

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

JUNE 30, 2013

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Independence Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
Brian Eddy	President	2015
Stacy Henderson	Vice President	2013
Rusty Donnelly	Board Member	2015
Eric Smith	Board Member	2015
John Christensen	Board Member	2013

School Officials

Jean Peterson	Superintendent	2013
Lynnette Engel	Board Secretary/Treasurer	2013
Lynch Dallas, P.C.	Attorney	2013
Swisher & Cohrt, P.L.C.	Attorney	2013
Ahlers & Cooney, P.C.	Attorney	2013

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, business type activities, each major fund and the aggregate remaining fund information of Independence Community School District, Independence, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Independence Community School District at June 30, 2013 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information.

U.S generally accepted accounting principles require Management's Discussion and Analysis, Budgetary Comparison Information and Schedule of Funding Progress for the Retiree Health Plan and the combining statements for the discretely presented component units on pages 9 through 18 and 44 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements. Another auditor previously audited, in accordance with standards referred to in the second paragraph of this report, the financial statements for the five years ended June 30, 2008 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 11, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States and Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic 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.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2014 on our consideration of the Independence Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Independence Community School District's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson PC". The signature is written in a cursive, somewhat stylized font.

NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2014
Newton, Iowa

Independence Community School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

Independence Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$15,368,778 in fiscal 2012 to \$15,596,587 in fiscal 2013, while General Fund expenditures increased from \$14,713,272 in fiscal 2012 to \$14,894,614 in fiscal 2013. The District's General Fund balance increased from \$970,004 in fiscal 2012 to \$1,671,977 in fiscal 2013.
- The increase in General Fund revenues was attributable to an increase in local sources. The increase in expenditures was due to the increase in support services and instructional expenditures.

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 Position and a Statement of Activities. These provide information about the activities of Independence Community School District as a whole and present an overall view of the District's finances.

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

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

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

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

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

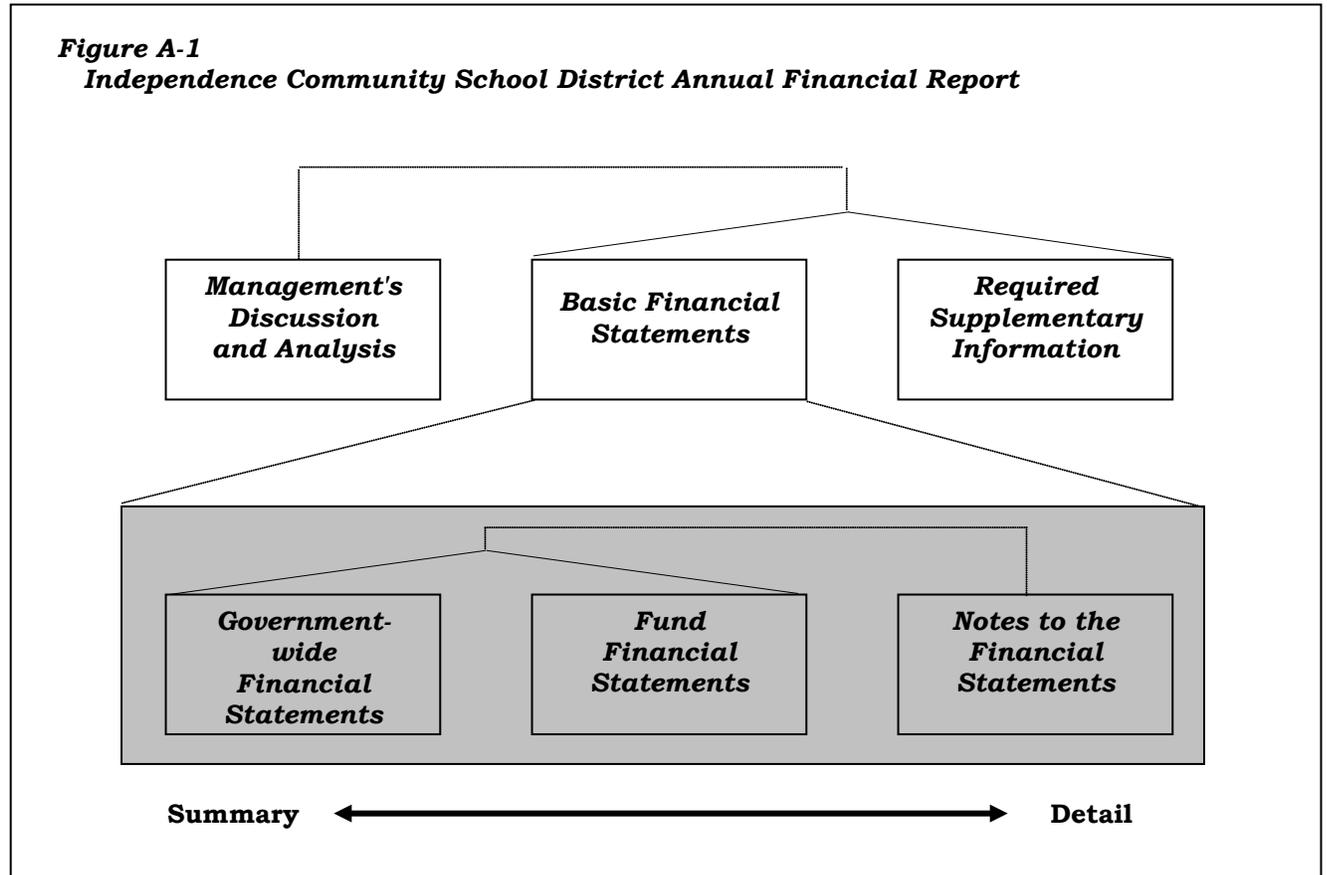


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net Position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
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 Position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

The required financial statements for the governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

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

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

The required financial statements for the proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position and a Statement of Cash Flows.

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

- Agency Fund - These are funds through which the District administers and accounts for certain revenue collected for District employee purchases.

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

The required financial statements for fiduciary funds include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position.

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 position at June 30, 2013 compared to June 30, 2012.

Figure A-3 Condensed Statement of Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Current and other assets	\$ 18,707,460	30,195,612	253,903	215,428	18,961,363	30,411,040	-37.65%
Capital assets	26,396,590	9,092,020	44,081	34,608	26,440,671	9,126,628	189.71%
Total assets	45,104,050	39,287,632	297,984	250,036	45,402,034	39,537,668	14.83%
Long-term obligations	20,718,780	18,875,806	7,798	6,143	20,726,578	18,881,949	9.77%
Other liabilities	10,223,136	10,352,070	62,073	44,561	10,285,209	10,396,631	-1.07%
Total liabilities	30,941,916	29,227,876	69,871	50,704	31,011,787	29,278,580	5.92%
Net position:							
Net investment in capital assets	7,708,998	5,110,093	44,081	34,608	7,753,079	5,144,701	50.70%
Restricted	5,011,787	4,342,050	-	-	5,011,787	4,342,050	15.42%
Unrestricted	1,441,349	607,613	184,032	164,724	1,625,381	772,337	110.45%
Total net position	\$ 14,162,134	10,059,756	228,113	199,332	14,390,247	10,259,088	40.27%

The District's combined net position increased by 40.27%, or \$4,131,159, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net position represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$669,737, or 15.42% from the prior year. This was the result of an increase in the Statewide Sales, Services and Use Tax and the District's new Support Trust Fund.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased \$853,044 or 110.45%. This increase in unrestricted net position was a result of the District's increase in the General Fund carryover balance.

Figure A-4 shows the changes in net position for the year ended June 30, 2013 compared to June 30, 2012.

