

DELWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

DELWOOD COMMUNITY SCHOOL DISTRICT

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DELWOOD COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2006 Election)		
Ron Filloon	Board President	2007
Jody Holtz	Board Member	2006
Steve Kinrade	Board Member	2007
Ronda Denger	Board Member	2008
Carmen Gerlach	Board Member	2008
(After September 2006 Election)		
Ron Filloon	Board President	2007
Steve Kinrade	Board Member	2007
Ronda Denger	Board Member	2008
Carmen Gerlach	Board Member	2008
Jody Holtz	Board Member	2009
<b>School Officials</b>		
Sue Goodall	Superintendent	2007
Jane Goodenow	Board Secretary/Treasurer	2007
Ahlers Law Firm	Attorney	2007

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Delwood Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Delwood Community School District, Delmar, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Delwood Community School District as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated March 17, 2008 on my consideration of Delwood Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 15 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delwood Community School District's basic financial statements. Other supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 3, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
March 17, 2008

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

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Delwood 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, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues decreased from \$2,106,672 in fiscal 2006 to \$2,084,603 in fiscal 2007, and General Fund expenditures increased from \$2,097,100 in fiscal 2006 to \$2,179,270 in fiscal 2007. The District's General Fund balance decreased from \$793,198 in fiscal 2006 to \$697,072 in fiscal 2007, a 12% decrease.
- The decrease in General Fund revenues is an insignificant \$22,069, but can be attributed to a prior year enrollment drop affecting revenues for state aid and local property tax as well as categorical funds. We also discontinued a sharing agreement with another school district for a .3 superintendent. Off-setting some of the revenue decrease mentioned above was the addition of a full time certified preschool/day care increasing revenues by at least \$32,000 for the 2006/07 year as well as future revenues for students who were counted on the fall enrollment due to age eligibility increasing our student count. Also interest rates were up for invested money. The increase in General fund expenditures of \$82,170 was due to 4.5% package increases for wages and benefits, Teacher Quality mandated increases above the negotiated wages, the addition of the preschool/daycare program, enrollment increase of sixteen students for 2006/07, state cost increases for open enrollment students and a new whole-grade sharing agreement for our 7<sup>th</sup>-12 grade students with our partner district raising our per student contribution from 85% to 92% of the State Regular District Cost. We decreased the administrative expenses by \$46,000 by combining the Superintendent and Principal position with the resignation of our prior superintendent who we were sharing .3 with Bennett CSD but the costs for both districts were reflected in our expenditures. The fund balance was affected by \$94,667 because revenues were less than expenditures, a choice made by board decision to reduce the levy for fiscal 2007 using some of the carryover fund balance which they felt was sufficient to carry the district.

### **USING THIS ANNUAL REPORT**

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

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

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

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.

Other Supplementary Information provides detailed information about the non-major Governmental Funds.

