u>	<u>1,024,745</u>	<u>18,200</u>	<u>(7,914,451)</u>	<u>36,604</u>	<u>(7,877,847)</u>
<b>General Revenues:</b>							
Property tax levied for:							
General purposes					\$ 3,157,817	-	3,157,817
Debt service					340,160	-	340,160
Capital outlay					77,373	-	77,373
Income surtax					252,197	-	252,197
Statewide sales, services and use tax					567,553	-	567,553
Unrestricted state grants					3,557,496	-	3,557,496
Nonspecific program federal grants					82,099	-	82,099
Unrestricted investment earnings					595	57	652
Other					108,551	-	108,551
Total general revenues					<u>8,143,841</u>	<u>57</u>	<u>8,143,898</u>
Changes in net assets					229,390	36,661	266,051
Net assets beginning of year					6,436,264	90,213	6,526,477
Net assets end of year					<u>\$ 6,665,654</u>	<u>126,874</u>	<u>6,792,528</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	Nonmajor Governmental		Total
	General	Funds	
<b>ASSETS</b>			
Cash and pooled investments	\$ 2,324,783	332,253	2,657,036
Receivables:			
Property tax:			
Delinquent	56,779	12,948	69,727
Succeeding year	2,716,356	744,822	3,461,178
Income surtax	239,229	-	239,229
Accounts	8,574	-	8,574
Due from other funds	-	16,859	16,859
Due from other governments	147,936	198,881	346,817
<b>TOTAL ASSETS</b>	<b>\$ 5,493,657</b>	<b>1,305,763</b>	<b>6,799,420</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 159,794	53,636	213,430
Salaries and benefits payable	637,408	-	637,408
Due to other funds	16,859	-	16,859
Deferred revenue:			
Succeeding year property tax	2,716,356	744,822	3,461,178
Income surtax	239,229	-	239,229
Other	5,864	-	5,864
Total liabilities	3,775,510	798,458	4,573,968
Fund balances:			
Restricted for:			
Categorical funding	284,597	-	284,597
Debt service	-	11,539	11,539
Management levy purposes	-	5,829	5,829
School infrastructure	-	324,711	324,711
Physical plant and equipment	-	70,738	70,738
Student activities	-	94,488	94,488
Unassigned	1,433,550	-	1,433,550
Total fund balances	1,718,147	507,305	2,225,452
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,493,657</b>	<b>1,305,763</b>	<b>6,799,420</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds(page 20)</b>	\$	2,225,452
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		6,775,733
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		239,229
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(21,285)
Long-term liabilities, including general obligation bonds/notes payable, revenue bonds payable, belt sander/table saw lease payable, computer lease payable, net pension liability payable and other postemployment benefits payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(2,553,475)
		<hr style="border-top: 1px solid black;"/>
<b>Net assets of governmental activities(page 18)</b>	<b>\$</b>	<b>6,665,654</b>
		<hr style="border-top: 3px double black;"/>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 3,159,688	1,236,854	4,396,542
Tuition	338,486	-	338,486
Other	131,943	321,865	453,808
State sources	4,116,259	390	4,116,649
Federal sources	352,825	16,200	369,025
Total revenues	<u>8,099,201</u>	<u>1,575,309</u>	<u>9,674,510</u>
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular	3,151,942	537,905	3,689,847
Special	900,814	-	900,814
Other	906,989	302,876	1,209,865
	<u>4,959,745</u>	<u>840,781</u>	<u>5,800,526</u>
Support services:			
Student	256,784	1,000	257,784
Instructional staff	301,607	-	301,607
Administration	839,218	3,819	843,037
Operation and maintenance of plant	631,543	134,887	766,430
Transportation	334,303	28,271	362,574
	<u>2,363,455</u>	<u>167,977</u>	<u>2,531,432</u>
Capital outlay	-	52,932	52,932
Long-term debt:			
Principal	-	566,579	566,579
Interest and fiscal charges	-	111,622	111,622
	<u>-</u>	<u>678,201</u>	<u>678,201</u>
Other expenditures:			
AEA flowthrough	295,638	-	295,638
TOTAL EXPENDITURES	<u>7,618,838</u>	<u>1,739,891</u>	<u>9,358,729</u>
Excess(Deficiency) of revenues over(under) expenditures	480,363	(164,582)	315,781
Other financing sources(uses):			
Transfer in	3,250	340,340	343,590
Transfer out	-	(343,590)	(343,590)
Computer lease proceeds	-	274,930	274,930
Insurance proceeds	-	21,045	21,045
Total other financing sources(uses)	<u>3,250</u>	<u>292,725</u>	<u>295,975</u>
Net change in fund balance	483,613	128,143	611,756
Fund balance beginning of year	1,234,534	379,162	1,613,696
Fund balance end of year	<u>\$ 1,718,147</u>	<u>507,305</u>	<u>2,225,452</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds(page 22) \$ 611,756

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

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

Expenditures for capital assets	\$ 95,391	
Depreciation expense	(645,290)	(549,899)

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 issuances and repayments are as follows:

Issued	\$ 566,579	
Repaid	(274,930)	291,649

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. (13,341)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (1,442)

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.

Net pension liability	\$ 8,966	
Other postemployment benefits	(118,299)	(109,333)

**Changes in net assets of governmental activities(page 19) \$ 229,390**

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2012

	Enterprise Fund
	School Nutrition
<b>ASSETS</b>	
Current assets:	
Cash and pooled investments	\$ 112,610
Accounts receivable	92
Inventories	6,881
Total current assets	119,583
Non-current assets:	
Capital assets:	
Machinery and equipment, net of accumulated depreciation	38,832
Total non-current assets	38,832
<b>TOTAL ASSETS</b>	<b>158,415</b>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	405
Salaries and benefits payable	2,678
Unearned revenue	6,747
Total current liabilities	9,830
Long-term liabilities:	
Net OPEB liability	21,711
Total long-term liabilities	21,711
<b>TOTAL LIABILITIES</b>	<b>31,541</b>
<b>NET ASSETS</b>	
Invested in capital assets	38,832
Unrestricted	88,042
<b>TOTAL NET ASSETS</b>	<b>\$ 126,874</b>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Enterprise Fund
	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 276,111
OPERATING EXPENSES:	
Support services:	
Administration:	
Services	3,157
Operation and maintenance of plant:	
Services	4,168
Supplies	1,455
Total support services	8,780
Non-instructional programs:	
Food service operations:	
Salaries	133,274
Benefits	53,397
Services	613
Supplies	223,699
Depreciation	5,548
Total non-instructional programs	416,531
TOTAL OPERATING EXPENSES	425,311
OPERATING LOSS	(149,200)
NON-OPERATING REVENUES:	
State sources	3,741
Federal sources	182,063
Interest income	57
TOTAL NON-OPERATING REVENUES	185,861
Change in net assets	36,661
Net assets beginning of year	90,213
Net assets end of year	\$ 126,874