Figure A-4 Changes in Net Position							
	Governmental Activities		Business Type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenues:							
Program revenues:							
Charges for services	\$ 1,352,794	1,266,367	356,082	337,018	1,708,876	1,603,385	6.58%
Operating grants, contributions and restricted interest	1,443,918	1,492,259	342,410	350,465	1,786,328	1,842,724	-3.06%
Capital grants, contributions and restricted interest	3,426,270	2,359	-	750	3,426,270	3,109	110104.89%
General revenues:							
Property tax	6,769,886	5,208,261	-	-	6,769,886	5,208,261	29.98%
Income surtax	631,161	599,418	-	-	631,161	599,418	5.30%
Statewide sales, services and use tax	1,164,700	1,033,847	-	-	1,164,700	1,033,847	12.66%
Unrestricted state grants	7,460,029	7,534,426	-	-	7,460,029	7,534,426	-0.99%
Nonspecific program federal revenues	-	235,688	-	-	-	235,688	-100.00%
Unrestricted interest income	38,777	32,944	530	444	39,307	33,388	17.73%
Other	96,787	67,901	2,414	2,390	99,201	70,291	41.13%
Transfers	482	-	(482)	-	-	-	0.00%
Total revenues	22,384,804	17,473,470	700,954	691,067	23,085,758	18,164,537	27.09%
Program expenses:							
Governmental activities:							
Instruction	11,984,053	11,250,401	-	-	11,984,053	11,250,401	6.52%
Support services	5,094,738	4,254,984	4,451	13,369	5,099,189	4,268,353	19.47%
Non-instructional programs	1,958	1,784	667,722	615,651	669,680	617,435	8.46%
Other expenses	1,201,677	943,189	-	-	1,201,677	943,189	27.41%
Total expenses	18,282,426	16,450,358	672,173	629,020	18,954,599	17,079,378	10.98%
Changes in net position	4,102,378	1,023,112	28,781	62,047	4,131,159	1,085,159	280.70%
Net position beginning of year	10,059,756	9,036,644	199,332	137,285	10,259,088	9,173,929	11.83%
Net position end of year	\$ 14,162,134	10,059,756	228,113	199,332	14,390,247	10,259,088	40.27%

In fiscal 2013, property tax, income surtax, statewide sales, services and use tax and unrestricted state grants account for 71.59% of the revenue from governmental activities while charges for services and operating grants and contributions and capital grants and contributions account for 99.65% of the revenue from business type activities.

The District's total revenues were approximately \$23.09 million of which approximately \$22.39 million was for governmental activities and approximately \$0.70 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 27.09% increase in revenues and a 10.98% increase in expenses.

Governmental Activities

Revenues for governmental activities were \$22,384,804 and expenses were \$18,282,426 for the year ended June 30, 2013.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2013 compared to the year ended June 30, 2012.

	Total Cost of Services			Net Cost of Services		
	2013	2012	Change 2012-13	2013	2012	Change 2012-13
Instruction	\$ 11,984,053	11,250,401	6.52%	9,778,032	9,100,614	7.44%
Support services	5,094,738	4,254,984	19.74%	1,655,203	4,235,771	-60.92%
Non-instructional programs	1,958	1,784	9.75%	1,958	1,784	9.75%
Other expenses	1,201,677	943,189	27.41%	624,251	351,204	77.75%
Totals	\$ 18,282,426	16,450,358	11.14%	12,059,444	13,689,373	-11.91%

- The cost financed by users of the District's programs was \$1,352,794.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$4,870,188.
- The net cost of governmental activities was financed with \$6,769,886 in property tax, \$631,161 in income surtax, \$1,164,700 in statewide sales, services and use tax, \$7,460,029 in unrestricted state grants, \$38,777 in interest income and \$96,787 in other general revenues as well as \$482 in transfers to governmental activities.

Business-Type Activities

Revenues of the District's business type activities were \$700,954 and expenses were \$672,173. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$7,669,322, which is less than last year's ending fund balances of \$19,226,124. This decrease is primarily a result of the District spending prior year unspent bond proceeds on the construction of the new Junior/Senior High building.

Governmental Fund Highlights

- The General Fund balance increased from \$970,004 to \$1,671,977, due in part to the increase in local source revenues.
- The Capital Projects Fund balance decreased from \$16,734,721 to \$4,038,411. This was due to the district spending prior years unspent bond proceeds on the new Junior/Senior High building.
- The District's Support Trust Fund balance increase from \$0 to \$414,013. This was due to 2013 being the first year of this fund which handled an increase in donations for the new Junior/Senior High building.

Proprietary Fund Highlights

The School Nutrition Fund net position increased from \$199,332 at June 30, 2012 to \$228,113 at June 30, 2013, representing an increase of 14.44%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$3,997,759 more than budgeted revenues, a variance of 20.94%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$26.44 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 65.48% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$341,383

The original cost of the District's capital assets was \$33.05 million. Governmental funds account for \$32.80 million with the remainder of \$0.25 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$20,588,107 at June 30, 2013, compared to \$3,331,489 reported at June 30, 2012. This significant increase resulted from the District continuing work on the new junior senior high school building.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Land	\$ 1,141,353	1,141,353	-	-	1,141,353	1,141,353	0.00%
Construction in progress	20,588,107	3,331,489	-	-	20,588,107	3,331,489	83.82%
Buildings	3,757,807	3,767,859	-	-	3,757,807	3,767,859	-0.27%
Land improvements	234,850	162,590	-	-	234,850	162,590	30.77%
Machinery and equipment	674,473	688,729	44,081	34,608	718,554	723,337	-0.67%
Total	\$ 26,396,590	9,092,020	44,081	34,608	26,440,671	9,126,628	65.48%

Long-Term Debt

At June 30, 2013, the District had \$20,726,578 in general obligation and other long-term debt outstanding. This represents an increase of 9.77% from last year. (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 total outstanding Revenue Bond indebtedness at June 30, 2013 of \$7,715,000 payable from the Capital Project Fund.

The District had total outstanding General Obligation Bond indebtedness at June 30, 2013 of \$11,690,000 payable from the Debt Service Fund.

The District had total outstanding Capital Lease indebtedness at June 30, 2013 of \$475,000 payable from the Capital Project Fund.

The District had total outstanding Termination Benefits payable from the Special Revenue - Management Levy Fund of \$366,573 at June 30, 2013.

The District had total outstanding Compensated Absences payable from the General Fund of \$58,396 at June 30, 2013.

The District had outstanding Net OPEB liability at June 30, 2012 of \$421,609. The Governmental Activities accounted for \$413,811 of this total while Business Type Activities accounted for \$7,798.

Figure A-7
Outstanding Long-Term Obligations

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2013	2012	2013	2012	2013	2012	2012-13
Revenue Bonds	\$ 7,715,000	8,115,000	-	-	7,715,000	8,115,000	-4.93%
General Obligation Bonds	11,690,000	10,000,000	-	-	11,690,000	10,000,000	16.90%
Computer Lease	475,000	-	-	-	475,000	-	100.00%
Termination benefits	366,573	396,922	-	-	366,573	396,922	-7.65%
Compensated Absences	58,396	50,608	-	-	58,396	50,608	15.39%
Net OPEB liability	413,811	313,276	7,798	6,143	421,609	319,419	31.99%
Totals	\$ 20,718,780	18,875,806	7,798	6,143	20,726,578	18,881,949	9.77%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.
- On July 1, 2013, the IPERS increase to 8.93% will increase the Independence Community Schools employer benefits costs during fiscal 2014.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lynnette Engel, Board Secretary, Independence Community School District, 1207 1st Street West, Independence, Iowa, 50644.

Basic Financial Statements

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	Mustang Foundation
ASSETS				
Cash and cash equivalents	\$ 9,643,329	235,427	9,878,756	1,910,052
Receivables:				
Property tax:				
Delinquent	82,991	-	82,991	-
Succeeding year	6,935,297	-	6,935,297	-
Income surtax	592,714	-	592,714	-
Accounts	7,489	-	7,489	-
Due from other governments	1,445,640	-	1,445,640	-
Inventories	-	18,476	18,476	-
Capital assets, net of accumulated depreciation/amortization	26,396,590	44,081	26,440,671	-
TOTAL ASSETS	45,104,050	297,984	45,402,034	1,910,052
LIABILITIES				
Accounts payable	1,750,357	21,324	1,771,681	-
Salaries and benefits payable	1,495,137	34,918	1,530,055	-
Accrued interest payable	42,345	-	42,345	-
Deferred revenue:				
Succeeding year property tax	6,935,297	-	6,935,297	-
Unearned revenue	-	5,831	5,831	-
Long-term liabilities:				
Portion due within one year:				
Revenue bonds	375,000	-	375,000	-
General obligation bonds	770,000	-	770,000	-
Computer lease payable	106,987	-	106,987	-
Termination benefits	158,963	-	158,963	-
Compensated absences	58,396	-	58,396	-
Portion due after one year:				
Revenue bonds	7,340,000	-	7,340,000	-
General obligation bonds	10,920,000	-	10,920,000	-
Computer lease payable	368,013	-	368,013	-
Termination benefits	207,610	-	207,610	-
Net OPEB liability	413,811	7,798	421,609	-
TOTAL LIABILITIES	30,941,916	69,871	31,011,787	-
NET POSITION				
Net invested in capital assets, net of related debt	7,708,998	44,081	7,753,079	-
Restricted for:				
Categorical funding	604,607	-	604,607	-
School infrastructure	2,724,970	-	2,724,970	-
Physical plant and equipment	121,033	-	121,033	-
Special purpose	414,013	-	414,013	-
Management levy purposes	380,614	-	380,614	-
Student activities	148,719	-	148,719	-
Debt service	617,831	-	617,831	-
Unrestricted	1,441,349	184,032	1,625,381	1,910,052
TOTAL NET POSITION	\$ 14,162,134	228,113	14,390,247	1,910,052

SEE NOTES TO FINANCIAL STATEMENTS.

**INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government			
					Governmental Activities	Business Type Activities	Total	
Functions/Programs:								
Governmental activities:								
Instruction:								
Regular	\$ 6,124,122	395,700	183,354	-	(5,545,068)	-	(5,545,068)	-
Special	3,221,574	616,805	146,521	-	(2,458,248)	-	(2,458,248)	-
Other	2,638,357	340,289	523,352	-	(1,774,716)	-	(1,774,716)	-
	<u>11,984,053</u>	<u>1,352,794</u>	<u>853,227</u>	<u>-</u>	<u>(9,778,032)</u>	<u>-</u>	<u>(9,778,032)</u>	<u>-</u>
Support services:								
Student	468,978	-	-	-	(468,978)	-	(468,978)	-
Instructional staff	404,326	-	-	-	(404,326)	-	(404,326)	-
Administration	1,402,228	-	-	-	(1,402,228)	-	(1,402,228)	-
Operation and maintenance of plant	2,307,539	-	-	3,426,270	1,118,731	-	1,118,731	-
Transportation	511,667	-	13,265	-	(498,402)	-	(498,402)	-
	<u>5,094,738</u>	<u>-</u>	<u>13,265</u>	<u>3,426,270</u>	<u>(1,655,203)</u>	<u>-</u>	<u>(1,655,203)</u>	<u>-</u>
Non-instructional programs:								
Other enterprise operations	1,958	-	-	-	(1,958)	-	(1,958)	-
Long-term debt interest	467,474	-	-	-	(467,474)	-	(467,474)	-
Other expenditures:								
AEA flowthrough	577,426	-	577,426	-	-	-	-	-
Depreciation(unallocated)*	156,777	-	-	-	(156,777)	-	(156,777)	-
	<u>734,203</u>	<u>-</u>	<u>577,426</u>	<u>-</u>	<u>(156,777)</u>	<u>-</u>	<u>(156,777)</u>	<u>-</u>
Total governmental activities	<u>18,282,426</u>	<u>1,352,794</u>	<u>1,443,918</u>	<u>3,426,270</u>	<u>(12,059,444)</u>	<u>-</u>	<u>(12,059,444)</u>	<u>-</u>
Business Type activities:								
Support services:								
Administration	331	-	-	-	-	(331)	(331)	-
Operation and maintenance of plant	4,120	-	-	-	-	(4,120)	(4,120)	-
Non-instructional programs:								
Food service operations	667,722	356,082	342,410	-	-	30,770	30,770	-
Total business type activities	<u>672,173</u>	<u>356,082</u>	<u>342,410</u>	<u>-</u>	<u>-</u>	<u>26,319</u>	<u>26,319</u>	<u>-</u>
Total primary government	\$ <u>18,954,599</u>	<u>1,708,876</u>	<u>1,786,328</u>	<u>3,426,270</u>	<u>(12,059,444)</u>	<u>26,319</u>	<u>(12,033,125)</u>	<u>-</u>
Total component unit	\$ <u>92,692</u>	<u>44,363</u>	<u>715,831</u>	<u>113,724</u>				<u>781,226</u>
General Revenues:								
Property tax levied for:								
General purposes					\$ 5,441,434	-	5,441,434	-
Debt service					1,044,753	-	1,044,753	-
Capital outlay					283,699	-	283,699	-
Income surtax					631,161	-	631,161	-
Statewide sales, services and use tax					1,164,700	-	1,164,700	-
Unrestricted state grants					7,460,029	-	7,460,029	-
Unrestricted investment earnings					38,777	530	39,307	13,756
Unrealized gain or loss on investments					-	-	-	2,310
Other general revenues					96,787	2,414	99,201	20,554
Transfers					482	(482)	-	-
Total general revenues					<u>16,161,822</u>	<u>2,462</u>	<u>16,164,284</u>	<u>36,620</u>
Changes in net position					4,102,378	28,781	4,131,159	817,846
Net position beginning of year					10,059,756	199,332	10,259,088	1,092,206
Net position end of year					\$ <u>14,162,134</u>	<u>228,113</u>	<u>14,390,247</u>	<u>1,910,052</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General	Capital Projects	Support Trust	Nonmajor	Total
ASSETS					
Cash and pooled investments	\$ 2,993,446	4,428,876	414,013	1,542,361	9,378,696
Receivables:					
Property tax					
Delinquent	61,079	3,503	-	18,409	82,991
Succeeding year	5,229,275	294,092	-	1,411,930	6,935,297
Income surtax	592,714	-	-	-	592,714
Accounts	1,426	-	-	6,063	7,489
Due from other governments	838,657	606,983	-	-	1,445,640
TOTAL ASSETS	\$ 9,716,597	5,333,454	414,013	2,978,763	18,442,827
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 727,494	1,000,951	-	21,912	1,750,357
Salaries and benefits payable	1,495,137	-	-	-	1,495,137
Deferred revenue:					
Succeeding year property tax	5,229,275	294,092	-	1,411,930	6,935,297
Income surtax	592,714	-	-	-	592,714
Total liabilities	8,044,620	1,295,043	-	1,433,842	10,773,505
Fund balances:					
Restricted for:					
Categorical funding	604,607	-	-	-	604,607
Construction	-	1,192,408	-	-	1,192,408
School infrastructure	-	2,724,970	-	-	2,724,970
Physical plant and equipment	-	121,033	-	-	121,033
Special purpose	-	-	414,013	-	414,013
Management levy purposes	-	-	-	747,187	747,187
Student activities	-	-	-	148,719	148,719
Debt service	-	-	-	660,176	660,176
Unassigned for:					
General Fund	1,067,370	-	-	-	1,067,370
Student activities	-	-	-	(11,161)	(11,161)
Total fund balances	1,671,977	4,038,411	414,013	1,544,921	7,669,322
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,716,597	5,333,454	414,013	2,978,763	18,442,827

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013

Total fund balances of governmental funds(page 22)	\$	7,669,322
 <i>Amounts reported for governmental activities in the Statement of Net Position are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		26,396,590
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(42,345)
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		264,633
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		592,714
Long-term liabilities, including bonds payable, termination benefits payable, compensated absences payable and other postemployment benefits payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(20,718,780)</u>
Net position of governmental activities(page 20)	\$	<u>14,162,134</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2013

	General	Capital Projects	Support Trust	Nonmajor	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,622,804	1,448,399	-	1,494,767	8,565,970
Tuition	904,295	-	-	-	904,295
Other	229,318	36,065	2,702,095	380,785	3,348,263
State sources	8,327,751	85,495	-	890	8,414,136
Federal sources	511,937	639,944	-	-	1,151,881
Total revenues	15,596,105	2,209,903	2,702,095	1,876,442	22,384,545
EXPENDITURES:					
Current:					
Instruction:					
Regular	5,282,706	698,802	-	239,013	6,220,521
Special	3,220,530	-	-	-	3,220,530
Other	2,187,106	-	-	437,510	2,624,616
	10,690,342	698,802	-	676,523	12,065,667
Support services:					
Student	542,217	-	-	-	542,217
Instructional staff	322,382	49,696	-	-	372,078
Administration	1,343,833	16,712	-	1,544	1,362,089
Operation and maintenance of plant	956,248	52,600	-	119,701	1,128,549
Transportation	460,208	4,440	-	17,640	482,288
	3,624,888	123,448	-	138,885	3,887,221
Non-instructional programs:					
Other enterprise operations	1,958	-	-	-	1,958
Capital outlay	-	16,412,692	2,288,082	-	18,700,774
Long-term debt:					
Principal	-	-	-	1,190,000	1,190,000
Interest and fiscal charges	-	-	-	467,583	467,583
	-	-	-	1,657,583	1,657,583
Other expenditures:					
AEA flowthrough	577,426	-	-	-	577,426
Total expenditures	14,894,614	17,234,942	2,288,082	2,472,991	36,890,629
Excess(deficiency) of revenues over(under) expenditures	701,491	(15,025,039)	414,013	(596,549)	(14,506,084)
Other financing sources(uses):					
Net Premium on bond issuance	-	24,800	-	-	24,800
Capital Loan Issuance	-	475,000	-	-	475,000
General obligation bond proceeds	-	2,449,000	-	-	2,449,000
Transfer in	482	-	-	620,071	620,553
Transfer out	-	(620,071)	-	-	(620,071)
Total other financing sources(uses)	482	2,328,729	-	620,071	2,949,282
Net change in fund balances	701,973	(12,696,310)	414,013	23,522	(11,556,802)
Fund balances beginning of year	970,004	16,734,721	-	1,521,399	19,226,124
Fund balances end of year	\$ 1,671,977	4,038,411	414,013	1,544,921	7,669,322