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

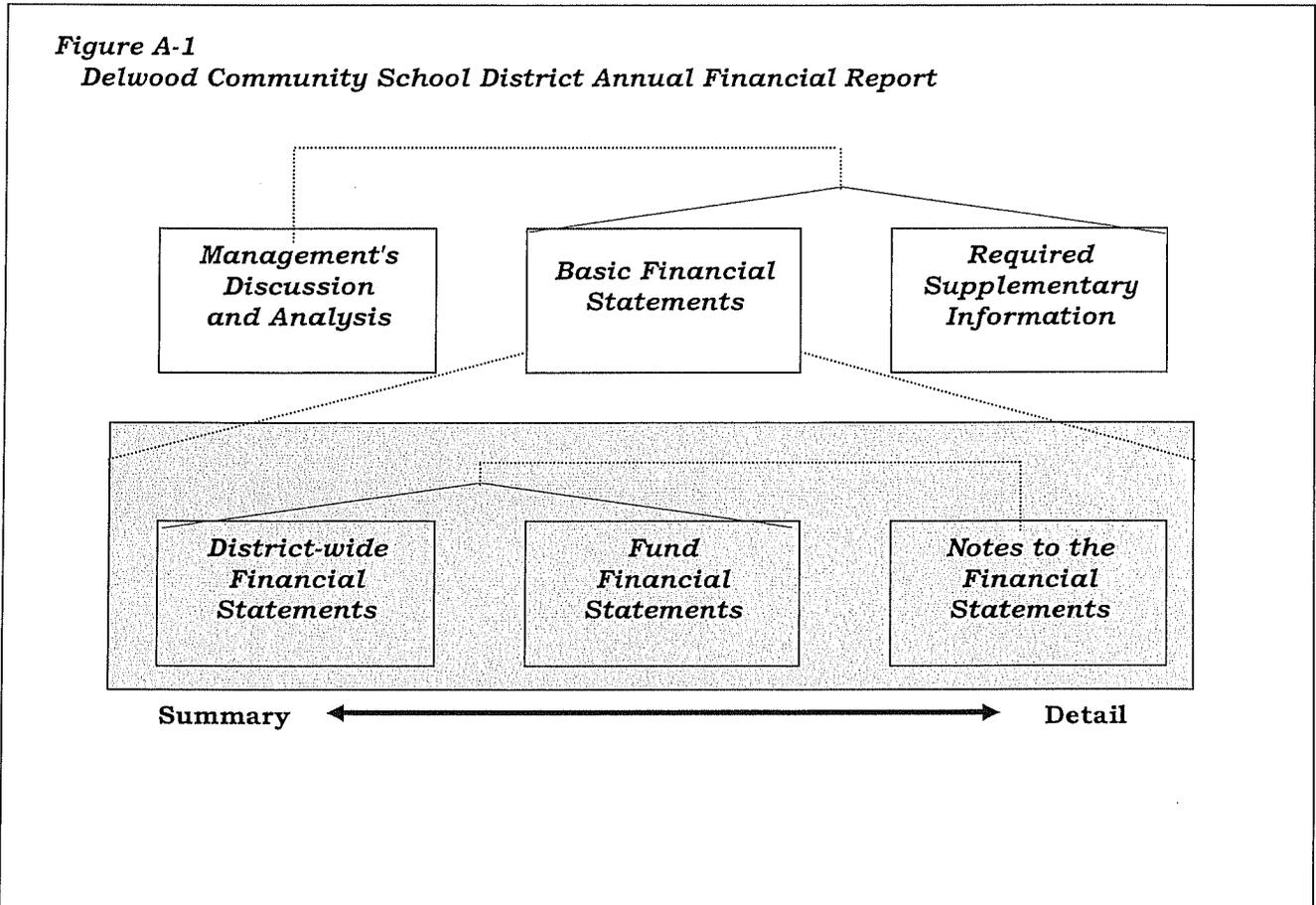


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

### *Government-wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

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

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

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

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$2,383,934	\$ 2,356,532	\$ 706	\$ 1,007	\$ 2,384,640	\$ 2,357,539	1.15%
Capital assets	<u>1,070,945</u>	<u>1,010,981</u>	<u>11,679</u>	<u>13,499</u>	<u>1,082,624</u>	<u>1,024,480</u>	5.68%
Total assets	<u>3,454,879</u>	<u>3,367,513</u>	<u>12,385</u>	<u>14,506</u>	<u>3,467,264</u>	<u>3,382,019</u>	2.52%
Long-term obligations	270,000	330,000	-	-	270,000	330,000	-18.18%
Other liabilities	<u>821,635</u>	<u>847,728</u>	-	-	<u>821,635</u>	<u>847,728</u>	-3.08%
Total liabilities	<u>1,091,635</u>	<u>1,177,728</u>	-	-	<u>1,091,635</u>	<u>1,177,728</u>	-7.31%
Net assets							
Invested in capital assets, net of related debt	800,945	680,981	11,679	13,499	812,624	694,480	17.01%
Restricted	804,659	716,827	-	-	804,659	716,827	12.25%
Unrestricted	<u>757,640</u>	<u>791,977</u>	<u>706</u>	<u>1,007</u>	<u>758,346</u>	<u>792,984</u>	-4.37%
Total net assets	<u>\$2,363,244</u>	<u>\$ 2,189,785</u>	<u>\$ 12,385</u>	<u>\$ 14,506</u>	<u>\$ 2,375,629</u>	<u>\$ 2,204,291</u>	7.77%

The District's combined net assets increased by approximately 8%, or \$171,338, over the prior year. At the current time the largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, 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 assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$87,832, or approximately 12% from the prior year. The increase in restricted net assets was primarily a result of funds received from our Local Option Sales and Service tax retained for two reasons: first to pay principal and interest payments on a revenue bond for a building project and second \$136,826 was held as part of a 28E sharing agreement with the Maquoketa Community School District for LOSST dollars to follow the students. (The committee decided to hold spending the money until 2007/2008 where it would be used towards the second stage of Maquoketa's high school building project). Management Fund dollars were also increased to meet the July 2007 insurance payments. The Physical Plant and Equipment Fund was decreased due to building improvement projects such as major roofing project, new window installations, fire code requirements, boiler repairs and restroom and hall tile installation.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$34,638, or approximately 4%. It was the board's decision to reduce the carryover fund balance in General Fund by reducing the levy rate for fiscal year 2007. The revenues were less than expenditures as planned, therefore reducing the unrestricted assets. More explanation can be found under 2007 Financial Highlights for the General Fund in this Management Discussion and Analysis.

Figure A-4 shows the change in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues							
Charges for service and sales	\$ 136,694	\$ 159,346	\$ 26,581	\$ 26,609	\$ 163,275	\$ 185,955	-12.20%
Operating grants	233,969	237,374	26,570	21,543	260,539	258,917	0.63%
General revenues							
Property tax	871,874	699,020	-	-	871,874	699,020	24.73%
Sales and services tax	175,089	155,152	-	-	175,089	155,152	12.85%
Unrestricted state grants	963,893	1,096,017	-	-	963,893	1,096,017	-12.05%
Unrestricted investment earnings	80,921	63,785	208	185	81,129	63,970	26.82%
Contributions and donations	430	96	-	-	430	96	347.92%
Other	<u>4,776</u>	<u>4,787</u>	<u>-</u>	<u>-</u>	<u>4,776</u>	<u>4,787</u>	-0.23%
Total revenues	<u>2,467,646</u>	<u>2,415,577</u>	<u>53,359</u>	<u>48,337</u>	<u>2,521,005</u>	<u>2,463,914</u>	2.32%
Program expenses							
Governmental activities							
Instruction	1,582,036	1,409,490	-	-	1,582,036	1,409,490	12.24%
Support services	560,913	657,284	-	-	560,913	657,284	-14.66%
Non-instructional programs	29,535	25,236	57,163	54,292	86,698	79,528	9.02%
Other expenses	<u>120,020</u>	<u>135,981</u>	<u>-</u>	<u>-</u>	<u>120,020</u>	<u>135,981</u>	-11.74%
Total expenses	<u>2,292,504</u>	<u>2,227,991</u>	<u>57,163</u>	<u>54,292</u>	<u>2,349,667</u>	<u>2,282,283</u>	2.95%
Excess before transfers	175,142	187,586	(3,804)	(5,955)	171,338	181,631	-5.67%
Transfers	<u>(1,683)</u>	<u>(8,181)</u>	<u>1,683</u>	<u>8,181</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	<u>\$ 173,459</u>	<u>\$ 179,405</u>	<u>\$ (2,121)</u>	<u>\$ 2,226</u>	<u>\$ 171,338</u>	<u>\$ 181,631</u>	-5.67%