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2012

	Enterprise Fund School Nutrition
Cash flows from operating activities:	
Cash received from operating activities	\$ 263,465
Cash payments to employees for services	(177,745)
Cash payments to suppliers for goods or services	(203,865)
Net cash used in operating activities	(118,145)
Cash flows from non-capital financing activities:	
State grants received	3,741
Federal grants received	151,150
Net cash provided by non-capital financing activities	154,891
Cash flows from capital financing activities:	
Acquisition of assets	(10,688)
Cash flows from investing activities:	
Interest on investment	57
Net increase in cash and cash equivalents	26,115
Cash and cash equivalents at beginning of year	86,495
Cash and cash equivalents at end of year	\$ 112,610
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (149,200)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	30,913
Depreciation	5,548
Increase in inventories	(577)
Decrease in accounts receivable	235
Decrease in accounts payable	(1,109)
Increase in salaries and benefits payable	1,375
Decrease in unearned revenues	(12,881)
Increase in other postemployment benefits	7,551
Net cash provided by(used in) operating activities	\$ (118,145)

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2012, the District received Federal commodities valued at \$30,913.

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Private Purpose Trust Scholarship
ASSETS	
Cash and pooled investments	\$ 15,081
LIABILITIES	-
NET ASSETS	
Restricted for scholarships	\$ 15,081

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust Scholarship
ADDITIONS:	
Local sources:	
Interest	\$ 158
DEDUCTIONS:	
Instruction:	
Regular:	
Scholarships awarded	750
Change in net assets	(592)
Net assets beginning of year	15,673
Net assets end of year	\$ 15,081

SEE NOTES TO FINANCIAL STATEMENTS.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012

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

The Sibley-Ocheyedan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served primarily includes the Cities of Sibley and Ocheyedan, Iowa and the predominate agricultural territory in Osceola County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

The Statement of Net Assets presents the District's non-fiduciary 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 assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The District reports the following major governmental funds:

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

The District reports the following major proprietary fund:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on

January 1, 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 revenues, grants and reimbursements from other governments.

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

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

Asset Class	Amount
Land	\$ 2,000
Buildings	10,000
Land improvements	10,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Land improvements	5-20 years
Intangibles	5-10 years
Machinery and equipment	5-15 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, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current

period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

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

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

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

Unassigned - All amounts not included in other spendable or nonspendable classifications.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the budgeted amount.

(2) **Cash and Pooled Investments**

The District's deposits 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2012, the District had investments in the Iowa Schools Joint Investment Trust Direct Government Obligations Portfolio which are valued at an amortized cost of \$237 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk - The investment in the Iowa Schools Joint Investment Trust was rated AAAM by Standard and Poor's Ratings Services.

**(3) Interfund Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 340,147
Student Activity	Capital Projects: Physical Plant and Equipment Levy	193
General	Student Activity	3,250
Total		<u>\$ 343,590</u>

The transfer from the Capital Projects: Statewide Sales, Services and Use Tax Fund to the Debt Service Fund was needed for the following purposes:

Purpose	Principal	Interest	Fees	Total
December 18, 2008 capital loan note payments	\$ 50,000	37,113	-	87,113
June 23, 2008 revenue bond payments	130,000	15,408	250	145,658
July 21, 2010 belt sander and table saw lease	4,359	2,049	-	6,408
July 15, 2010 Apple computer lease	87,220	13,748	-	100,968
Total	<u>\$ 271,579</u>	<u>68,318</u>	<u>250</u>	<u>340,147</u>

The transfer from the Physical Plant and Equipment Levy Fund to the Student Activity Fund was needed as a corrective action to a prior year audit comment.

The transfer from the Student Activity Fund to the General Fund was needed as corrective action to a prior year audit comment for the sale of computers recorded incorrectly.

**(4) Due to and Due From Other Funds**

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

Receivable Fund	Payable Fund	Amount
Capital Projects: Statewide Sales, Services and Use Tax	General	\$ 16,859

The General Fund is repaying the Capital Projects: Statewide Sales, Services and Use Tax Fund for expenditures that should have been paid from the General Fund.

**(5) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2012 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental activities:					
General Obligation Bonds/Notes	\$ 2,065,000	-	345,000	1,720,000	355,000
Revenue Bonds	400,000	-	130,000	270,000	135,000
Belt Sander/Table Saw Lease	14,951	-	4,359	10,592	4,956
Computer Lease	-	274,930	87,220	187,710	91,581
Net OPEB Liability	221,840	118,299	-	340,139	-
Net Pension Liability	34,000	-	8,966	25,034	-
Total	<u>\$ 2,735,791</u>	<u>393,229</u>	<u>575,545</u>	<u>2,553,475</u>	<u>586,537</u>
Business type activities:					
Net OPEB Liability	\$ 14,160	7,551	-	21,711	-

General Obligation Bonds Payable

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

Year Ending June 30,	Bond issue dated May 15, 2008			Notes dated December 18, 2008			Total		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2013	3.48	\$ 305,000	32,538	3.50	\$ 50,000	35,363	\$ 355,000	67,901	422,901
2014	3.48	310,000	21,924	3.50	55,000	33,612	365,000	55,536	420,536
2015	3.48	320,000	11,136	4.25	55,000	31,688	375,000	42,824	417,824
2016	-	-	-	4.25	60,000	29,350	60,000	29,350	89,350
2017	-	-	-	4.25	60,000	26,800	60,000	26,800	86,800
2018-2022	-	-	-	4.25-5.00	345,000	90,962	345,000	90,962	435,962
2023-2024	-	-	-	5.00	160,000	12,000	160,000	12,000	172,000
Total		<u>\$ 935,000</u>	<u>65,598</u>		<u>\$ 785,000</u>	<u>259,775</u>	<u>\$ 1,720,000</u>	<u>325,373</u>	<u>2,045,373</u>