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds(page 24) \$ (11,556,802)

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

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

Capital outlays	\$ 17,641,488	
Depreciation expense	(332,193)	
Loss on disposal	<u>(4,725)</u>	17,304,570

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds (223)

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 Position. Repayments of long-term liabilities is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year repayments exceeded issues, as follows:

Issued	(2,955,000)	
Repaid	<u>1,190,000</u>	(1,765,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 109

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 197,698

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

Termination benefits	30,349	
Compensated absences	(7,788)	
Other postemployment benefits	<u>(100,535)</u>	<u>(77,974)</u>

Changes in net position of governmental activities(page 21) \$ 4,102,378

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2013

	Business Type	
	Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	
<u>ASSETS</u>		
Current assets:		
Cash and pooled investments	\$ 235,427	264,633
Inventories	18,476	-
Total current assets	<u>253,903</u>	<u>264,633</u>
Non-current assets:		
Capital assets:		
Machinery and equipment, net of accumulated depreciation	44,081	-
TOTAL ASSETS	<u>297,984</u>	<u>264,633</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable	21,324	-
Salaries and benefits payable	34,918	-
Unearned revenue	5,831	-
Total current liabilities	<u>62,073</u>	<u>-</u>
Long-term liabilities:		
Net OPEB liability	7,798	-
TOTAL LIABILITIES	<u>69,871</u>	<u>-</u>
<u>NET POSITION</u>		
Invested in capital assets	44,081	-
Unrestricted	184,032	264,633
Total net position	<u>\$ 228,113</u>	<u>264,633</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund Flex Benefit
OPERATING REVENUE:		
Local sources:		
Charges for service	\$ 356,082	504,276
Contributions	400	-
Miscellaneous	2,414	-
Total operating revenues	<u>358,896</u>	<u>504,276</u>
OPERATING EXPENSES:		
Support services:		
Student:		
Benefits	-	306,621
Administration:		
Salaries	130	-
Benefits	21	-
Services	180	-
	<u>331</u>	<u>-</u>
Operation and maintenance of plant:		
Services	4,120	-
Total support services	<u>4,451</u>	<u>306,621</u>
Non-instructional programs:		
Food service operations:		
Salaries	227,767	-
Benefits	61,110	-
Services	7,458	-
Supplies	358,829	-
Depreciation	9,189	-
Other	3,369	-
Total non-instructional programs	<u>667,722</u>	<u>-</u>
Total operating expenses	<u>672,173</u>	<u>306,621</u>
OPERATING INCOME(LOSS)	<u>(313,277)</u>	<u>197,655</u>
NON-OPERATING REVENUES:		
State sources	5,790	-
Federal sources	336,220	-
Interest on investments	530	43
Total non-operating revenues	<u>342,540</u>	<u>43</u>
Change in net position before transfer out	29,263	197,698
Transfer out	<u>(482)</u>	<u>-</u>
Change in net position	28,781	197,698
Net position beginning of year	<u>199,332</u>	<u>66,935</u>
Net position end of year	<u>\$ 228,113</u>	<u>264,633</u>

SEE NOTES TO FINANCIAL STATEMENTS.

EXHIBIT I

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
YEAR ENDED JUNE 30, 2013

	Business Type Activities: Enterprise Fund	Governmental Activities: Internal Service Fund
	School Nutrition	Flex Benefit
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 358,098	-
Cash received from miscellaneous sources	2,414	504,276
Cash payments to employees for services	(284,825)	-
Cash payments to suppliers for goods or services	(295,279)	(306,621)
Net cash provided by(used in) operating activities	<u>(219,592)</u>	<u>197,655</u>
Cash flows from non-capital financing activities:		
Transfer to general fund	(482)	-
State grants received	5,790	-
Federal grants received	282,914	-
Net cash provided by non-capital financing activities	<u>288,222</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(18,662)	-
Cash flows from investing activities:		
Interest on investments	530	43
Net increase in cash and cash equivalents	50,498	197,698
Cash and cash equivalents at beginning of year	184,929	66,935
Cash and cash equivalents at end of year	<u>\$ 235,427</u>	<u>264,633</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (313,277)	197,655
Adjustments to reconcile operating income(loss) to net cash used in operating activities:		
Commodities used	53,306	-
Depreciation	9,189	-
Decrease in inventories	11,519	-
Decrease in accounts receivable	504	-
Increase in accounts payable	13,852	-
Increase in salaries and benefits payable	2,548	-
Increase in unearned revenue	1,112	-
Increase in other postemployment benefits	1,655	-
Net cash provided by(used in) operating activities	<u>\$ (219,592)</u>	<u>197,655</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2013, the District received Federal commodities valued at \$53,306.

SEE NOTES TO FINANCIAL STATEMENTS.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2013

	Agency
ASSETS	
Cash and pooled investments	\$ 8,019
Accounts receivable	80
TOTAL ASSETS	\$ 8,099
LIABILITIES	
Accounts payable	\$ 177
Due to other groups	7,922
TOTAL LIABILITIES	\$ 8,099

SEE NOTES TO FINANCIAL STATEMENTS

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

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

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

B. Basis of Presentation

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

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

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

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

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The District reports the following major governmental funds:

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

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

The Support Trust Fund is utilized to account donations and other revenues to be used to help pay for the District's new junior/senior high school building.

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. 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 position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

Property tax revenue receivable is recognized in these funds on the levy date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recorded as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2011 assessed property valuations; is for the tax accrual period July 1, 2012 through June 30, 2013 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2012.

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and governmental 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, equipment, and intangibles are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. 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	\$ 5,000
Buildings	5,000
Land improvements	5,000
Intangibles	25,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

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

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as a liabilities.

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation benefits payable to employees. Compensated absences are reported in governmental funds only if they have matured. The cost of vacation payments expected to be liquidated currently is recorded as a long-term liability on the Statement of Net Position and will be paid in the future out of the General Fund. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2013. The compensated absences liability attributable to the governmental activities will be primarily paid by the General Fund.

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

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 preceding classifications.

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

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

Budgeting and Budgetary Control - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2013 expenditures in the non-instructional programs functional area exceeded the budgeted amounts.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.\

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. At June 30, 2013, the District had no investments.