In fiscal 2007, property tax and unrestricted state grants account for 74% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$2,521,005 of which \$2,467,646 was for governmental activities and \$53,359 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2% increase in revenues and a 3% increase in expenses. Property tax increased \$172,854 in 2007 from 2006. Property tax increases were due to property valuation increases. State grants and operating grants, which are based on enrollment, decreased because of the enrollment drop. Charges for services decreased because we are no longer receiving funds for sharing of the superintendent. Program expenditures for instruction increased due to the wage increases, addition of the preschool/daycare program, state cost increases for open enrollment and the whole-grade sharing agreement with Maquoketa CSD increased from 85% to 92% of State Regular District Cost. Decreases to support services expenditures were due to the realignment of administration, combining the superintendent and principal position and also recoding of services now located in non-instruction. In this area transportation costs increased due to requirements for special education. The non-

instruction area was increased due to recoding services from the support services area. Other expenses decreased because there were no funds sent to Maquoketa to follow the student from LOSST revenues. These funds are to be designated to a Maquoketa CSD Phase II building project which will be used in future years according to the agreement and as the expenses occur. There were insignificant changes to the Business Type Activities

### Governmental Activities

Revenues for governmental activities were \$2,467,646 and expenses were \$2,292,504. Because of the healthy financial status of the General Fund it was board decision to use some of the carry over balance to reduce the levy. It was also board decision, with our Physical Plant and Equipment Fund financial condition, to approve a roof project, new window installation, and tile for the hall and restrooms.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 1,582,036	\$ 1,409,490	12.2%	\$ 1,294,196	\$ 1,165,577	11.0%
Support services	560,913	657,284	-14.7%	558,520	597,260	-6.5%
Non-instructional programs	29,535	25,236	17.0%	29,535	14,486	103.9%
Other expenses	<u>120,020</u>	<u>135,981</u>	<u>-11.7%</u>	<u>39,590</u>	<u>53,948</u>	<u>-26.6%</u>
Total expenses	<u>\$ 2,292,504</u>	<u>\$ 2,227,991</u>	<u>2.9%</u>	<u>\$ 1,921,841</u>	<u>\$ 1,831,271</u>	<u>4.9%</u>

- The cost financed by users of the District's programs was \$136,694.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$233,969.
- The net cost of governmental activities was financed with \$1,046,963 in property and other taxes and \$963,893 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$53,359 representing a 10% increase over the prior year while expenses were \$57,163, a 5% increase from the prior year. 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.

For the year ending June 30, 2007 the District increased meal prices ten cents per meal, but the enrollment was down so revenues from charges did not increase. The revenues from federal and state operating grants increased because there were more free and reduced students. Expenses increased slightly due to wage increases and food and supply costs.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Delwood 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 a combined fund balance of \$1,502,696, a slight decrease from last year's ending fund balances of \$1,510,025.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$793,198 to \$697,072. The District board felt the General fund financial position was stable enough to reduce the levy rate by using carry over fund balance. In 2005-06, the General fund balance decreased slightly from \$793,261 to \$793,198. The board decision was to continue to decrease the carry over balance.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$433,510 in fiscal 2006 to \$395,285 in fiscal 2007. The balance decreased because the board budgeted for major roof replacement, window replacement, tiling restrooms and hallway, boiler repairs and meeting fire code requirements.
- The Capital Projects Fund balance increased from \$239,259 in 2006 to \$354,218 in 2007. The increase was due to a 28E agreement with the Maquoketa Community School District. Approximately \$136,826 was held for projects that will not be completed until the 2007/2008 school year. The 28E agreement with the Maquoketa Community School District allows Local Option Sales and Service dollars to follow the student with our whole-grade sharing agreement,

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$14,506 at June 30, 2006 to \$12,385 at June 30, 2007, representing a decrease of approximately 14%. For fiscal year 2007 the decrease in net assets was due to the depreciation of equipment.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Delwood Community School District amended its annual budget once to reallocate budgeted expenditures between functions. Non-instruction programs were amended because of recoding the Family Resource Services from the Support Services budget area. However, this amendment did not increase budgeted expenditures in total.

The District's revenues were \$10,193 more than budgeted revenues, a variance of less than 1%. Although not a substantial difference, the increase was due to the unknown variable of categorical funding, interest rates and other miscellaneous income.

Total expenditures were \$625,384 less than budgeted, due mostly to the District's budget for the General Fund. It is the District's practice to budget expenditures to provide enough authority to cover unexpected costs that could occur during the year. 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. At the time of budgeting, it is unknown in which fiscal year the invoicing of the summer building improvements are going to happen, budget

authority is often put in the two different years for the same project. At the time of budget approval for Support Services in April 2006, the board was unaware of the realignment of the superintendent and principal positions therefore it was budgeted in comparison to prior year expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2007, the District had invested \$1,082,624, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. This represents a net increase of 6% from last year. More detailed information about the District’s capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$65,960.