Revenue Bonds Payable

Detail of the District's June 30, 2012 revenue bonded indebtedness is as follows:

Year Ending June 30,	Bond Issue Dated June 23, 2008			
	Interest Rates	Principal	Interest	Total
2013	3.85	% \$ 135,000	10,598	145,598
2014	4.00	135,000	5,400	140,400
Total		\$ 270,000	15,998	285,998

The District has pledged future statewide sales, services and use tax revenues to repay the \$760,000 of bonds issued in June 2008. The bonds were issued for the purpose of financing a portion of the costs of implementing energy conservation measures including installation of a building control system and to improve, repair and remodel existing school buildings. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2014. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 26% of the statewide sales, services and use tax revenues. The total principal and interest remaining to be paid on the notes is \$285,998. For the current year, \$130,000 of principal and \$15,408 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$567,553.

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

- a) All proceeds from the statewide sales, services and use tax shall be placed in a revenue account.
- b) 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.

The District did not comply with all of the revenue bond provisions during the year ended June 30, 2012. The required sinking account was not established by the District.

Belt Sander/Table Saw Lease Payable

During the year ended June 30, 2011, the District entered into a lease agreement with Kansas State Bank of Manhattan for a belt sander and table saw. Annual lease payments will be made from the Capital Projects: Statewide Sales, Services and Use Tax Fund. Details of the District's lease payments are as follows:

Year Ending June 30,	Belt Sander/Table Saw Lease Dated July 21, 2010			
	Interest Rates	Principal	Interest	Total
2013	13.70	% \$ 4,956	1,452	6,408
2014	13.70	5,636	772	6,408
Total		\$ 10,592	2,224	12,816

Apple Computer Lease Payable

During the year ended June 30, 2012, the District entered into a lease agreement with Apple Computer for computers for the District's one to one initiative. Annual lease payments will be made from the Capital Projects: Statewide Sales, Services and Use Tax Fund. Details of the District's lease payments are as follows:

Year Ending June 30,	Apple Computer Lease			
	Interest Rates	Principal	Interest	Total
2013	5.00 %	\$ 91,581	9,387	100,968
2014	5.00	96,129	4,839	100,968
Total		\$ 187,710	14,226	201,936

**(6) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,000	-	-	25,000
Total capital assets not being depreciated	25,000	-	-	25,000
Capital assets being depreciated:				
Buildings	12,370,722	-	-	12,370,722
Land improvements	270,829	-	-	270,829
Machinery and equipment	1,220,242	95,391	56,071	1,259,562
Total capital assets being depreciated	13,861,793	95,391	56,071	13,901,113
Less accumulated depreciation for:				
Buildings	5,320,898	520,276	-	5,841,174
Land improvements	212,583	3,889	-	216,472
Machinery and equipment	1,027,680	121,125	56,071	1,092,734
Total accumulated depreciation	6,561,161	645,290	56,071	7,150,380
Total capital assets being depreciated, net	7,300,632	(549,899)	-	6,750,733
Governmental activities capital assets, net	\$ 7,325,632	(549,899)	-	6,775,733
Business type activities:				
Machinery and equipment	\$ 75,236	10,688	-	85,924
Less accumulated depreciation	41,544	5,548	-	47,092
Business type activities capital assets, net	\$ 33,692	5,140	-	38,832

Depreciation expense was charged by the District as follows:

Governmental activities:	
Support services:	
Administration	1,052
Operation and maintenance	16,191
Transportation	103,882
	<u>121,125</u>
Unallocated depreciation	<u>524,165</u>
Total governmental activities depreciation expense	<u>\$ 645,290</u>
Business type activities:	
Food services	<u>\$ 5,548</u>

**(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 covered 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 \$386,022, \$319,803 and \$303,332, respectively, equal to the required contributions for each year.

**(8) Other Postemployment Benefits (OPEB)**

Plan Description - The District operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 73 active and 14 retired members in the plan. Employees must be age 55 or older at retirement.

The medical/prescription drug benefit, which is a fully-insured medical plan, is administered by Wellmark Blue Cross Blue Shield. Certified teaching staff who retired during fiscal years 202 through 2005 receive health coverage up to \$550 per month until age 65 while certified teaching staff who retired in fiscal year 2007 and later receive coverage of up to \$550 per month for 60 months. All other retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

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

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution of the District (ARC), an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a

level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual required contribution	\$ 182,757
Interest on net OPEB obligation	6,066
Adjustment to annual required contribution	(12,302)
Annual OPEB cost	<u>176,521</u>
Contributions made	(50,671)
Increase in net OPEB obligation	<u>125,850</u>
Net OPEB obligation - beginning of year	<u>236,000</u>
Net OPEB obligation - end of year	<u>\$ 361,850</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of the year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the plans actual contributions for the year ended June 30, 2012.

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:

Fiscal Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	\$ 48,033	40.20%	\$ 28,741
2011	275,259	24.70%	236,000 *
2012	176,521	28.71%	361,850

\* Annual OPEB cost and net OPEB obligation increased due to inclusion of the District's explicit OPEB that had been excluded in fiscal 2010.

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$1.113 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.113 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.059 million, and the ratio of the UAAL to the covered payroll was 27.42%. 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

presented as required supplementary information in the section following the Notes to the Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6%. An inflation rate of 0% is assumed for purposes of this computation.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement probabilities were developed from the retirement probabilities from the 2006 Society of Actuaries Study.

Projected claim costs of the medical plan range from \$371 to \$509 per month for single coverage and \$921 to \$1,267 for family coverage for retirees less than age 65. The UAAL is being amortized as a level dollar cost using a closed group method over 30 years. A salary increase rate was not assumed because benefits under the level dollar method are not related to salary levels.

#### **(9) Supplemental Pension Plan**

Plan Description - The District offers a supplemental pension (early retirement incentive) for all certified teaching staff who attain age 55, submit an application to the Superintendent, receive Board approval and retire by June 30 of the same year.

There are 69 active members in the plan as of June 30, 2012. The pension benefit is defined as 1% of the retiree's annual contract for every year the retiree worked for the District.