Note 3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects: Statewide Sales, Services and Use Tax	\$ 620,071
General	Enterprise: School Nutrition	482
Total		\$ 620,553

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

The transfer from the Enterprise: School Nutrition Fund to the General Fund was to move revenue for the District’s team nutrition grant received in the Nutrition Fund into the General Fund where it can be spent.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 232,279	18,662	-	250,941
Less accumulated depreciation	197,671	9,189	-	206,860
Business type activities capital assets, net	\$ 34,608	9,473	-	44,081

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,141,353	-	-	1,141,353
Construction in progress	3,331,489	17,256,618	-	20,588,107
Total capital assets not being depreciated	<u>4,472,842</u>	<u>17,256,618</u>	<u>-</u>	<u>21,729,460</u>
Capital assets being depreciated:				
Buildings	7,571,213	125,667	-	7,696,880
Land improvements	1,152,866	90,757	-	1,243,623
Machinery and equipment	1,986,750	168,446	24,125	2,131,071
Total capital assets being depreciated	<u>10,710,829</u>	<u>384,870</u>	<u>24,125</u>	<u>11,071,574</u>
Less accumulated depreciation for:				
Buildings	3,803,354	135,719	-	3,939,073
Land improvements	990,276	18,497	-	1,008,773
Machinery and equipment	1,298,021	177,977	19,400	1,456,598
Total accumulated depreciation	<u>6,091,651</u>	<u>332,193</u>	<u>19,400</u>	<u>6,404,444</u>
Total capital assets being depreciated, net	<u>4,619,178</u>	<u>52,677</u>	<u>4,725</u>	<u>4,667,130</u>
Governmental activities capital assets, net	<u>\$ 9,092,020</u>	<u>17,309,295</u>	<u>4,725</u>	<u>26,396,590</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 20,293
Special	11,914
Other	1,431
Support services:	
Administration	33,410
Operation and maintenance of plant	32,121
Transportation	76,247
	<u>175,416</u>
Unallocated depreciation	<u>156,777</u>
Total governmental activities depreciation expense	<u>\$ 332,193</u>
Business type activities:	
Food services	<u>\$ 9,189</u>

Note 5. Long-Term Debt

Changes in long-term liabilities for the year ended June 30, 2013 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Governmental Activities:					
Revenue Bonds	\$ 8,115,000	-	400,000	7,715,000	375,000
General Obligation Bonds	10,000,000	2,480,000	790,000	11,690,000	770,000
Computer Lease	-	475,000	-	475,000	106,987
Termination Benefits	396,922	114,704	145,053	366,573	158,963
Compensated Absences	50,608	58,396	50,608	58,396	58,396
Net OPEB Liability	313,276	100,535	-	413,811	-
Total	<u>\$ 18,875,806</u>	<u>3,228,635</u>	<u>1,385,661</u>	<u>20,718,780</u>	<u>1,469,346</u>
Business Type Activities:					
Net OPEB Liability	\$ 6,143	1,655	-	7,798	-

General Obligation

Details of the Districts June 30, 2013 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of March 27, 2012			Bond Issue May 1, 2013			Total		
	Rate	Principal	Interest	Rate	Principal	Interest	Principal	Interest	Total
2014	2.00 %	\$ 395,000	238,925	0.40 %	\$ 375,000	17,968	\$ 770,000	256,893	1,026,893
2015	2.00	400,000	231,025	0.45	380,000	16,468	780,000	247,493	1,027,493
2016	2.00	410,000	223,025	0.55	385,000	14,758	795,000	237,783	1,032,783
2017	2.00	420,000	214,825	0.70	395,000	12,640	815,000	227,465	1,042,465
2018	2.00	425,000	206,425	0.90	400,000	9,875	825,000	216,300	1,041,300
2019-2023	2.00-2.50	2,270,000	897,295	1.10-1.30	545,000	8,095	2,815,000	905,390	3,720,390
2024-2028	2.60-3.00	2,560,000	603,425				2,560,000	603,425	3,163,425
2029-2032	3.10-3.40	2,330,000	195,375				2,330,000	195,375	2,525,375
Total		<u>\$ 9,210,000</u>	<u>2,810,320</u>		<u>\$ 2,480,000</u>	<u>79,803</u>	<u>\$ 11,690,000</u>	<u>2,890,123</u>	<u>14,580,123</u>

Revenue Bonds

Details of the District's June 30, 2013 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of December 1, 2011			
	Rate	Principal	Interest	Total
2014	2.00 %	\$ 375,000	204,857	579,857
2015	2.00	385,000	197,358	582,358
2016	2.00	395,000	189,657	584,657
2017	2.00	410,000	181,758	591,758
2018	2.00	420,000	173,557	593,557
2019-2023	2.15-2.75	2,325,000	722,062	3,047,062
2024-2028	2.85-3.35	2,780,000	379,893	3,159,893
2029	3.40	625,000	21,250	646,250
Total		<u>\$ 7,715,000</u>	<u>2,070,392</u>	<u>9,785,392</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$8,115,000. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District in accordance with Chapter 423E of the Code of Iowa and are payable through 2029. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitations of the District. Annual principal and interest payments on the bonds are expected to require nearly 50% of the statewide sales, services and use tax revenues. The total principal and interest paid remaining to be paid is \$9,785,392. For the current year \$400,000 in principal and \$212,858 in interest was paid on the bonds and total statewide sales and services tax revenues were \$1,164,700.

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

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

Computer Lease

On May 21, 2013, the District entered into a lease-purchase agreement for computers. The lease is scheduled to be repaid as follows from the Capital Projects: Statewide Sales, Services and Use Tax Fund

Year Ending June 30,	Computer Lease Issue of May 21, 2013			
	Rate	Principal	Interest	Total
2014	1.90 %	\$ 106,987	17,043	124,030
2015	1.90	111,091	12,939	124,030
2016	1.90	115,352	8,678	124,030
2017	1.90	141,570	4,253	145,823
Total		\$ 475,000	42,913	517,913

Termination Benefits

In March 2013, the District approved a voluntary early retirement plan to its certified employees and support staff. The plan was only offered to employees for one year. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education.

The early retirement benefit for each eligible certified employee is equal to 50% of the employee's current base salary plus \$50 per day of sick leave accrued by June 30, 2013. The early retirement benefit for each eligible support staff employee is equal to 40% of the employee's current salary, less any overtime or other additional pay, in addition to \$30 per day of sick leave accrued by June 30, 2013.

The policy requires early retirement benefits to be paid out in one lump sum into a 403(b) retirement plain in accordance with Internal Revenue service guidelines and board determined plan for both certified and support staff employees.

At June 30, 2013, the District has obligations to eight participants with a total liability of \$366,573. Actual early retirement expenditures for the year ended June 30, 2013 totaled \$145,053. The cost of early retirement payments expected to be paid are recorded as a long-term liability of the Governmental Activities in the Government-wide financial statements.

Note 6. Other Postemployment Benefits(OPEB)

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

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

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

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

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2013, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 181,598
Interest on net OPEB obligation	7,985
Adjustment to annual required contribution	<u>(63,054)</u>
Annual OPEB cost	126,529
Contributions made	<u>(24,339)</u>
Increase in net OPEB obligation	102,190
Net OPEB obligation beginning of year	<u>319,419</u>
Net OPEB obligation end of year	<u><u>\$ 421,609</u></u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

For the year ended June 30, 2013, the District contributed \$24,339 to the medical plan. Plan members eligible for benefits contributed \$0, or 0% of the premium costs.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2013 is summarized as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$ 79,594	35.21	% \$ 152,463
2012	192,656	13.34	319,419
2013	126,529	19.24	421,609

Funded Status and Funding Progress - As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2013, the actuarial accrued liability was \$920,151 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$920,151. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$8,687,421 and the ratio of the UAAL to covered payroll was 10.6%. As of June 30, 2013, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2011 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 6.0%.

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

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

Note 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 5.78% of their annual salary and the District is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$743,866, \$672,082 and \$573,153, respectively, equal to the required contributions for each year.

Note 8. Risk Management

Independence Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage from coverage in the prior year.

Note 9. 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 \$577,426 for the year ended June 30, 2013 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Construction Commitments

The District has entered into various contracts totaling \$22,494,315 for the construction of a new Junior/Senior High School. As of June 30, 2013, costs of \$20,588,107 had been incurred against the contracts. The balance of \$1,906,208 remaining at June 30, 2013 will be paid as work on the projects progresses.

Note 11. Deficit Balances

The District has various accounts in the Special Revenue, Student Activity Fund with deficit balances totaling \$11,161.

Note 12. Categorical Funding

The District’s restricted balance for categorical funding at June 30, 2013 is comprised of the following programs:

<u>Program</u>	<u>Amount</u>
Limited english proficiency weighting	\$ 10,557
Home school assistance program	38,452
Statewide voluntary preschool	53,280
Gifted and talented	138,247
Dropout and dropout prevention	109,481
Professional development	27,448
Teacher salary supplement	154,687
Beginning teacher mentoring and induction program	1,741
Professional development for model core curriculum	70,295
State decategorization grant	419
	<hr/>
Total restricted for categorical funding	<u>\$ 604,607</u>

Note 14. Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budget appropriations at the functional area level. During the year ended June 30, 2013, expenditures in the non-instructional programs functional area exceeded the certified budget.

Independence Community School District

Required Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES/EXPENSES AND
 CHANGES IN BALANCES - BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2013

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Funds		Original	Final	
	Actual	Actual				
Revenues:						
Local sources	\$ 12,818,528	359,426	13,177,954	9,862,312	9,862,312	3,315,642
State sources	8,414,136	5,790	8,419,926	8,375,910	8,375,910	44,016
Federal sources	1,151,881	336,220	1,488,101	850,000	850,000	638,101
Total revenues	22,384,545	701,436	23,085,981	19,088,222	19,088,222	3,997,759
Expenditures/Expenses:						
Instruction	12,065,667	-	12,065,667	12,600,000	12,600,000	534,333
Support services	3,887,221	4,451	3,891,672	4,212,250	4,212,250	320,578
Non-instructional programs	1,958	667,722	669,680	652,000	652,000	(17,680)
Other expenditures	20,935,783	-	20,935,783	26,810,106	26,810,106	5,874,323
Total expenditures/expenses	36,890,629	672,173	37,562,802	44,274,356	44,274,356	6,711,554
Excess(deficiency) of revenues over(under) expenditures/expenses	(14,506,084)	29,263	(14,476,821)	(25,186,134)	(25,186,134)	10,709,313
Other financing sources, net	2,949,282	(482)	2,948,800	4,000,000	4,000,000	(1,051,200)
Excess(deficiency) of revenues and other financing sources over(under) expenditures/ expenses	(11,556,802)	28,781	(11,528,021)	(21,186,134)	(21,186,134)	9,658,113
Balance beginning of year	19,226,124	199,332	19,425,456	26,179,916	26,179,916	(6,754,460)
Balance end of year	\$ 7,669,322	228,113	7,897,435	4,993,782	4,993,782	2,903,653

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2013

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

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

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

During the year ended June 30, 2013, the expenditures in non-instructional programs functional area exceeded the certified budget.

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

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
			Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)			
2009	July 1, 2008	\$ -	\$ 616,003	\$ 616,003	0.0 %	7,821,374	7.9 %
2010	July 1, 2008	-	616,003	616,003	0.0	8,799,125	7.0
2011	July 1, 2008	-	616,003	616,003	0.0	7,191,123	8.6
2012	July 1, 2011	-	954,112	954,112	0.0	7,888,119	12.1
2013	July 1, 2011	-	920,151	920,151	0.0	8,687,421	10.6

See Note 6 in the accompanying Notes to the Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ASSETS, LIABILITIES AND NET POSITION - CASH BASIS
COMPONENT UNIT
DECEMBER 31, 2012

	Mustang Foundation
ASSETS	
Cash and cash equivalents	\$ 1,910,052
LIABILITIES	-
NET POSITION	
Unrestricted	\$ 1,910,052

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2012

	Mustang Foundation
Revenue:	
Contributions, gifts, grants and similar amounts	\$ 715,831
Investment income	13,756
Fundraising events	12,293
Program service	32,070
Unrealized gain or loss on investments	2,310
Other	20,554
Total revenue	796,814
Expenses:	
Grants and similar amounts paid:	
Grants	47,155
Other:	
Bank fees	200
Accounting	2,495
Advertising	2,161
Office expenses	2,089
Other	38,592
Total expenses	92,692
Change in net position before other financing sources	704,122
Other financing sources:	
Contributed capital	113,724
Excess of revenue over expenses	817,846
Net position beginning of year	1,092,206
Net position end of year	\$ 1,910,052

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Supplementary Information

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2013

	Special Revenue		Total Special Revenue Funds	Debt Service	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity			
ASSETS					
Cash and pooled investments	\$ 741,613	153,474	895,087	647,274	1,542,361
Receivables:					
Property tax:					
Delinquent	5,507	-	5,507	12,902	18,409
Succeeding year	365,805	-	365,805	1,046,125	1,411,930
Accounts	67	5,996	6,063	-	6,063
TOTAL ASSETS	\$ 1,112,992	159,470	1,272,462	1,706,301	2,978,763
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	21,912	21,912	-	21,912
Deferred revenue:					
Succeeding year property tax	365,805	-	365,805	1,046,125	1,411,930
Total liabilities	365,805	21,912	387,717	1,046,125	1,433,842
Fund balances:					
Restricted for:					
Management levy purposes	747,187	-	747,187	-	747,187
Student activities	-	148,719	148,719	-	148,719
Debt service	-	-	-	660,176	660,176
Unassigned	-	(11,161)	(11,161)	-	(11,161)
Total fund balances	747,187	137,558	884,745	660,176	1,544,921
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,112,992	159,470	1,272,462	1,706,301	2,978,763

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2013

	Special Revenue		Total Special Revenue Total	Debt Service	Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity			
REVENUES:					
Local sources:					
Local tax	\$ 450,014	-	450,014	1,044,753	1,494,767
Other	5,880	374,861	380,741	44	380,785
State sources	268	-	268	622	890
TOTAL REVENUES	456,162	374,861	831,023	1,045,419	1,876,442
EXPENDITURES:					
Current:					
Instruction					
Regular	239,013	-	239,013	-	239,013
Other	-	437,510	437,510	-	437,510
Support services:					
Administration	1,544	-	1,544	-	1,544
Operation and maintenance of plant	119,701	-	119,701	-	119,701
Transportation	17,640	-	17,640	-	17,640
Other expenditures:					
Long-term Debt:					
Principal	-	-	-	1,190,000	1,190,000
Interest and fiscal charges	-	-	-	467,583	467,583
TOTAL EXPENDITURES	377,898	437,510	815,408	1,657,583	2,472,991
Excess(Deficiency) of revenues over(under) expenditures	78,264	(62,649)	15,615	(612,164)	(596,549)
OTHER FINANCING SOURCES:					
Transfer in	-	-	-	620,071	620,071
Net change in fund balances	78,264	(62,649)	15,615	7,907	23,522
Fund balances beginning of year	668,923	200,207	869,130	652,269	1,521,399
Fund balances end of year	\$ 747,187	137,558	884,745	660,176	1,544,921

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
CAPITAL PROJECT ACCOUNTS

JUNE 30, 2013

	Capital Projects Funds				Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	New J/S High GO Bond Fund	New J/S High Rev Bond Fund	
ASSETS					
Cash and pooled investments	\$ 2,332,020	125,795	1,226,035	745,026	4,428,876
Receivables:					
Property tax:					
Delinquent	-	3,503	-	-	3,503
Succeeding year	-	294,092	-	-	294,092
Due from other governments	423,065	-	-	183,918	606,983
TOTAL ASSETS	\$ 2,755,085	423,390	1,226,035	928,944	5,333,454
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 30,115	8,265	820,460	142,111	1,000,951
Deferred revenue					
Succeeding year property tax	-	294,092	-	-	294,092
Total liabilities	30,115	302,357	820,460	142,111	1,295,043
Fund balances:					
Restricted for:					
Construction	-	-	405,575	786,833	1,192,408
School infrastructure	2,724,970	-	-	-	2,724,970
Physical plant and equipment	-	121,033	-	-	121,033
	2,724,970	121,033	405,575	786,833	4,038,411
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,755,085	423,390	1,226,035	928,944	5,333,454

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

YEAR ENDED JUNE 30, 2013

	Capital Project Funds				Total
	Statewide Sales, Services and Use Tax	Physical Plant and Equipment Levy	New J/S High GO Bond Fund	New J/S High Rev Bond Fund	
REVENUES:					
Local sources:					
Local tax	\$ 1,164,700	283,699	-	-	1,448,399
Other	901	16,867	8,182	10,115	36,065
State sources	-	169	-	85,326	85,495
Federal sources	-	-	-	639,944	639,944
TOTAL REVENUES	1,165,601	300,735	8,182	735,385	2,209,903
EXPENDITURES:					
Current:					
Instruction					
Regular	537,378	161,424	-	-	698,802
Support services:					
Instructional staff	1,990	47,706	-	-	49,696
Administration	6,540	79	760	9,333	16,712
Operation and maintenance of plant	501	52,099	-	-	52,600
Transportation	-	4,440	-	-	4,440
Capital outlay	212,110	52,643	8,768,040	7,379,899	16,412,692
TOTAL EXPENDITURES	758,519	318,391	8,768,800	7,389,232	17,234,942
Excesss (deficiency) of revenues over (under) expenditures	407,082	(17,656)	(8,760,618)	(6,653,847)	(15,025,039)
OTHER FINANCING (SOURCES) USES:					
Premium on bond issuance	-	-	24,800	-	24,800
General obligation bond proceeds	-	-	2,449,000	-	2,449,000
Capital Loan Issuance	475,000	-	-	-	475,000
Transfers out	(620,071)	-	-	-	(620,071)
Total other financing (sources) uses	(145,071)	-	2,473,800	-	2,328,729
Net change in fund balances	262,011	(17,656)	(6,286,818)	(6,653,847)	(12,696,310)
Fund balances beginning of year	2,462,959	138,689	6,692,393	7,440,680	16,734,721
Fund balances end of year	\$ 2,724,970	121,033	405,575	786,833	4,038,411