The original cost of the District’s capital assets was \$2,162,357. Governmental funds account for \$2,139,463, with the remainder of \$22,894 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which totaled \$77,414 at June 30, 2007 compared to \$114,440 at June 30, 2006. In the summer of 2006 nine computers which had been fully depreciated and were of no use to the district were disposed of to a recycling center. The total original value of those computers was \$21,774. The balance of the difference was the depreciation factor.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 600	\$ 600	\$ -	\$ -	\$ 600	\$ 600	0.00%
Buildings and improvements	980,993	885,919	-	-	980,993	885,919	10.73%
Improvements, other than buildings	23,617	23,521	-	-	23,617	23,521	0.41%
Furniture and equipment	65,735	100,941	11,679	13,499	77,414	114,440	-32.35%
Totals	<u>\$1,070,945</u>	<u>\$1,010,981</u>	<u>\$11,679</u>	<u>\$13,499</u>	<u>\$1,082,624</u>	<u>\$1,024,480</u>	5.68%

**Long-Term Debt**

At June 30, 2007, the District had \$270,000 in revenue bonds outstanding. This represents a decrease of approximately 18% from last year. Additional information about the District’s long-term debt is presented in Note 5 to the financial statements.

Figure A-7  
Outstanding Long-term Obligations

	Total School District	Total Change	2007	2006	2006-2007
Revenue bonds	\$ 270,000	\$330,000			-18.18%

**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 District's enrollment increased from 244 in the fall of 2005 to 260.1 in the fall of 2006. Both the state formula funding and categorical funding are based on student enrollment. The increase in enrollment will have a positive affect for the 2007/2008 school year. However, in the fall of 2007 enrollment again dropped to 236.7 which will have a negative affect for the 2008/2009 budget.
- Clinton and Jackson county property tax valuation for the 2007/2008 budget year decreased slightly from \$65,159,887 for 2006/2007 to \$65,077,964 for 2007/2008. For the 2008/2009 budget year the property tax decreased to \$61,373,799 a 6% decrease. (This decrease is due to a 10% statewide rollback of land and buildings and a local drought year of cropping data.)
- Iowa's legislature again increased allowable growth at 4% for FY07 and for FY08. The legislators have also continued to support Teacher Quality programs for increased wages and staff development.
- The District is continuing to support a quality after-school program with dollars coming from parent fees, grants and some district funding. We feel it offers a safe environment with additional educational opportunities. The District has also continued to offer a before school program funded totally by parent fees.
- In the spring of 2006, the board decided to add a preschool classroom with a licensed teacher in the morning and organized daycare in the afternoon. The classroom is multi-aged mixing 3,4 and 5 year olds working and playing together to prepare students for the transition into kindergarten. In 2006/2007 the program was fully funded with student fees, empowerment grants, gaming grant, donations and age eligible students on certified count. For 2007/2008 Delwood was fortunate enough to receive the state preschool grant for all four year olds in the program and will in the future receive enrollment of 60% of state cost per pupil as state aid for all four year olds. The District views this as another step of offering educational opportunities for children, while remaining economically steady.
- With the resignation of the superintendent shared with Bennett Community School District, the District decision was to share principal and superintendent positions and reduce administrative expenditures allowing more funding for educational opportunities for kids.

- Insurance costs have continued to increase for property, casualty and vehicles. The rates for our employee health insurance decreased 28.37% for the 2007/2008 employees.
- In March 2006 the Delwood Community School District and the Delwood Education Association settled a two year contract at 4.5 total package increase for the first year (2006/2007) and for the second year (2007/2008).
- The District has remained financially stable and has projected to remain independent for years to come. While the Delwood District has one of the lowest levy rates of the state, Delwood has the ability to levy more because of its \$3,000,000 carry over "spending authority".
- The District continues to offer a strong education as evidenced by student achievement data.
- The District has a very experienced teaching staff that supports student learning and a very supportive non-certified staff.
- The District maintains reliable transportation vehicles, modern equipment and technology, modern media center and retains their building in quality condition.

#### **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 Jane L. Goodenow, District Secretary/Treasurer and Business Manager or Superintendent Sue Goodall, Delwood Community School District, 311 Delmar Avenue, P.O. Box 292, Delmar, Iowa 52037 (Phone 563-674-4164).

## Basic Financial Statements

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2007

Exhibit A

<b>Assets</b>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
Cash with fiscal agent	\$ 54,780	\$ -	\$ 54,780
Other	1,474,767	94	1,474,861
Receivables			
Property tax			
Delinquent	10,414	-	10,414
Succeeding year	727,325	-	727,325
Accounts receivable	430	-	430
Income surtax	60,568	-	60,568
Prepaid expenses	4,828	-	4,828
Due from other governments	50,822	-	50,822
Inventories	-	612	612
Non-depreciable capital assets	600	-	600
Capital assets, net of accumulated depreciation	<u>1,070,345</u>	<u>11,679</u>	<u>1,082,024</u>
<b>Total assets</b>	<u>3,454,879</u>	<u>12,385</u>	<u>3,467,264</u>
<b>Liabilities</b>			
Accounts payable	511	-	511
Salaries and benefits payable	92,834	-	92,834
Accrued interest payable	965	-	965
Deferred revenue			
Succeeding year property tax	727,325	-	727,325
Long-term liabilities			
Portion due within one year			
Revenue bonds payable	65,000	-	65,000
Portion due after one year			
Revenue bonds payable	<u>205,000</u>	<u>-</u>	<u>205,000</u>
<b>Total liabilities</b>	<u>1,091,635</u>	<u>-</u>	<u>1,091,635</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	800,945	11,679	812,624
Restricted for			
Management levy	45,358	-	45,358
Physical plant and equipment levy	395,285	-	395,285
Debt service	49,035	-	49,035
Other special revenue purposes	10,763	-	10,763
Capital projects	304,218	-	304,218
Unrestricted	<u>757,640</u>	<u>706</u>	<u>758,346</u>
<b>Total net assets</b>	<u>\$2,363,244</u>	<u>\$ 12,385</u>	<u>\$2,375,629</u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs Primary Government Governmental activities	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government
Instruction					
Regular instruction	\$ 1,051,523	\$ 123,955	\$ 97,575	\$ -	\$ (829,993)
Special instruction	452,931	-	52,852	-	(400,079)
Other instruction	77,582	12,584	874	-	(64,124)
	1,582,036	136,539	151,301	-	(1,294,196)
Support services					
Student	21,661	-	1,198	-	(20,463)
Instructional staff	43,224	-	-	-	(43,224)
Administration	191,549	-	-	-	(191,549)
Operation and maintenance of plant	137,387	155	-	-	(137,232)
Transportation	167,092	-	1,040	-	(166,052)
	560,913	155	2,238	-	(558,520)
	29,535	-	-	-	(29,535)
Non-instructional programs Other expenditures					
Facilities acquisition	265	-	-	-	(265)
Long-term debt interest	15,554	-	-	-	(15,554)
AEA flowthrough	80,430	-	80,430	-	-
Depreciation (unallocated) *	23,771	-	-	-	(23,771)
	120,020	-	80,430	-	(39,590)
	2,292,504	136,694	233,969	-	(1,921,841)
Total governmental activities					