Funding Policy - payments under the plan are made on a pay-as-you-go basis. There are no invested plan assets accumulated for payment of future benefits. The District makes the contributions from the Management Levy Fund.

Annual Pension Cost and Net Pension Obligation - The District's annual pension cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 50. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

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

Annual required contribution	\$ 54,796
Interest on net pension obligation	841
Adjustment to annual required contribution	(2,553)
Annual net pension obligation cost	<u>53,084</u>
Contributions made	(62,050)
Increase in net pension obligation	<u>(8,966)</u>
Net pension obligation - beginning of year	<u>34,000</u>
Net pension obligation - end of year	<u><u>\$ 25,034</u></u>

For calculation of the net pension obligation, the actuary has set the transition day as July 1, 2010. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2012.

For the year ended June 30, 2012, the District contributed \$62,050 to the pension plan. The District's annual pension cost, the percentage of annual pension cost contributed to the plan and the net pension obligation as of June 30, 2012 are summarized as follows:

Fiscal Year Ended	Annual Pension Cost	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2011	\$ 49,000	30.61%	\$ 34,000
2012	53,084	116.89%	25,034

Funded Status and Funding Progress - As of July 1, 2009, the most recent actuarial valuation date for the period July 1, 2011 through June 30, 2012, the actuarial accrued liability was \$0.376 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.983 million, and the ratio of the UAAL to the covered payroll was 12.6%. 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 employee retirement age. 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 Supplemental Pension Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques 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 aggregate actuarial cost method as a percent of pay was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The salary increase rate was assumed to be 3% per year. The actuarial assumptions used for mortality rates, employee termination by age and group, employee retirement by age and group and others are similar to or identical to the GASB Statement No. 45 assumptions used to determine the net OPEB obligation. The remaining amortization period at June 30, 2012 is 28 years.

**(10) Risk Management**

The District is a member in the Iowa Star Schools 28E Retention Pool Trust. The Iowa Star Schools 28E Retention Pool Trust is a voluntary joint undertaking of units of government to create and maintain a fully-funded health benefits program through cooperative action with private agencies, as authorized by Chapter 28E of the Code of Iowa. The Trust maintains a fully funded health benefits program. District contributions to Schools 28E Retention Pool Trust for the year ended June 30, 2012 were \$913,263.

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

**(11) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$295,638 for the year ended June 30, 2012 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(12) Operating Lease**

The District entered into an operating lease on January 13, 2009 to lease copier equipment. The lease has been classified as an operating lease and, accordingly, all payments are charged to expense as incurred. The lease expires January 13, 2014.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2012:

Year Ending June 30,	Amount
2013	\$ 25,836
2014	12,918
Total	<u>\$ 38,754</u>

**(13) Budget Overexpenditure**

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the amount budgeted.

**(14) Categorical Funding**

The District's ending restricted balances for categorical funding as of June 30, 2012 are broken out by the following projects:

Project	Amount
Gifted and talented	\$ 144,622
Teacher salary supplement	938
Four-year-old preschool state aid	21,376
At-risk supplementary weighting	11,376
Professional development, model core curriculum	39,517
Community college equipment and training fund	3,637
Modified allowable growth for returning dropouts and dropout prevention programs	63,131
Total	<u>\$ 284,597</u>

REQUIRED SUPPLEMENTARY INFORMATION

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES/EXPENSES AND  
 CHANGES IN BALANCES -  
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
 AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2012

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Fund Types	Fund Type		Original	Final	Actual
	Actual	Actual				Actual
<b>Revenues:</b>						
Local sources	\$ 5,188,836	276,168	5,465,004	5,312,188	5,312,188	152,816
State sources	4,116,649	3,741	4,120,390	4,173,499	4,173,499	(53,109)
Federal sources	369,025	182,063	551,088	390,000	390,000	161,088
Total revenues	<u>9,674,510</u>	<u>461,972</u>	<u>10,136,482</u>	<u>9,875,687</u>	<u>9,875,687</u>	<u>260,795</u>
<b>Expenditures/Expenses:</b>						
Instruction	5,800,526	-	5,800,526	6,456,133	6,456,133	655,607
Support services	2,531,432	8,780	2,540,212	3,045,955	3,045,955	505,743
Non-instructional programs	-	416,531	416,531	460,000	460,000	43,469
Other expenditures	1,026,771	-	1,026,771	906,629	924,638	(102,133)
Total expenditures/expenses	<u>9,358,729</u>	<u>425,311</u>	<u>9,784,040</u>	<u>10,868,717</u>	<u>10,886,726</u>	<u>1,102,686</u>
Excess(Deficiency) of revenues over(under) expenditures/expenses	315,781	36,661	352,442	(993,030)	(1,011,039)	1,363,481
Other financing sources, net	<u>295,975</u>	<u>-</u>	<u>295,975</u>	<u>-</u>	<u>-</u>	<u>295,975</u>
Excess(Deficiency) of revenues and other financing sources over(under) expenditures/expenses	611,756	36,661	648,417	(993,030)	(1,011,039)	1,659,456
Balance beginning of year	<u>1,613,696</u>	<u>90,213</u>	<u>1,703,909</u>	<u>1,164,817</u>	<u>1,164,817</u>	<u>539,092</u>
Balance end of year	<u>\$ 2,225,452</u>	<u>126,874</u>	<u>2,352,326</u>	<u>171,787</u>	<u>153,778</u>	<u>2,198,548</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated 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, the District adopted one budget amendment increasing total budgeted expenditures by \$18,009.