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS

YEAR ENDED JUNE 30, 2013

Account	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
INTEREST	\$ 1,700	467	10	-	2,157
HIGH SCHOOL:					
DRAMA	913	980	310	-	1,583
SPEECH	5,445	4,640	2,744	-	7,341
VOCAL MUSIC	7,469	9,477	7,940	-	9,006
CHOIR TRIP	9,176	-	12,591	3,415	-
BAND	11,335	14,845	13,340	-	12,840
FOOTBALL CONCESSIONS	-	17,955	17,955	-	-
BOYS CROSS COUNTRY	814	657	1,244	-	227
BOWLING	-	1,710	1,541	-	169
BOYS BASKETBALL	645	750	155	-	1,240
FOOTBALL	602	17,750	13,437	-	4,915
BOYS SOCCER	3	6,390	4,577	-	1,816
BASEBALL	2,580	4,745	4,306	-	3,019
BOYS TRACK	271	-	131	-	140
BOYS TENNIS	967	-	194	-	773
BOYS GOLF	437	228	494	-	171
WRESTLING	154	3,816	3,851	-	119
GIRLS BASKETBALL	3,592	12,563	15,451	-	704
VOLEYBALL	9,202	7,541	8,990	-	7,753
GIRLS SOCCER	385	6,851	6,765	-	471
SOFTBALL	346	-	344	-	2
GIRLS TRACK	-	828	605	-	223
GIRLS TENNIS	171	1,307	1,365	-	113
GIRLS GOLF	81	636	682	-	35
ACTIVITY	18,076	60,883	58,863	-	20,096
CONCESSIONS	233	21,267	21,500	-	-
MUSICAL	12,247	10,770	8,605	-	14,412
BAND TRIP	83,382	107,072	160,673	(3,415)	26,366
AWARDS	500	-	-	-	500
YEARBOOK	(5,346)	10,595	16,410	-	(11,161)
STUDENT COUNCIL	6,834	7,618	12,094	-	2,358
FRENCH CLUB	161	-	-	-	161
GRADUATING CLASS	100	-	-	-	100
CHEERLEADERS	922	10,571	9,629	-	1,864
MIDDLE SCHOOL:					
BOYS CROSS COUNTRY	311	303	228	-	386
BOYS BASKETBALL	1,011	-	-	-	1,011
FOOTBALL	253	325	557	-	21
BOYS TRACK	-	217	199	-	18
WRESTLING	887	-	-	-	887
GIRLS BASKETBALL	630	-	-	-	630
VOLLEYBALL	879	-	256	-	623
GIRLS TRACK	251	-	220	-	31
FUNDRAISING	6,245	21,906	23,527	-	4,624
LAND TURNERS CLUB	-	3,394	1,264	-	2,130
BCSC	1,811	1,000	651	-	2,160
EAST ELEMENTARY	-	-	-	-	-
WEST ELEMENTARY	14,532	4,804	3,812	-	15,524
TOTALS	\$ 200,207	374,861	437,510	-	137,558

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION

JUNE 30, 2013

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
ASSETS:			
Cash and pooled investments	\$ 215,770	48,863	264,633
LIABILITIES:			
	-	-	-
NET POSITION	\$ 215,770	48,863	264,633

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

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

YEAR ENDED JUNE 30, 2013

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
OPERATING REVENUES:			
Local sources:			
Charges for service	\$ 384,904	119,372	504,276
Total operating revenues	384,904	119,372	504,276
OPERATING EXPENSES:			
Support services:			
Student:			
Benefits	200,864	105,757	306,621
Total operating expenses	200,864	105,757	306,621
OPERATING INCOME	184,040	13,615	197,655
NON-OPERATING REVENUES:			
Interest income	-	43	43
Change in net position	184,040	13,658	197,698
Net position beginning of year	31,730	35,205	66,935
Net position end of year	\$ 215,770	48,863	264,633

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

INTERNAL SERVICE FUND
COMBINING STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2013

	Governmental Activities: Internal Service Funds		
	Partially Self-funded Health Insurance	Flex Benefit	Total
	Cash flows from operating activities:		
Cash received from miscellaneous	\$ 384,904	119,372	504,276
Cash payments to suppliers for goods or services	(200,864)	(105,757)	(306,621)
Net cash provided by operating activities	184,040	13,615	197,655
Cash flows from investing activities:			
Interest on investments	-	43	43
Net increase in cash and cash equivalents	184,040	13,658	197,698
Cash and cash equivalents at beginning of year	31,730	35,205	66,935
Cash and cash equivalents at end of year	\$ 215,770	48,863	264,633
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 184,040	13,615	197,655
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts payable	-	-	-
Net cash provided by operating activities	\$ 184,040	13,615	197,655

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

YEAR ENDED JUNE 30, 2013

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 9,864	4,908	6,753	8,019
Accounts receivable	-	80	-	80
TOTAL ASSETS	\$ 9,864	4,988	6,753	8,099
LIABILITIES				
Accounts payable	\$ 950	177	950	177
Due to other groups	8,914	2,575	3,567	7,922
TOTAL LIABILITES	\$ 9,864	2,752	4,517	8,099

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT

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

FOR THE LAST TEN YEARS

	Modified Accrual Basis									
	Years Ended June 30,									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Revenues:										
Local sources:										
Local tax	\$ 8,565,970	6,834,662	6,291,619	6,315,555	5,699,240	5,508,630	5,260,463	5,011,553	4,665,107	4,467,364
Tuition	904,295	814,874	760,709	807,405	925,280	826,479	739,581	662,747	606,646	640,397
Other	3,348,263	631,715	572,231	673,449	840,882	1,086,553	812,275	634,415	799,629	603,915
State sources	8,414,136	8,548,936	8,135,000	7,255,815	8,060,702	7,801,675	7,439,792	7,073,499	6,761,303	6,382,559
Federal sources	1,151,881	636,419	802,248	1,419,772	518,891	443,153	951,267	656,204	685,363	919,975
Total	\$ 22,384,545	17,466,606	16,561,807	16,471,996	16,044,995	15,666,490	15,203,378	14,038,418	13,518,048	13,014,210
Expenditures:										
Instruction	\$ 12,065,667	11,161,004	10,846,258	10,674,290	11,240,539	10,264,546	9,683,436	8,905,082	9,099,199	8,900,972
Support services:										
Student	542,217	505,937	442,707	449,996	515,751	497,687	414,230	429,335	339,021	357,768
Instructional staff	372,078	244,893	319,871	402,599	484,002	1,062,218	530,699	554,042	408,158	330,864
Administration	1,362,089	1,448,030	1,342,968	1,470,517	1,338,352	1,441,608	1,332,379	1,099,365	1,009,887	1,023,851
Operation and maintenance of plant	1,128,549	1,034,650	1,064,889	1,061,730	1,104,252	1,160,954	1,068,259	1,046,250	987,515	986,309
Transportation	482,288	559,096	510,183	470,334	617,555	439,476	577,204	443,561	396,293	372,190
Non-instructional programs	1,958	1,784	1,724	1,514	1,440	1,558	8,733	1,474	-	4,220
Capital outlay	18,700,774	3,525,532	480,325	361,533	458,891	299,440	1,449,724	425,213	704,941	360,022
Long-term debt:										
Principal	1,190,000	165,000	160,000	169,334	391,363	282,699	235,000	100,000	100,000	95,000
Interest and fiscal charges	467,583	127,302	9,270	14,500	202,724	16,261	40,470	14,836	12,787	15,557
Other expenditures:										
Judgments against LEA	-	-	-	-	173,805	-	-	-	-	-
AEA flow-through	577,426	591,985	652,768	635,787	554,260	524,432	497,369	465,666	443,869	450,291
Total	\$ 36,890,629	19,365,213	15,830,963	15,712,134	17,082,934	15,990,879	15,837,503	13,484,824	13,501,670	12,897,044

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2013

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 13	44,599
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 13	291,139 *
			<u>335,738</u>
TEAM NUTRITION GRANT	10.574	FY 13	<u>482</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I CLUSTER PROGRAMS:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	FY 13	<u>176,986</u>
TITLE I STATE AGENCY PROGRAM FOR NEGLECTED AND DELINQUENT CHILDREN	84.013	FY 13	<u>35,278</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 13	<u>62,609</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 13	<u>8,645</u>
AREA EDUCATION AGENCY 267:			
CAREER AND TECHNICAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 13	<u>4,500</u>
SPECIAL EDUCATION CLUSTER PROGRAMS:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 13	77,398
SPECIAL EDUCATION - GRANTS TO STATES (PART B), (HIGH COST)	84.027	FY 13	7,563
			<u>84,961</u>
DEPARTMENT OF HOMELAND SECURITY:			
IOWA HOMELAND SECURITY AND EMERGENCY MANAGEMENT DIVISON:			
HAZARD MITIGATION GRANT	97.039	FY 13	<u>639,944</u>
TOTAL			<u>\$ 1,349,143</u>

* Includes \$53,306 of non-cash awards

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

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

We have audited 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, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Independence Community School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independence Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independence Community School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Independence Community School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and 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 on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-13 to be a 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 II of the accompanying Schedule of Findings and Questioned Costs as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could

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have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Independence Community School District's Responses to Findings

Independence Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independence Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2014
Newton, Iowa

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 Compliance
for Each Major Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Board of Education of
Independence Community School District

Report on Compliance for Each Major Federal Program

We have audited Independence Community School District's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Independence Community School District's major federal programs for the year ended June 30, 2013. Independence Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Independence Community School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independence Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for each federal program. However, our audit does not provide a legal determination on Independence Community School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Independence Community School District complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of Independence Community School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independence Community School District's internal control over compliance with requirements with the type of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of Independence Community School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items III-A-13 to be a material weakness.

Independence Community School District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independence Community School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal controls over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


NOLTE, CORNMAN & JOHNSON, P.C.

January 13, 2014
Newton, Iowa

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

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

- (a) Unmodified opinions were issued on the financial statements.
- (b) A material weakness and significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered Program:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual Program:
 - CFDA Number 97.039 - Hazard Mitigation Grant
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Community School District did not qualify as a low-risk auditee.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCY:

II-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Transfers - preparing and approving.
- 2) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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 current personnel, including elected officials.

Response - The District's food and nutrition department has divided duties between multiple staff members and have also implemented the printing of receipts for all money taken in.

Conclusion - Response accepted.

II-B-13 Checks Written to Cash - We noted during our audit that the District wrote a check to "Cash" for meals for students from the High School Cheerleaders student activity account.

Recommendation - Checks written to "Cash" are bearer paper and can be cashed by anyone in the event the check would be lost. A better procedure would be to write the check to the custodian of the check and the bank.

Response - The District will write all future checks written to the Independence Community School District employee who is the custodian of the check.

Conclusion - Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2013

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2013
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 97.093: Hazard Mitigation Grant
Federal Award Year 2013
U.S. Department of Homeland Security
Passed through the Iowa Homeland and Security and Emergency Management Division

III-A-13 Segregation of Duties - One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual has control over each of the following areas for the District:

- 1) Transfers - preparing and approving.
- 2) School lunch program - collecting, recording, journalizing, posting, reconciling, purchase order processing, check preparation, mailing and recording.

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 current personnel, including elected officials.

Response -The District's food and nutrition department has divided duties between multiple staff members and have also implemented the printing of receipts for all money taken in.

Conclusion - Response accepted.

INDEPENDENCE COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget - District disbursements for the year ended June 30, 2013 exceeded the certified budgeted amount in the non-instructional programs functional area.

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

Response - The District will budget for potential large purchases prior to setting the budget, and will amend as necessary in the future.

Conclusion - Response accepted.

IV-B-13 Questionable Disbursements - No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

IV-C-13 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-13 Business Transactions - Business transactions between the District and District officials are noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Jami Tekippe, Secretary Spouse owns Hardware Hank	Supplies	\$2,723
Vern Lohman, Bus Driver Son and daughter-in-law own Vern's True Value	Supplies	\$10,744
Rusty Donnelly, Board Member Co-owner of Smith D& L Insurance	Services	\$223,541
Brian Eddy, Board President Co-owner of Fusion Forward	Services	\$12,532

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

In accordance with the Chapter 279.7A of the Code of Iowa, the above transaction with board members Brian Eddy and Rusty Donnelly do appear to represent a conflict of interest, as the District went over \$2,500 as limited by Chapter 279.7A of the Code of Iowa and the District did not receive bids for the work performed by Fusion Forward, or Smith D&L Insurance.

Recommendation - Chapter 279.7A of the Code of Iowa states that a board member cannot have a direct or indirect interest in the contract of goods of the school district where the board member would derive a benefit of over \$2,500.

In the future, the board of directors should require competitive bids from area businesses. The competitive bids should be presented and acted upon by the District's entire board of directors. Board members that have an affiliation with businesses should recuse himself/herself from voting on the approval of the bid. The approval of the bid with any recusals of board members should be noted in the district board minutes to avoid the appearance of a conflict of interest. We recommend the District contact its legal counsel regarding these issues.

Response - The District has consulted with our legal counsel regarding this matter, they believe there is no conflict of interest. Both Directors do abstain from any and all votes pertaining to their businesses.

Conclusion - Response acknowledged. The Code of Iowa Chapter 279.7A indicates that a board member cannot derive a benefit of over \$2,500. The legal opinion obtained from the District's attorney indicates "We believe that Iowa Code Section 279.7A prohibits school board members from receiving a net benefit from a school district contract which exceeds \$2,500 in a fiscal year. However, our research on this point reveals that there is some authority indicating that the scenario you described above may present an unlawful conflict of interest and/or that the gross proceeds of any transactions is the proper measure of the benefit provided by the statute." However, the opinion continues indicating they believe there is not a conflict of interest. We question the attorney position as they also indicate that there is authority to indicate these transactions may represent an unlawful conflict of interest. It seems questionable that fees paid in the amount identified do not provide a benefit in excess of the \$2,500 limit per Iowa Code Section 279.7A. We are unable to determine if the attorney had additional information as to billing and profit margins with regard to these transactions. Without additional information on profit margins we are unable to determine the board member's direct benefit.

The District should competitively bid the services in question, cease doing business with the board members, and/ or request an Attorney General opinion with regard to the above transactions with the board members.

- IV-E-13 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-13 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-13 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Iowa Department of Education.
- IV-H-13 Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
- IV-I-13 Deposits and Investments - 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 were noted.
- IV-J-13 Certified Annual Report - The Certified Annual Report was filed with the Iowa Department of Education timely, however, we noted significant deficiencies in the amounts reported. The District's Certified Annual Report did not include amounts recorded in the Special Revenue: Support Trust, or the Internal Service: Partially Funded Health Insurance Funds.

Recommendation - The District should ensure that the funds and amounts certified on the Certified Annual Report to the Department of Education are a complete and accurate listing of all funds included in the District's financial statements.

Response - The District will ensure that all funds are accounted for in the future and will work with the District's auditors to make the required adjustments.

Conclusion - Response accepted.

IV-K-13 Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.

IV-L-13 Financial Condition - The District had various deficit accounts in the Special Revenue, Student Activity Fund totaling \$11,161 at June 30, 2013.

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

Response - The District will work with the Yearbook sponsor to come up with a budget plan that will allow us to begin eliminating the negative balance.

Conclusion - Response accepted.

IV-M-13 Statewide Sales, Services and Use Tax - No instances of non-compliance with the use of the statewide sales and services tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2013, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

Beginning Balance		\$ 2,462,959
Revenues:		
Sales tax revenues	1,164,700	
Other local revenues	901	
Sale of long-term debt	475,000	
		<u>1,640,601</u>
		4,103,560
Expenditures:		
School infrastructure construction	\$ 212,110	
Equipment	537,378	
Other	9,031	
Transfers to other funds:		
Debt service fund	620,071	
		<u>1,378,590</u>
Ending balance		<u><u>\$ 2,724,970</u></u>

For the year ended June 30, 2013 the District did not reduce any levies as a result of the monies received under Chapter 423E or 423F of the Code of Iowa.