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2007

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	Total
<b><u>Functions/Programs (continued)</u></b>					
<b>Primary Government (continued)</b>					
Business type activities					
Non-instructional programs					
Food service operations	\$ 57,163	\$ 26,570	\$ -	\$ (4,012)	\$ (4,012)
Total primary government	\$ 2,349,667	\$ 260,539	\$ -	(4,012)	(1,925,853)
<b><u>General Revenues</u></b>					
Property tax levied for					
General purposes					806,963
Capital outlay					64,911
Local option sales and services tax					175,089
Unrestricted state grants					963,893
Contributions and donations					430
Unrestricted investment earnings					80,921
Other					4,776
Transfers					(1,683)
Total general revenues and transfers	2,095,300			1,683	2,097,191
Change in net assets	173,459			(2,121)	171,338
Net assets, beginning of year	2,189,785			14,506	2,204,291
Net assets, end of year	\$ 2,363,244			\$ 12,385	\$ 2,375,629

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

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds  
June 30, 2007

	<u>General</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
<b>Assets</b>					
Cash and pooled investments					
Cash with fiscal agent	\$ -	\$ -	\$ 54,780	\$ -	\$ 54,780
Other	741,951	394,369	282,898	55,549	1,474,767
Receivables					
Property tax					
Delinquent	8,926	916	-	572	10,414
Succeeding year	607,247	65,078	-	55,000	727,325
Accounts receivable	430	-	-	-	430
Income surtax	60,568	-	-	-	60,568
Prepaid expenditures	4,828	-	-	-	4,828
Due from other governments	34,282	-	16,540	-	50,822
Total assets	<u>\$1,458,232</u>	<u>\$460,363</u>	<u>\$354,218</u>	<u>\$111,121</u>	<u>\$2,383,934</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 511	\$ -	\$ -	\$ -	\$ 511
Salaries and benefits payable	92,834	-	-	-	92,834
Deferred revenue					
Succeeding year property tax	607,247	65,078	-	55,000	727,325
Income surtax	60,568	-	-	-	60,568
Total liabilities	<u>761,160</u>	<u>65,078</u>	<u>-</u>	<u>55,000</u>	<u>881,238</u>
<b>Fund balances</b>					
Reserved for					
Prepaid expenses	4,828	-	-	-	4,828
Talented and gifted	20,231	-	-	-	20,231
Revenue bonds	-	-	50,000	-	50,000
Unreserved					
Designated for special purposes	-	-	136,826	-	136,826
Undesignated governmental funds	672,013	-	167,392	-	839,405
Undesignated special revenue funds	-	395,285	-	56,121	451,406
Total fund balances	<u>697,072</u>	<u>395,285</u>	<u>354,218</u>	<u>56,121</u>	<u>1,502,696</u>
Total liabilities and fund balances	<u>\$1,458,232</u>	<u>\$460,363</u>	<u>\$354,218</u>	<u>\$111,121</u>	<u>\$2,383,934</u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2007

Exhibit D

<b>Total fund balances of governmental funds</b>	<b>\$1,502,696</b>
<b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,070,945
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	60,568
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.	(965)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(270,000)</u>
<b>Net assets of governmental activities</b>	<b><u>\$2,363,244</u></b>

**DELOWOOD COMMUNITY SCHOOL DISTRICT**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2007**

Exhibit E

	<u>General</u>	Physical Plant and Equipment Levy	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 698,645	\$ 64,869	\$ 175,089	\$ 39,831	\$ 978,434
Tuition	109,445	-	-	-	109,445
Other	74,197	20,095	15,680	6,619	116,591
State sources	1,140,118	42	-	26	1,140,186
Federal sources	62,198	-	-	-	62,198
Total revenues	<u>2,084,603</u>	<u>85,006</u>	<u>190,769</u>	<u>46,476</u>	<u>2,406,854</u>
Expenditures					
Current					
Instruction					
Regular	1,041,782	4,552	-	1,827	1,048,161
Special	448,685	-	-	-	448,685
Other	76,685	-	-	897	77,582
	<u>1,567,152</u>	<u>4,552</u>	<u>-</u>	<u>2,724</u>	<u>1,574,428</u>
Support services					
Student	17,766	-	-	-	17,766
Instructional staff	35,610	-	-	7,266	42,876
Administration	186,908	-	-	314	187,222
Operation and maintenance of plant	119,688	-	-	16,254	135,942
Transportation	143,274	-	-	6,762	150,036
	<u>503,246</u>	<u>-</u>	<u>-</u>	<u>30,596</u>	<u>533,842</u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds

Exhibit E

For the Year Ended June 30, 2007

	Physical Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
Expenditures (continued)				
Current				
Non-instructional programs	\$ 28,442	\$ -	\$ 1,093	\$ 29,535
Other expenditures				
Facilities acquisition	-	118,679	-	118,679
Long-term debt				
Principal	-	-	60,000	60,000
Interest and fiscal charges	-	-	15,810	15,810
AEA flowthrough	80,430	-	-	80,430
Total expenditures	<u>80,430</u>	<u>118,679</u>	<u>75,810</u>	<u>274,919</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,179,270</u>	<u>123,231</u>	<u>110,223</u>	<u>2,412,724</u>
	<u>(94,667)</u>	<u>(38,225)</u>	<u>(63,747)</u>	<u>(5,870)</u>
Other financing sources (uses)				
Sale of equipment and materials	224	-	-	224
Interfund operating transfers in	668	-	75,810	76,478
Interfund operating transfers (out)	<u>(2,351)</u>	<u>(75,810)</u>	-	<u>(78,161)</u>
Total other financing sources (uses)	<u>(1,459)</u>	<u>(75,810)</u>	<u>75,810</u>	<u>(1,459)</u>
Net change in fund balances	<u>(96,126)</u>	<u>(38,225)</u>	<u>12,063</u>	<u>(7,329)</u>
Fund balance, beginning of year	793,198	433,510	44,058	1,510,025
Fund balance, end of year	<u>\$ 697,072</u>	<u>\$ 395,285</u>	<u>\$ 56,121</u>	<u>\$ 1,502,696</u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit F

**Net change in fund balances - total governmental funds** **\$ (7,329)**

**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 outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$124,104	
Depreciation expense	<u>(64,140)</u>	59,964

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 60,568

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 60,000

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. 256

**Change in net assets of governmental activities** **\$173,459**

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2007

Exhibit G

	<u>Nonmajor Enterprise School Nutrition</u>
<b>Assets</b>	
Cash and pooled investments	\$ 94
Inventories	612
Capital assets, net of accumulated depreciation	<u>11,679</u>
Total assets	<u>12,385</u>
 <b>Liabilities</b>	
	<u>-</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	11,679
Unrestricted	<u>706</u>
Total net assets	<u><u>\$ 12,385</u></u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds  
For the Year Ended June 30, 2007

Exhibit H

	<u>Nonmajor Enterprise School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 26,581</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	23,782
Benefits	3,107
Purchased services	3,756
Supplies	24,698
Depreciation	<u>1,820</u>
Total operating expenses	<u>57,163</u>
Operating (loss)	<u>(30,582)</u>
Non-operating revenues	
Interest income	208
State sources	702
Federal sources	<u>25,868</u>
Total non-operating revenues	<u>26,778</u>
Net loss before transfers	(3,804)
Transfers in	2,351
Transfers out	<u>(668)</u>
Net loss	(2,121)
Net assets, beginning of year	<u>14,506</u>
Net assets, end of year	<u>\$ 12,385</u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2007

Exhibit I

	<u>Nonmajor Enterprise School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 26,581
Cash payments to employees for services	(26,889)
Cash payments to suppliers for goods and services	<u>(25,235)</u>
Net cash (used in) operating activities	<u>(25,543)</u>
Cash flows from non-capital financing activities	
Operating transfers from other fund	2,351
Operating transfer to other fund	(668)
State grants received	702
Federal grants received	<u>22,532</u>
Net cash provided by non-capital financing activities	<u>24,917</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>208</u>
Net (decrease) in cash and cash equivalents	(418)
Cash and cash equivalents, beginning of year	<u>512</u>
Cash and cash equivalents, end of year	<u><u>\$ 94</u></u>

**Reconciliation of operating (loss) to net cash  
(used in) operating activities**

Operating (loss)	\$ (30,582)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities	
Depreciation	1,820
Commodities used	3,336
(Increase) in inventory	<u>(117)</u>
Net cash (used in) operating activities	<u><u>\$ (25,543)</u></u>

**Non-cash investing, capital and financing activities**

During the year ended June 30, 2007, the District received \$3,336 of federal commodities.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
June 30, 2007

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
<b>Assets</b>	
Cash and pooled investments	\$ 135,461
<b>Liabilities</b>	<u>          -</u>
<b>Net assets</b>	
Reserved for scholarships	<u><u>\$ 135,461</u></u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Year Ended June 30, 2007

Exhibit K

	Private Purpose Trust <hr/> Scholarships
Additions	
Local sources	
Interest	\$ 6,707
Deductions	
Instruction, regular	
Scholarships	<u>5,377</u>
Change in net assets	1,330
Net assets, beginning of year	<u>134,131</u>
Net assets, end of year	<u><u>\$135,461</u></u>

See notes to financial statements.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2007

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

The Delwood 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 before and after school programs for the community. The geographic area served includes the Cities of Delmar and Elwood, Iowa, and the agricultural territory in Clinton and Jackson 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 Governmental Accounting Standards Board.

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

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 revenues 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 expenditures, 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.

The Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

The District reports no major proprietary funds. However, it reports one non-major proprietary fund, the School Nutrition Fund, which is used to account for the food service operations of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund consists of the following:

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

### C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments 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 the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2006.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,000
Buildings	\$2,000
Improvements other than buildings	\$2,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,000

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 revenue consists of property tax and income surtax receivables not collected within sixty days after year end.