During the year ended June 30, 2012, expenditures in the other expenditures function exceeded the budgeted amount.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN  
(IN THOUSANDS)

REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 443	\$ 443	0.0%	\$4,626	9.6%
2011	July 1, 2009	\$ -	\$1,113	\$1,113	0.0%	\$4,692	23.7%
2012	July 1, 2009	\$ -	\$1,113	\$1,113	0.0%	\$4,059	27.4%

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

SUPPLEMENTARY INFORMATION

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2012

	Special Revenue					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Total	Capital Projects	Debt Service	
<b>ASSETS</b>						
Cash and pooled investments	\$ 2,091	100,820	102,911	224,344	4,998	332,253
Receivables:						
Property tax:						
Delinquent	4,919	-	4,919	1,488	6,541	12,948
Succeeding year	324,999	-	324,999	82,286	337,537	744,822
Due from other funds	-	-	-	16,859	-	16,859
Due from other governments	-	-	-	198,881	-	198,881
<b>TOTAL ASSETS</b>	<b>\$ 332,009</b>	<b>100,820</b>	<b>432,829</b>	<b>523,858</b>	<b>349,076</b>	<b>1,305,763</b>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts payable	\$ 1,181	6,332	7,513	46,123	-	53,636
Deferred revenue:						
Succeeding year property tax	324,999	-	324,999	82,286	337,537	744,822
Total liabilities	326,180	6,332	332,512	128,409	337,537	798,458
Fund balances:						
Restricted for:						
Debt service	-	-	-	-	11,539	11,539
Management levy purposes	5,829	-	5,829	-	-	5,829
School infrastructure	-	-	-	324,711	-	324,711
Physical plant and equipment	-	-	-	70,738	-	70,738
Student activities	-	94,488	94,488	-	-	94,488
Total fund balances	5,829	94,488	100,317	395,449	11,539	507,305
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 332,009</b>	<b>100,820</b>	<b>432,829</b>	<b>523,858</b>	<b>349,076</b>	<b>1,305,763</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2012

	Special Revenue					Total
	Manage-	Student		Capital	Debt	Nonmajor
	ment	Activity	Total	Projects	Service	Governmental
	Levy					Funds
REVENUES:						
Local sources:						
Local tax	\$ 251,768	-	251,768	644,926	340,160	1,236,854
Other	12,822	307,031	319,853	2,012	-	321,865
State sources	148	-	148	45	197	390
Federal sources	-	-	-	16,200	-	16,200
<b>TOTAL REVENUES</b>	<b>264,738</b>	<b>307,031</b>	<b>571,769</b>	<b>663,183</b>	<b>340,357</b>	<b>1,575,309</b>
EXPENDITURES:						
Current:						
Instruction:						
Regular	176,301	-	176,301	361,604	-	537,905
Other	-	302,876	302,876	-	-	302,876
Support services:						
Student	1,000	-	1,000	-	-	1,000
Administration	3,819	-	3,819	-	-	3,819
Operation and maintenance of plant	95,672	-	95,672	39,215	-	134,887
Transportation	17,788	-	17,788	10,483	-	28,271
Other expenditures:						
Capital outlays	-	-	-	52,932	-	52,932
Long-term debt:						
Principal	-	-	-	-	566,579	566,579
Interest and fiscal charges	-	-	-	-	111,622	111,622
<b>TOTAL EXPENDITURES</b>	<b>294,580</b>	<b>302,876</b>	<b>597,456</b>	<b>464,234</b>	<b>678,201</b>	<b>1,739,891</b>
Excess(Deficiency) of revenues over(under) expenditures	(29,842)	4,155	(25,687)	198,949	(337,844)	(164,582)
Other financing sources(uses):						
Transfer in	-	193	193	-	340,147	340,340
Transfers out	-	(3,250)	(3,250)	(340,340)	-	(343,590)
Proceeds from computer lease	-	-	-	274,930	-	274,930
Insurance proceeds	-	-	-	21,045	-	21,045
<b>Total other financing sources(uses)</b>	<b>-</b>	<b>(3,057)</b>	<b>(3,057)</b>	<b>(44,365)</b>	<b>340,147</b>	<b>292,725</b>
Change in net assets	(29,842)	1,098	(28,744)	154,584	2,303	128,143
Net assets beginning of year	35,671	93,390	129,061	240,865	9,236	379,162
Net assets end of year	\$ 5,829	94,488	100,317	395,449	11,539	507,305

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 CAPITAL PROJECT ACCOUNTS  
 JUNE 30, 2012

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
<b>ASSETS</b>			
Cash and pooled investments	\$ 155,094	69,250	224,344
Receivables:			
Property tax:			
Delinquent	-	1,488	1,488
Succeeding year	-	82,286	82,286
Due from other funds	16,859	-	16,859
Due from other governments	198,881	-	198,881
<b>TOTAL ASSETS</b>	<b>\$ 370,834</b>	<b>153,024</b>	<b>523,858</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 46,123	-	46,123
Deferred revenue:			
Succeeding year property tax	-	82,286	82,286
Total liabilities	46,123	82,286	128,409
Fund balances:			
Restricted for:			
School infrastructure	324,711	-	324,711
Physical plant and equipment	-	70,738	70,738
Total fund balances	324,711	70,738	395,449
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 370,834</b>	<b>153,024</b>	<b>523,858</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 CAPITAL PROJECT ACCOUNTS  
 YEAR ENDED JUNE 30, 2012

	Capital Projects		
	Statewide Sales Services and Use Tax	Physical Plant and Equipment Levy	Total
REVENUES:			
Local sources:			
Local tax	\$ 567,553	77,373	644,926
Other	12	2,000	2,012
State sources	-	45	45
Federal sources	-	16,200	16,200
TOTAL REVENUES	<u>567,565</u>	<u>95,618</u>	<u>663,183</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular	352,568	9,036	361,604
Support services:			
Operation and maintenance of plant	12,937	26,278	39,215
Transportation	-	10,483	10,483
Other expenditures:			
Capital outlays	4,707	48,225	52,932
TOTAL EXPENDITURES	<u>370,212</u>	<u>94,022</u>	<u>464,234</u>
Excess of revenues over expenditures	197,353	1,596	198,949
Other financing sources(uses):			
Transfer out	(340,147)	(193)	(340,340)
Proceeds from computer lease	274,930	-	274,930
Insurance proceeds	-	21,045	21,045
Total other financing sources(uses)	<u>(65,217)</u>	<u>20,852</u>	<u>(44,365)</u>
Change in net assets	132,136	22,448	154,584
Net assets beginning of year	<u>192,575</u>	<u>48,290</u>	<u>240,865</u>
Net assets end of year	<u>\$ 324,711</u>	<u>70,738</u>	<u>395,449</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2012

Account	Balance Beginning of Year	Revenues	Expendi- tures	Intrafund Transfers	Balance End of Year
Basketball	\$ 524	8,071	7,248	-	1,347
Cross country	1,228	910	2,138	-	-
Football	1,231	13,166	13,307	-	1,090
Golf	318	244	562	-	-
Track	2	7,840	7,842	-	-
Baseball	167	4,667	4,833	-	1
Wrestling	7	426	433	-	-
Girls basketball	1,351	6,797	6,570	-	1,578
Girls softball	290	3,114	3,404	-	-
Girls track	1	1,235	1,235	-	1
Girls volleyball	138	2,934	2,508	-	564
Girls golf	876	100	127	-	849
Weightlifting	13	-	-	-	13
Dance team	3,201	1,624	2,540	-	2,285
Cheerleaders	1,137	1,522	2,079	-	580
Co-ed athletics	149	-	-	-	149
Cross country	356	2,507	2,316	-	547
Boys basketball	145	4,073	3,628	-	590
Boys football	1,460	1,769	2,380	-	849
Boys baseball	358	528	885	-	1
Boys track	367	425	629	-	163
Boys golf	1,574	-	-	-	1,574
Boys wrestling	-	11,083	10,536	-	547
Girls basketball	438	1,978	2,416	-	-
Girls volleyball	1,361	745	749	-	1,357
Girls softball	37	93	129	-	1
Girls track	240	979	869	-	350
Girls golf	1,244	401	-	-	1,645
HS Concessions	55	21,103	21,115	-	43
Athletics	44	1,958	891	-	1,111
Student assistance	1,031	317	89	-	1,259
International club	3,169	1,433	1,368	-	3,234
Pep club	-	-	-	-	-
Art club	2,520	400	636	-	2,284
Science club	359	800	498	-	661
Industrial tech club	2,448	195	-	-	2,643
Speech club	3,656	17,015	11,484	-	9,187

Account	Balance Beginning of Year	Revenues	Expendi- tures	Interfund Transfers	Balance End of Year
Quill club	64	-	-	-	64
Drama club	2,717	3,323	1,345	-	4,695
Smoothie café	46	-	46	-	-
HS activity	5,252	9,582	8,892	(3,250)	2,692
FFA	19,706	97,940	95,487	-	22,159
MS band	57	2,408	2,465	-	-
HS band	8	9,682	9,690	-	-
MS band resale	10	2,150	2,160	-	-
HS band resale	18	5,942	5,960	-	-
MS concessions	2,192	8,437	7,951	-	2,678
Vocal music	1,371	4,984	3,608	-	2,747
MS activities	7,446	19,498	24,025	193	3,112
National honor society	345	1,070	1,093	-	322
HS student leadership	1,145	974	676	-	1,443
Annual club	2,849	9,110	10,189	-	1,770
Elementary activities	14,758	4,855	6,950	-	12,663
Prom	-	6,564	4,486	-	2,078
Class of 2010	2	-	2	-	-
Class of 2011	240	-	240	-	-
Class of 2012	2,207	11	2,087	-	131
Class of 2013	1,462	49	80	-	1,431
Total	\$ 93,390	307,031	302,876	(3,057)	94,488

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST NINE YEARS

	Modified Accrual Basis								
	Years Ended June 30,								
	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:									
Local sources:									
Local tax	\$ 4,396,542	4,150,745	3,751,485	3,613,910	3,222,773	3,146,175	3,057,682	3,166,335	2,909,796
Tuition	338,486	296,961	328,210	273,957	251,630	184,206	252,136	226,228	168,361
Other	453,808	428,385	446,877	461,457	524,755	462,940	441,271	402,033	535,133
State sources	4,116,649	3,808,346	3,507,678	4,435,413	4,420,383	2,876,109	3,892,147	3,672,039	3,445,911
Federal sources	369,025	479,190	743,282	231,027	239,551	230,034	309,049	254,119	244,550
Total	\$ 9,674,510	9,163,627	8,777,532	9,015,764	8,659,092	6,899,464	7,952,285	7,720,754	7,303,751
Expenditures:									
Instruction:									
Regular	\$ 3,689,847	3,225,005	3,143,148	3,138,026	3,238,813	2,972,147	2,965,110	2,848,585	3,088,736
Special	900,814	820,208	1,106,025	1,391,602	1,259,281	1,091,078	954,725	690,073	799,427
Other	1,209,865	1,236,736	915,486	821,885	785,195	924,693	862,477	891,442	677,601
Support services:									
Student	257,784	265,709	270,603	264,265	287,663	199,600	172,466	220,483	198,888
Instructional staff	301,607	262,609	153,184	170,012	174,299	319,025	210,667	222,105	174,239
Administration	843,037	707,795	749,817	820,030	836,214	805,178	725,969	604,896	317,775
Operation and maintenance of plant	766,430	806,082	734,281	780,494	699,473	834,642	892,056	748,234	933,046
Transportation	362,574	339,197	285,159	293,804	297,702	390,150	377,711	434,252	284,364
Capital outlays	52,932	140,690	969,199	970,280	873,761	302,002	50,379	202,571	332,131
Long-term debt:									
Principal	566,579	460,000	425,000	380,000	245,000	235,000	225,000	210,000	200,000
Interest and fiscal charges	111,622	112,019	144,314	95,683	113,209	111,865	121,428	130,351	138,044
Other expenditures:									
AEA flow-through	295,638	332,139	332,779	310,801	294,935	282,816	275,616	270,801	271,598
Total	\$ 9,358,729	8,708,189	9,228,995	9,436,882	9,105,545	8,468,196	7,833,604	7,473,793	7,415,849

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

**Certified Public Accountants**

**(a professional corporation)**

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

**Telephone (641) 792-1910**

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

To the Board of Education of the  
Sibley-Ocheyedan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Sibley-Ocheyedan Community School District as of and for the year ended June 30, 2012 which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated January 10, 2013. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sibley-Ocheyedan 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 Sibley-Ocheyedan Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Sibley-Ocheyedan Community School District's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-12 to be material weakness.

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 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.

Sibley-Ocheyedan Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Sibley-Ocheyedan 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 Sibley-Ocheyedan Community School District and other parties to whom Sibley-Ocheyedan Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

  
NOLTE, CORNMAN & JOHNSON, P.C.

January 10, 2013

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**INTERNAL CONTROL DEFICIENCIES:**

I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees and officials to prevent an individual employee from handling duties which are incompatible. For the District, one individual has control over each of the following areas:

- 1) Collecting, recording, depositing, journalizing, posting and reconciling receipts and reconciling bank accounts. An independent review of receipt coding is not performed, deposits are not reconciled to the general ledger and source documents are not initialed by the preparer.
- 2) Check preparation and recording cash disbursements.
- 3) Approving pay rates and deductions, preparing and approving payroll input and preparing payroll checks.
- 4) Detailed recordkeeping of investments with no independent review.

In addition, mail is not opened by a person other than accounting personnel and a list of receipts is not prepared by the mail opener. Also, the petty cash fund is not verified by a surprise account.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations and financial transactions should be indicated by the signature or initials of the independent reviewer and the date of the review.

Response - The District understands the nature of the weakness and the necessity for oversight and review procedures. The District has reviewed its procedures and has implemented changes. The superintendent will review reconciliations and financial transactions and will initial and date the reviews.

Conclusion - Response accepted.

I-B-12 Capital Assets - Board Policy 802.4R1 states, "The fixed assets manager, in conjunction with the fixed assets management team, will conduct an annual fixed assets physical count to develop the annual fixed assets listing in a manner similar to the initial fixed assets listing process. At least every three years, someone other than the person in custody of the fixed assets in the building/department/room will perform the fixed assets physical count for the building/department/room." An independent reconciliation of capital assets to the accounting records is not performed. In addition, identifying tags are not placed on capital assets.

Recommendation - Capital assets should be periodically reconciled to the accounting records by an individual having no responsibility for the assets. Identification tags should be placed on all capital assets.

Response - The District understands the nature of the weakness and the necessity for the management team to provide oversight and review of capital assets. The Superintendent and the Fixed Asset Management Team will conduct an annual physical count of capital assets and place identification tags on all capital assets. The Superintendent will periodically reconcile capital assets to the accounting records. The Board will review the policies on capital assets.

Conclusion - Response accepted.

I-C-12 Insurance Dividend - During the course of our audit, we noted that the Management Levy Fund had a deficit cash balance. We found that the property insurance dividend received by the District during the year ended June 30, 2012 was recorded in the General Fund. Historically, the District has paid premiums for property insurance from the Management Levy Fund. Therefore, it is logical that when the District received the property insurance dividend, it should have been recorded in the Management Levy Fund. The District subsequently corrected this error before the upload of the District's 2012 Certified Annual Report.

However, it is unusual that the Management Levy Fund would have a deficit cash balance at year end since the property insurance dividend was recorded in error for the year ended June 30, 2012, we examined previous years' records from June 30, 2005 through June 30, 2011. We found that in the years ending June 30, 2009 through June 30, 2011, that the District had also recorded the property insurance dividend in the General Fund. The following shows the detail of amounts from the respective fiscal years mentioned:

Year Ending June 30,	Amount
2009	\$ 11,398.60
2010	15,032.93
2011	16,481.51
Total	<u>\$ 42,913.04</u>

Recommendation - The District should review procedures in place to ensure that the property insurance dividend is receipted to the proper fund. The District should make a corrective transfer from the General Fund to the Management Levy Fund of \$42,913.04.

Response - The District understands the nature of the weakness. The District will make the corrective transfer to record these revenues in the appropriate fund.

Conclusion - Response accepted.

I-D-12 Scholarship Awards - We noted during our audit that scholarship checks were being written from several different accounts in the Student Activity Fund.

Recommendation - If these student activity groups intend on awarding scholarships each year, the District needs to make these groups aware to fundraise specifically for the purpose of awarding a scholarship. Revenues and subsequent expenditures for scholarships from the activity fund groups would be more appropriately handled in the Private Purpose Trust Fund.

Response - The District understands the nature of the weakness. The District will inform each activity group who intends to award scholarships that they need to fundraise specifically for the purpose of awarding a scholarship. The District will handle the revenue and subsequent expenditures for scholarships from activity groups in the Private Purpose Trust Fund.

Conclusion - Response accepted.

We noted during our audit, that when scholarship checks were written from the Student Activity Fund and Private-Purpose Trust, the checks were being written to the student only.

Recommendation - Checks written for scholarships should be written to the student and the college the student is attending once the student has provided proof of attendance. If the District wants to write the check directly to the student, the District should issue a W-2 to the student to be in compliance with Internal Revenue Service requirements.

Response - The District understands the nature of the weakness. The District will ensure checks written for scholarships will be written to both the student and the college the student is attending once the student has provided proof of attendance.

Conclusion - Response accepted.

I-E-12 Payroll Procedures - We noted during our audit that the District does not keep track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches. The District should also review its payroll procedures to ensure that supporting documentation is kept for all employees who receive checks.

Response - The District understands the nature of the weakness. The District will implement procedures to track hours worked by coaches who are non-certified staff.

Conclusion - Response accepted.

I-F-12 Board Policies - We noted during our audit the District's board policy book appears to have not been kept up to date. All board policies should be reviewed every five years and documented when approved and reviewed.

Recommendation - The District should review the board policy book and update all policies that have not been updated within the past five years. The District should take steps to review board policies in a more timely manner.

Response - The District understands the nature of the weakness. The district will take steps to review board policies in a timely manner.

Conclusion - Response accepted.

SIBLEY-OCHEYEDAN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2012

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

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

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

Response - The District understands the nature of the weakness. The District's budget, in the other expenditures functional area, was amended in a timely manner. In September of 2012, this audit required the District to reallocate the Apple Lease expenditure to the Debt Service Fund, which is part of the other expenditure functional area. This caused the District, in September, to exceed the budget in the other expenditures functional area and at that time the District could not amend the fiscal 2012 budget.

Conclusion - Response accepted.

- II-B-12 Questionable Disbursements - During our audit, we noted that the District awarded students incentive prizes such as televisions and stereo systems for being top sellers in fundraisers for the Future Farmers of America. Prizes such as these may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place and make necessary adjustments to comply with the Attorney General's opinion dated April 25, 1979.

Response - The District understands the nature of the weakness. The District will review the use of student incentive prizes for being top sellers and make necessary adjustments to comply.

Conclusion - Response accepted.

We noted during our audit that the District allows up to a \$120 clothing allowance for nutrition, custodians and transportation employees without turning receipt of purchases into the District. IRS publications indicate nonaccountable plans for clothing should be reported as additional compensation on the employees' W-2's.

Recommendation - The District should report the allowance amount as additional compensation on employees' W2's or have employees turn receipts into the District office for reimbursement of required clothing. The District should review IRS publication 15B with regard to taxable benefits.

Response - The District understands the nature of the weakness. The District will require employees to turn in receipts for reimbursement of required clothing.

Conclusion - Response accepted.

II-C-12 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted, however we noted the following during our audit:

An employee paid hotel charges for a District allowed conference with a personal credit card and then received reimbursement from the District. This practice allowed the employee to earn personal credit card redeemable points from District purchases. Any redeemable points received by the employee as a result of purchases made on behalf of the District appeared nominal.

Recommendation - Chapter 279.30 of the Code of Iowa states in part "Each warrant must be made payable only to the person performing the service or presenting the verified bill, and must state the purpose for which the warrant is issued." To improve controls over District purchases, all payments should be made directly to the vendor by the District. Additionally, no District employee should gain a benefit from District purchases made on a personal credit card.

Response - The District understands the nature of the weakness. The District will review the use of District credit cards with employees. The use of a personal credit card was an unintentional situation that occurred.

Conclusion - Response accepted.

II-D-12 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
LaDonn Hartzell, Business Manager		
Spouse is part owner of Hartzell & Rosenberg Construction	Snow removal per bid Concrete work per bid	\$1,825 \$11,250

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

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

II-F-12 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-12 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-12 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.

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

II-J-12 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

II-K-12 Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.

II-L-12 Statewide Sales, Services and Use Tax - According to the District's revenue purpose statement, statewide sales, services and use tax money can be spent for PPEL type expenditures. According to Chapter 298.3 of the Code of Iowa, PPEL monies may not be used for preventative or routine maintenance. The District has a contract with Honeywell for yearly inspections and maintenance of the District's HVAC systems. The amount paid of \$16,859 appears to be unallowable from the Statewide Sales, Services and Use Tax Fund.

Recommendation - The District should review the revenue purpose statement for use of statewide sales, services and use tax as well as Chapter 298.3 of the Code of Iowa with regard to allowable expenditures from the PPEL Fund to avoid noncompliance. The District should make a corrective transfer to the Capital Projects Funds from the General Fund for \$16,859.

Response - The District understands the nature of the weakness. The District will make a corrective transfer to record these expenditures in the appropriate fund.

Conclusion - Response accepted.

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

Beginning Balance		\$	192,575
Revenues:			
Statewide sales and services tax revenue	\$	567,584	
Interest on investments		12	
Proceeds from computer lease		274,930	842,526
			<hr/>
Total revenues			1,035,101
Expenditures/transfers out:			
School infrastructure:			
Equipment	\$	365,536	
Other		4,707	
Transfers to other funds:			
Debt service fund		340,147	710,390
			<hr/>
Ending balance			\$ 324,711
			<hr/> <hr/>

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

II-M-12 Officiating Contracts - We noted during our audit that the Athletic Director was signing Activity Fund officiating contracts. According to 291.1 of the Code of Iowa, the Board President shall sign all contracts entered into by the District.

Recommendation - The District needs to have the Board president sign all officiating contracts to be in compliance with 291.1 of the Code of Iowa.

Response - The District understands the nature of the weakness. The District will have the Board President sign all officiating contracts.

Conclusion - Response accepted.

- II-N-12 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required for checks written from the U.S. Bank account for the capital projects accounts.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response - The District understands the nature of the weakness. The District currently receives copies of the fronts of cancelled checks from U.S. Bank. We have contacted our bank and we will now receive copies of the backs of these checks.

Conclusion - Response accepted.

- II-O-12 Student Activity Fund - In accordance with 298A.8 of the Code of Iowa and Iowa Administrative Code 281-12.6(1), the purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for students. More specific examples of these instances of questioned items and recommendations are as follows:

**Questionable Revenues and Expenses:** We noted during our audit that the District records PSAT revenues and expenses in the Student Activity Fund.

Recommendation - PSAT revenues and expenses are instructional in nature. Revenues and expenditures for instructional supplies are more appropriately handled in the General Fund. In the future, the District should record PSAT revenues and expenses in the General Fund.

Response - The District understands the nature of the weakness. The District will record PSAT revenues and expenditures in the General Fund.

Conclusion - Response accepted.

We also noted during our audit that Lifetouch Picture and Coca Cola commissions were being receipted to the Elementary and Middle School activity accounts in the Student Activity Fund.

Recommendation - The only legal place to receipt commission revenues from Lifetouch and Coca Cola are the General Fund.

Response - The District understands the nature of the weakness. The District will record commission revenues in the General Fund.

Conclusion - Response accepted.

II-P-12 Physical Plant and Equipment Levy(PPEL) Expenditures - We noted during our audit that the District made purchases from the PPEL Fund which do not appear to be in compliance with Chapter 423 and 298.3 of the Code of Iowa. The District had expenditures of \$2,500 for preventative maintenance to a building.

Recommendation - Expenditures for preventative maintenance are more appropriate from the General Fund. Since the District had allowable PPEL Fund expenditures from the General Fund, we did not request a corrective transfer on the financial statements. The District should review Chapter 423 and Chapter 298 of the Code of Iowa for allowability of expenditures from the PPEL Fund.

Response - The District understands the nature of the weakness. The District will review allowability of expenditures from the PPEL Fund.

Conclusion - Response accepted.

II-Q-12 Supporting Documents for Payments to Officials - We noted during the audit that payments were made to athletic officials from the Student Activity fund, however, there were not always copies of the contracts with the paid bills.

Recommendation - Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and (athletic) officials should be informed that payment will be made in this manner unless a valid contract exists. Copies of the signed contracts should be supplied to the accounting staff before checks are issued. The signed contract or other form of documentation should then be kept with the paid bills.

Response - The District understands the nature of the weakness. The District will review the process of payments to athletic officials.

Conclusion - Response accepted.

II-R-12 Revenue Bonds - The District has not established and made the required transfers to a revenue bond sinking account as required by the school infrastructure local option sales tax revenue bond resolution.

Recommendation - The District should establish a sinking fund and make the necessary transfers as required by the bond resolution.

Response - The District understands the nature of the weakness. The District now has established and is using a sinking fund as required by the school infrastructure statewide sales, services and use tax revenue bond resolution.

Conclusion - Response accepted.