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

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

Fund Balance - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use 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 government-wide statement of net assets reports \$45,358 of restricted net assets which is restricted by enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

#### **Note 2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 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, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	<u>\$151,407</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

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

**Note 3. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Fund	Transfers In	Transfers Out
General Fund	\$ 668	\$ 2,351
Capital Projects Fund	-	75,810
Non-major governmental funds	75,810	-
Non-major enterprise funds	<u>2,351</u>	<u>668</u>
Total	<u>\$ 78,829</u>	<u>\$ 78,829</u>

The transfers from the enterprise fund, School Nutrition to the General Fund were reimbursements for the snack program, the transfers from the General Fund to the School Nutrition Fund were for operating expenses and the transfers from the Capital Projects Fund to the Debt Service Fund were to move revenues from the fund statutorily required to collect the resources to the fund statutorily required to repay the debt.

**Note 4. Capital Assets**

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 600	\$ -	\$ -	\$ 600
Capital assets being depreciated:				
Buildings and improvements	1,121,883	116,614	-	1,238,497
Improvements other than buildings	42,142	1,800	-	43,942
Furniture and equipment	872,508	5,690	(21,774)	856,424
Total capital assets being depreciated	<u>2,036,533</u>	<u>124,104</u>	<u>(21,774)</u>	<u>2,138,863</u>
Less accumulated depreciation for:				
Buildings and improvements	235,964	21,540	-	257,504
Improvements other than buildings	18,621	1,704	-	20,325
Furniture and equipment	771,567	40,896	(21,774)	790,689
Total accumulated depreciation	<u>1,026,152</u>	<u>64,140</u>	<u>(21,774)</u>	<u>1,068,518</u>
Total capital assets being depreciated, net	<u>1,010,381</u>	<u>59,964</u>	<u>-</u>	<u>1,070,345</u>
Governmental activities capital assets, net	<u>\$1,010,981</u>	<u>\$ 59,964</u>	<u>\$ -</u>	<u>\$1,070,945</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 22,894	\$ -	\$ -	\$ 22,894
Less accumulated depreciation	<u>9,395</u>	<u>1,820</u>	<u>-</u>	<u>11,215</u>
Business type activities capital assets, net	<u>\$ 13,499</u>	<u>\$ (1,820)</u>	<u>\$ -</u>	<u>\$ 11,679</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction	
Regular	\$ 7,914
Special	4,246
Support services	
Student support	3,895
Instructional staff	1,486
Administration	4,327
Operation and maintenance of plant	1,445
Transportation	17,056
Unallocated	<u>23,771</u>
Total governmental activities depreciation expense	<u>\$ 64,140</u>

**Business type activities**

Food services	<u>\$ 1,820</u>
---------------	-----------------

**Note 5. Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2007 are summarized as

follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Revenue bonds	\$ 330,000	\$ -	\$(60,000)	\$ 270,000	\$ 65,000

Interest costs incurred and charged to expense on all long-term debt was \$15,554 for the year ended June 30, 2007.

### Revenue Bonds

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 2003			
	Interest Rates	Interest	Principal	Total
2008	5.25	\$ 12,110	\$ 65,000	\$ 77,110
2009	5.25	8,697	65,000	73,697
2010	3.70	5,285	70,000	75,285
2011	3.85	1,347	70,000	71,347
Totals		<u>\$ 27,439</u>	<u>\$ 270,000</u>	<u>\$ 297,439</u>

On September 1, 2003, the District issued \$500,000 of School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds were used for an addition for a media center, cafeteria and kitchen. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. The resolution providing for the issuance of the local option sales and service tax revenue bonds includes the following provisions:

- a) \$50,000 of the proceeds from the issuance of the revenue bonds shall be deposited into a 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 local option sales and services tax shall be placed in the 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.

## **Note 6. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$47,487, \$47,651 and \$46,651 respectively, equal to the required contributions for each year.

## **Note 7. Risk Management**

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

## **Note 8. 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 \$80,430 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## **Note 9. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Required Supplementary Information

**DELWOOD COMMUNITY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual**  
**All Governmental Funds and Proprietary Fund**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2007**

	Governmental Funds		Proprietary Fund		Total Actual	Budgeted Amounts		Final to Actual Variance
	Actual		Actual			Original	Final	
<b>Revenues</b>								
Local sources	\$1,204,470	\$26,789	\$1,231,259	\$1,208,095	\$1,231,259	\$1,208,095	\$1,208,095	\$ 23,164
State sources	1,140,186	702	1,140,888	1,149,583	1,140,888	1,149,583	1,149,583	(8,695)
Federal sources	62,198	25,868	88,066	92,342	88,066	92,342	92,342	(4,276)
Total revenues	<u>2,406,854</u>	<u>53,359</u>	<u>2,460,213</u>	<u>2,450,020</u>	<u>2,460,213</u>	<u>2,450,020</u>	<u>2,450,020</u>	<u>10,193</u>
<b>Expenditures</b>								
Instruction	1,574,428	-	1,574,428	1,811,000	1,574,428	1,811,000	1,811,000	236,572
Support services	533,842	-	533,842	782,300	533,842	782,300	782,300	248,458
Non-instructional programs	29,535	57,163	86,698	91,100	86,698	91,100	101,100	14,402
Other expenditures	274,919	-	274,919	400,871	274,919	400,871	400,871	125,952
Total expenditures	<u>2,412,724</u>	<u>57,163</u>	<u>2,469,887</u>	<u>3,095,271</u>	<u>2,469,887</u>	<u>3,095,271</u>	<u>3,095,271</u>	<u>625,384</u>
(Deficiency) of revenues	(5,870)	(3,804)	(9,674)	(645,251)	(9,674)	(645,251)	(645,251)	635,577
(under) expenditures	(1,459)	1,683	224	900	224	900	900	(676)
Net other financing sources								
Net change in fund balance	(7,329)	(2,121)	(9,450)	(644,351)	(9,450)	(644,351)	(644,351)	634,901
Balance, beginning of year	1,510,025	14,506	1,524,531	1,433,283	1,524,531	1,433,283	1,433,283	91,248
Balance, end of year	<u>\$1,502,696</u>	<u>\$12,385</u>	<u>\$1,515,081</u>	<u>\$ 788,932</u>	<u>\$1,515,081</u>	<u>\$ 788,932</u>	<u>\$ 788,932</u>	<u>\$726,149</u>

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental 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 Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, which moved budgeted expenditures between functions, but did not increase the budgeted expenditures in total.

Other Supplementary Information

DELWOOD COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2007

Schedule 1

	Special Revenue		
	Management Levy	Student Activity 5th and 6th Grade Trip	Total
<b>Assets</b>			
Cash and pooled investments	\$ 44,786	\$ 10,763	\$ 55,549
Receivables			
Property tax			
Delinquent	572	-	572
Succeeding year	55,000	-	55,000
Total assets	\$100,358	\$ 10,763	\$111,121
<b>Liabilities and Fund Balances</b>			
Liabilities			
Deferred revenue			
Succeeding year property tax	\$ 55,000	\$ -	\$ 55,000
Fund balances			
Unreserved fund balances	45,358	10,763	56,121
Total liabilities and fund balances	\$100,358	\$ 10,763	\$111,121

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2007

Schedule 2

	Special Revenue			
	Management	Student Activity 5th and 6th Grade Trip	Debt Service	Total
Revenues				
Local sources	<u>Levy</u>	<u>Grade Trip</u>	<u>Service</u>	<u>Total</u>
Local taxes	\$ 39,831	\$ -	\$ -	\$ 39,831
Other	4,633	1,986	-	6,619
State sources	26	-	-	26
Total revenues	<u>44,490</u>	<u>1,986</u>	<u>-</u>	<u>46,476</u>
Expenditures				
Current				
Instruction				
Regular	1,827	-	-	1,827
Other	-	897	-	897
Total instruction	<u>1,827</u>	<u>897</u>	<u>-</u>	<u>2,724</u>
Support services				
Instructional staff	7,266	-	-	7,266
Administration	314	-	-	314
Operation and maintenance of plant	16,254	-	-	16,254
Transportation	6,762	-	-	6,762
Total support services	<u>30,596</u>	<u>-</u>	<u>-</u>	<u>30,596</u>
Non-instructional programs	<u>1,093</u>	<u>-</u>	<u>-</u>	<u>1,093</u>
Other expenditures				
Long-term debt				
Principal	-	-	60,000	60,000
Interest and fiscal charges	-	-	15,810	15,810
Total other expenditures	<u>-</u>	<u>-</u>	<u>75,810</u>	<u>75,810</u>
Total expenditures	<u>33,516</u>	<u>897</u>	<u>75,810</u>	<u>110,223</u>
Excess (deficiency) of revenues over (under) expenditures	10,974	1,089	(75,810)	(63,747)
Other financing sources				
Interfund operating transfers in	<u>-</u>	<u>-</u>	<u>75,810</u>	<u>75,810</u>
Net change in fund balances	10,974	1,089	-	12,063
Fund balances, beginning of year	34,384	9,674	-	44,058
Fund balances, end of year	<u>\$ 45,358</u>	<u>\$ 10,763</u>	<u>\$ -</u>	<u>\$ 56,121</u>

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Schedule of Revenues by Source and Expenditures by Function  
 All Governmental Fund Types  
 For the Last Four Years

Schedule 3

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$ 978,434	\$ 853,716	\$ 951,294	\$ 985,164
Tuition	109,445	85,099	119,719	87,935
Other	116,591	147,000	77,472	94,632
State sources	1,140,186	1,251,350	1,048,176	1,089,315
Federal sources	62,198	76,866	83,296	79,661
Total revenues	<u>\$2,406,854</u>	<u>\$2,414,031</u>	<u>\$2,279,957</u>	<u>\$2,336,707</u>
Expenditures				
Current				
Instruction				
Regular	\$1,048,161	\$ 995,246	\$ 972,818	\$1,174,642
Special	448,685	427,745	421,871	142,863
Other	77,582	2,637	35,532	6,082
Support services				
Student	17,766	24,034	29,342	68,414
Instructional staff	42,876	96,775	104,658	78,877
Administration	187,222	240,482	226,621	209,030
Operation and maintenance of plant	135,942	140,984	155,101	131,227
Transportation	150,036	133,769	137,182	100,440
Non-instructional programs	29,535	25,236	30,369	5,883
Other expenditures				
Facilities acquisition	118,679	79,766	297,230	557,670
Long-term debt				
Principal	60,000	60,000	55,000	55,000
Interest and other charges	15,810	19,110	22,135	18,870
AEA flowthrough	80,430	79,033	76,804	79,308
Total expenditures	<u>\$2,412,724</u>	<u>\$2,324,817</u>	<u>\$2,564,663</u>	<u>\$2,628,306</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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  
Delwood Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Delwood Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated March 17, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing my audit, I considered Delwood Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Delwood Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Delwood Community School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Delwood Community School District's ability to initiate, authorize, record process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Delwood Community School District's financial statements

that is more than inconsequential will not be prevented or detected by Delwood Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Delwood Community School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe item A is a material weakness.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Delwood Community School District and other parties to whom Delwood Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
March 17, 2008

DELWOOD COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

- (A) Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same person performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

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

1. Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the amended amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. 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.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2007

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant