

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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Independent Auditor's Report

To the Board of Education of
East Buchanan Community School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of East Buchanan Community School District at 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, we have also issued our report dated March 29, 2008, on our consideration of East Buchanan Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise East Buchanan Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, 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 our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

March 29, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

East Buchanan 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 increased from \$4,380,577 in fiscal 2006 to \$4,748,977 in fiscal 2007, and General Fund expenditures also increased from \$4,635,522 in fiscal 2006 to \$4,812,978 in fiscal 2007. The District's General Fund balance decreased from \$956,575 in fiscal 2006 to \$896,286 in fiscal 2007. This was a 6% decrease in fund balance from fiscal 2006 to fiscal 2007.
- The increase in General Fund revenues in was attributable to an increase in local and state revenue in fiscal 2007.
- The increase in expenditures was due primarily to an increase in the cost of instruction in fiscal 2007.
- One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal year 2007. As a result, the District funded a portion of the General Fund salaries and benefits from the carryover fund balance.

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 the East Buchanan 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 for the East Buchanan Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which the East Buchanan Community School District acts solely as an agent or custodian for the benefit of those outside of County 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 nonmajor Special Revenue Funds.

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

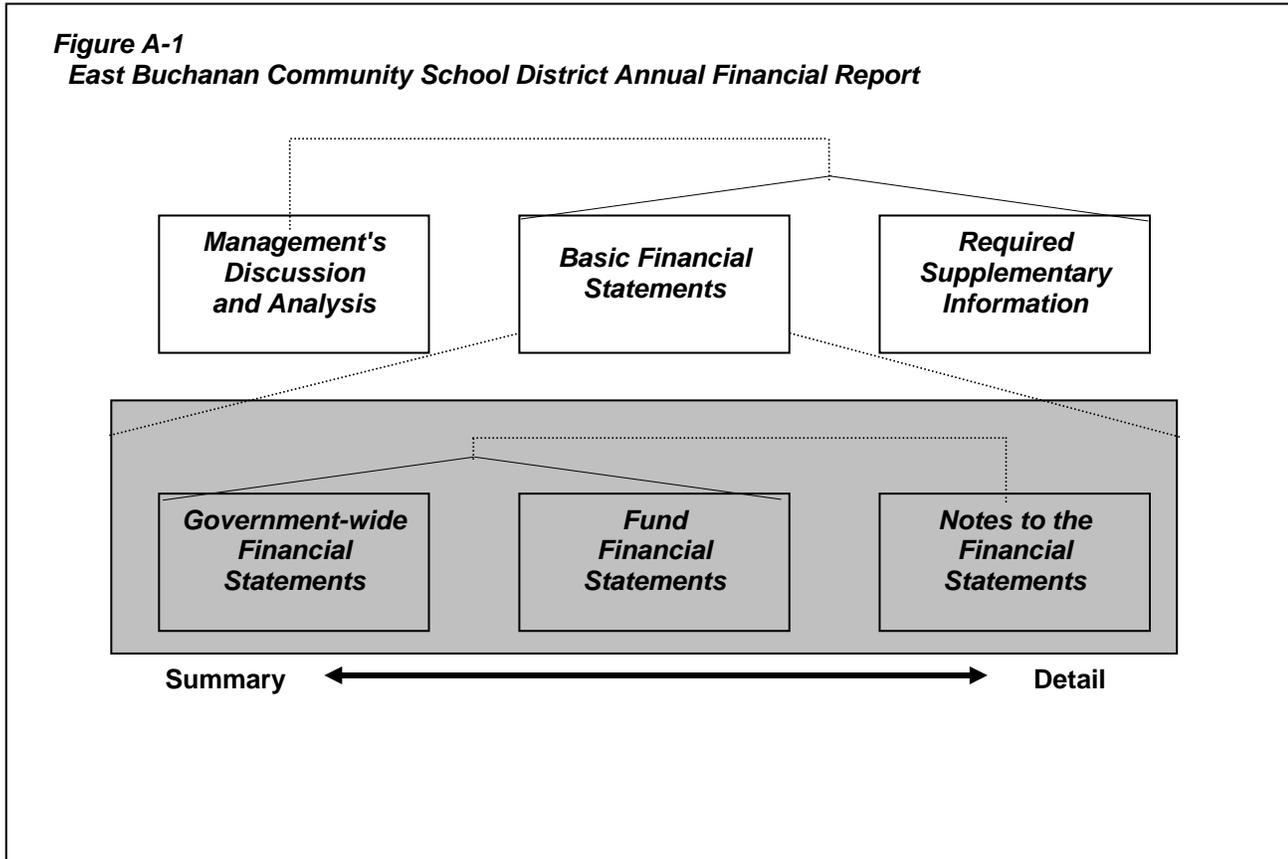


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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 two 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.

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						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Current and other assets	4,740,121	5,390,883	69,142	103,153	4,809,263	5,494,036	14%
Capital assets	3,259,484	3,256,692	19,747	16,652	3,279,231	3,273,344	-0%
Total assets	7,999,605	8,647,575	88,889	119,805	8,088,494	8,767,380	8%
Long-term liabilities	453,688	535,299	-	-	453,688	535,299	18%
Other liabilities	2,715,549	3,050,605	19,224	18,484	2,734,773	3,069,089	12%
Total liabilities	3,169,237	3,565,904	19,224	18,484	3,188,461	3,584,388	13%
Net Assets:							
Invested in capital assets, net of related debt	3,420,718	3,087,793	19,747	16,652	3,440,465	3,104,445	-10%
Restricted	778,536	1,100,964	-	-	778,536	1,100,964	41%
Unrestricted	631,114	892,914	49,918	84,669	681,032	977,583	44%
TOTAL NET ASSETS	4,830,368	5,081,671	69,665	101,321	4,900,033	5,182,992	6%

The District's combined net assets increased by nearly 6%, or approximately \$282,959, over the prior year. The largest portion of the District's net assets is the 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 approximately \$322,428 over the prior year. The increase was primarily a result of decreased expenditures in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$296,551, or 44%. The increase was primarily a result of decreased expenditures in the Capital Projects Fund as well as the Physical Plant and Equipment Fund.

Figure A-4 shows the change in net assets for the years ended June 30, 2007 and 2006.

Figure A-4

	Change in Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	
Revenues							
Program Revenues:							
Charges for services	418,773	545,753	146,832	153,685	565,605	699,438	20%
Operating grants & contributions	545,733	573,968	106,519	99,574	652,252	673,542	3%
Capital grants & contributions	-	35,432	-	-	-	35,432	100%
General Revenues:							
Property taxes	1,563,667	1,712,543	-	-	1,563,667	1,712,543	10%
Income Surtax	237,922	219,179	-	-	237,922	219,179	-8%
Local option sales tax	323,030	333,929	-	-	323,030	333,929	3%
Unrestricted state grants	2,085,995	2,202,443	-	-	2,085,995	2,202,443	6%
Unrestricted investment earnings	49,798	77,190	-	1,653	49,798	78,843	58%
Other revenue (loss)	42,972	-3,643	-	-	42,972	-3,643	-109%
Total Revenues	5,267,890	5,696,794	253,351	254,912	5,521,241	5,951,706	8%
Expenses:							
Instruction	3,332,755	3,439,248	-	-	3,332,755	3,439,248	3%
Support services	1,426,078	1,600,068	-	-	1,426,078	1,600,068	12%
Non-instructional programs	16,756	-	243,213	223,256	259,969	223,256	-14%
Other expenditures	313,483	406,175	-	-	313,483	406,175	30%
Total expenses	5,089,072	5,445,491	243,213	223,256	5,332,285	5,668,747	6%
Change in net assets before Transfers	178,818	251,303	10,138	31,656	188,956	282,959	50%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	178,818	251,303	10,138	31,656	188,956	282,959	50%
Net assets beginning of year	4,651,550	4,830,368	59,527	69,665	4,711,077	4,900,033	4%
Net assets end of year	4,830,368	5,081,671	69,665	101,321	4,900,033	5,182,992	6%

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,696,794 and expenses were \$5,445,491. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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 2006 \$	Total Cost of Services 2007 \$	Net Cost of Services 2006 \$	Net Cost of Services 2007 \$
Instruction	3,332,755	3,439,248	2,624,904	2,568,494
Support Services	1,426,078	1,600,068	1,345,992	1,518,082
Non-instructional Programs	16,756	-	16,756	-
Other Expenses	313,483	406,175	136,914	203,762
TOTAL	5,089,072	5,445,491	4,124,566	4,290,338

- The cost financed by users of the District's programs was \$545,753.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$573,968.
- The net cost of governmental activities was financed with \$2,265,651 in property and other taxes and \$2,202,443 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$254,912 and expenses were \$223,256. 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.

During the year ended June 30, 2007, the District did not increase meal prices and the District was able to show an increase in the Nutrition Fund balance.

INDIVIDUAL FUND ANALYSIS

As previously noted, East Buchanan 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 \$2,143,299 compared to last year's ending fund balances of \$1,830,572.

Governmental Fund Highlights

The District's Governmental Fund combined fund balance increased in fiscal year 2007 from the previous year. A closer look at each individual Governmental Fund reveals the following:

General Fund

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from \$956,757 to \$896,286 for a difference of \$60,471. Fund balance was eroded by increased costs of salary/benefits with not enough new money resulting from declining enrolment.
- Since the State no longer provides technology funding, further erosion to fund balance was caused by spending monies to cover technology equipment. Continual replacement of classroom and lab computers on a rotating basis is necessary to run new software versions.
- Renewal of the Instructional Support Levy beginning July 1, 2006 for five years was extended to maintain General Fund balance solvency. The continuation of the Instructional support Levy is very dependent upon the prosperity of District patrons.

Management Fund

- The Management Fund balance increased \$54,661 in fiscal year 2007 from fiscal year 2006. The increase was partially the result of an increase in the district's property tax asking in anticipation of several certified staff early retirement policy participants within the next two years. Additionally, costs continue to escalate for the district's Workman's Compensation and liability insurance coverage.

Physical Plant and Equipment Levy Fund

- The Physical Plant and Equipment Levy Fund balance increased \$80,505 in fiscal year 2007 from fiscal year 2006.
- Voted Physical Plant and Equipment Levy monies were used for second payment on a capital loan note used for the purpose of lighting the fields in the district's sports complex.
- Monies from the Physical Plant and Equipment Levy were used in fiscal year 2007 to purchase a used John Deere tractor and mower deck to replace an older model.
- In fiscal year 2006 the Board of Education decreased the amount of Voted Physical Plant and Equipment Levy from \$1.37 per \$1,000 of assessed valuation to \$1.00 per \$1,000 of assessed valuation. The Board also discontinued the board imposed Physical Plant and Equipment Levy of \$.33 per \$1,000 of assessed valuation. The district will keep an eye on the fund balance in the Physical Plant and Equipment Levy and certify ensuing fiscal year budgets accordingly.

Capital Projects Fund

- The Capital Projects Fund balance increased \$216,270 during fiscal year 2007. A contributing factor for the increase in fund balance was the fourth year the district received monies for the Local Option Sales Tax approved in fiscal 2003. With no building project in progress the monies were allowed to accumulate for future projects. The Local Option Sales Tax will remain until 2022.
- Monies from the Capital Projects Fund were expended for the renovation of the high school biology room, secondary office area, guidance office areas, outdated computer lab, refinish a gym floor, and the purchase of a used school van.

“Other” Governmental Funds

- The “Other” Governmental Funds balance (Activity Fund and Debt Service Fund), has increased over the previous fiscal year by \$21,762 in the Activity Fund. The district has no bonded indebtedness and therefore no long-term debt liability.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$69,665 at June 30, 2006 to \$101,321 at June 30, 2007, representing an increase of approximately 46%. This change resulted in an increase in revenue and net assets. Continued vigilance of the program's aging equipment is becoming increasingly important and it may be necessary to replace out-dated equipment in the near future.

BUDGETARY HIGHLIGHTS

Over the course of the year, East Buchanan Community School District did not amend its annual budget.

The District's receipts were \$261,983 less than budgeted receipts.

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

The district's certified budget was exceeded during fiscal 2007 in the support services function.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested approximately \$3.27 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 1% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$183,721.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2007-2006
	2006	2007	2006	2007	2006	2007	
	\$	\$	\$	\$	\$	\$	
Land	48,355	48,355	-	-	48,355	48,355	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	2,748,056	2,696,780	-	-	2,748,056	2,696,780	-2%
Improvements	273,780	258,359	-	-	273,780	258,359	-6%
Equipment & Furniture	189,293	253,198	19,747	16,652	209,040	269,850	29%
TOTAL	3,259,484	3,256,692	19,747	16,652	3,279,231	3,273,344	-1%

Long-Term Debt

At June 30, 2007, the District had \$535,299 in long-term debt outstanding. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Percentage Change
	2006	2007	2007-2006
	\$	\$	
Capital Loan Notes	161,234	124,009	-23%
Capital Leases	-	44,890	100%
Early Retirement	292,454	366,400	25%
	<u>453,688</u>	<u>535,299</u>	<u>18%</u>

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:

- With salaries and benefits making up the majority of General Fund expenditures, settlements with any employee group, exceeding the rate of growth of state funding will have an adverse impact upon the District's General Fund budget.
- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 12.5 students, or 2.14% to 570.3.
- The District has experienced declining enrollment for the past five years and hopefully housing developments within the district will reverse the trend in the near future.
- The District has a three-year rotation of lease/purchase for transportation vehicles. The lease/purchase cost will be realized each fiscal year with resources from the Physical Plant and Equipment Levy Fund.
- Textbook fees will be raised by the District for the 2007-2008 fiscal year in an attempt to help stem the erosion of the general fund balance.
- The District will reduce the number of administrators for the 2007-2008 fiscal year by 1 FTE. This will be accomplished by combining the positions of Elementary Principal and Superintendent. This move should also help to stem the erosion of the general fund balance.
- Three certified employees opted to accept the District's Early Retirement policy at the end of fiscal year 2007 which will allow for their replacements at a much lower salary.

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 Carol Moroney, Business Manager, East Buchanan Community School District, 414 5th Street North Winthrop, Iowa 50682.

BASIC FINANCIAL STATEMENTS

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	736,604	-	736,604
Other	2,385,605	98,006	2,483,611
Receivables:			
Property tax:			
Delinquent	21,151	-	21,151
Succeeding year	1,922,070	-	1,922,070
Accounts	73,205	1,947	75,152
Accrued interest:			
ISCAP	5,486	-	5,486
Due from other governments	246,762	-	246,762
Inventories	-	3,200	3,200
Capital assets, net of accumulated depreciation	3,256,692	16,652	3,273,344
Total assets	8,647,575	119,805	8,767,380
Liabilities			
Accounts payable	4,413	482	4,895
Salaries and benefits payable	355,043	16,072	371,115
Accrued interest payable	2,200	-	2,200
Deferred revenue:			
Succeeding year property tax	1,922,070	-	1,922,070
Other	-	1,930	1,930
ISCAP warrants payable	738,000	-	738,000
ISCAP accrued interest payable	4,400	-	4,400
ISCAP premium	4,479	-	4,479
Long-term liabilities:			
Portion due within one year:			
Capital loan notes	39,129	-	39,129
Capital leases	21,908	-	21,908
Termination benefits	92,121	-	92,121
Portion due after one year:			
Capital loan notes	84,880	-	84,880
Capital leases	22,982	-	22,982
Termination benefits	274,279	-	274,279
Total liabilities	3,565,904	18,484	3,584,388

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	3,087,793	16,652	3,104,445
Restricted for:			
State categorical aid	3,891	-	3,891
Physical plant and equipment levy	247,175	-	247,175
Other special revenue purposes	82,031	-	82,031
Local option sales tax capital projects	767,867	-	767,867
Unrestricted	<u>892,914</u>	<u>84,669</u>	<u>977,583</u>
Total net assets	<u><u>5,081,671</u></u>	<u><u>101,321</u></u>	<u><u>5,182,992</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular	2,250,989	311,083	258,596	-
Special	710,299	-	29,600	-
Other	477,960	193,006	78,469	-
	<u>3,439,248</u>	<u>504,089</u>	<u>366,665</u>	<u>-</u>
Support services:				
Student	93,285	-	-	19,732
Instructional staff	129,403	-	18,765	-
Administration	720,718	-	-	-
Operation and maintenance of plant	356,155	-	-	-
Transportation	300,507	41,664	1,825	-
	<u>1,600,068</u>	<u>41,664</u>	<u>20,590</u>	<u>19,732</u>
Other expenditures:				
Facilities acquisition	100,879	-	-	15,700
Long-term debt interest	10,449	-	-	-
AEA flowthrough	186,713	-	186,713	-
Depreciation (unallocated)*	108,134	-	-	-
	<u>406,175</u>	<u>-</u>	<u>186,713</u>	<u>15,700</u>
Total governmental activities	5,445,491	545,753	573,968	35,432
Business type activities:				
Non-instructional programs:				
Food service operations	223,256	153,685	99,574	-
Total	<u>5,668,747</u>	<u>699,438</u>	<u>673,542</u>	<u>35,432</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other (loss)				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(1,681,310)	-	(1,681,310)
(680,699)	-	(680,699)
(206,485)	-	(206,485)
<u>(2,568,494)</u>	<u>-</u>	<u>(2,568,494)</u>
(73,553)	-	(73,553)
(110,638)	-	(110,638)
(720,718)	-	(720,718)
(356,155)	-	(356,155)
(257,018)	-	(257,018)
<u>(1,518,082)</u>	<u>-</u>	<u>(1,518,082)</u>
(85,179)	-	(85,179)
(10,449)	-	(10,449)
-	-	-
<u>(108,134)</u>	<u>-</u>	<u>(108,134)</u>
<u>(203,762)</u>	<u>-</u>	<u>(203,762)</u>
(4,290,338)	-	(4,290,338)
-	30,003	30,003
<u>(4,290,338)</u>	<u>30,003</u>	<u>(4,260,335)</u>
1,569,011	-	1,569,011
143,532	-	143,532
219,179	-	219,179
333,929	-	333,929
2,202,443	-	2,202,443
77,190	1,653	78,843
(3,643)	-	(3,643)
<u>4,541,641</u>	<u>1,653</u>	<u>4,543,294</u>
251,303	31,656	282,959
<u>4,830,368</u>	<u>69,665</u>	<u>4,900,033</u>
<u>5,081,671</u>	<u>101,321</u>	<u>5,182,992</u>

See notes to financial statements.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Capital Projects- Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments:				
ISCAP	736,604	-	-	736,604
Other	1,215,309	696,351	473,945	2,385,605
Receivables:				
Property tax:				
Delinquent	16,650	-	4,501	21,151
Succeeding year	1,536,004	-	386,066	1,922,070
Accounts	989	71,516	700	73,205
Accrued interest - ISCAP	5,486	-	-	5,486
Due from other governments	246,762	-	-	246,762
Total assets	3,757,804	767,867	865,212	5,390,883
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	4,413	-	-	4,413
Salaries and benefits payable	355,043	-	-	355,043
ISCAP warrants payable	738,000	-	-	738,000
ISCAP accrued interest payable	4,400	-	-	4,400
ISCAP premium	4,479	-	-	4,479
Deferred revenue:				
Succeeding year property tax	1,536,004	-	386,066	1,922,070
Other	219,179	-	-	219,179
Total liabilities	2,861,518	-	386,066	3,247,584
Fund balances:				
Reserved for:				
State Categorical Aid	3,891	-	-	3,891
Unreserved, undesignated reported in:				
General fund	42,395	-	-	42,395
Special revenue funds	-	-	479,146	479,146
Capital projects funds	-	767,867	-	767,867
Unreserved, designated	850,000	-	-	850,000
Total fund balances	896,286	767,867	479,146	2,143,299
Total liabilities and fund balances	3,757,804	767,867	865,212	5,390,883

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	2,143,299
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,256,692
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	219,179
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	(2,200)
Long-term liabilities, including capital loan notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(535,299)</u>
Net assets of governmental activities (Exhibit A)	<u><u>5,081,671</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2007

	General Fund	Capital Projects- Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,552,770	333,929	353,773	2,240,472
Tuition	198,534	-	-	198,534
Other	221,510	11,296	231,898	464,704
State sources	2,612,632	-	251	2,612,883
Federal sources	163,531	-	-	163,531
Total revenues	<u>4,748,977</u>	<u>345,225</u>	<u>585,922</u>	<u>5,680,124</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,188,005	-	86,323	2,274,328
Special	710,299	-	-	710,299
Other	294,062	-	183,898	477,960
	<u>3,192,366</u>	<u>-</u>	<u>270,221</u>	<u>3,462,587</u>
Support services:				
Student	93,285	-	-	93,285
Instructional staff	110,504	-	18,899	129,403
Administration	628,237	-	20,925	649,162
Operation and maintenance of plant	337,077	-	22,731	359,808
Transportation	264,796	-	82,273	347,069
	<u>1,433,899</u>	<u>-</u>	<u>144,828</u>	<u>1,578,727</u>
Other expenditures:				
Facilities acquisition	-	128,955	13,361	142,316
Long-term debt:				
Principal	-	-	37,225	37,225
Interest and fiscal charges	-	-	32,357	32,357
AEA flowthrough	186,713	-	-	186,713
	<u>186,713</u>	<u>128,955</u>	<u>82,943</u>	<u>398,611</u>
Total expenditures	<u>4,812,978</u>	<u>128,955</u>	<u>497,992</u>	<u>5,439,925</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(64,001)</u>	<u>216,270</u>	<u>87,930</u>	<u>240,199</u>
Other financing sources (uses):				
Proceeds from long-term loans	-	-	68,998	68,998
Payment from insurance escrow agent	2,390	-	-	2,390
Sales of materials and equipment	1,140	-	-	1,140
Operating transfers in	-	-	69,582	69,582
Operating transfers out	-	-	(69,582)	(69,582)
Total other financing sources (uses)	<u>3,530</u>	<u>-</u>	<u>68,998</u>	<u>72,528</u>
Net change in fund balances	<u>(60,471)</u>	<u>216,270</u>	<u>156,928</u>	<u>312,727</u>
Fund balances beginning of year	<u>956,757</u>	<u>551,597</u>	<u>322,218</u>	<u>1,830,572</u>
Fund balances end of year	<u>896,286</u>	<u>767,867</u>	<u>479,146</u>	<u>2,143,299</u>

See notes to financial statements.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		312,727
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
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 exceeded depreciation expense in the current year as follows:		
Disposal of Assets	(9,649)	
Expenditures for capital assets	187,483	
Depreciation expense	<u>(180,626)</u>	(2,792)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		25,179
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		61,333
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.		(2,200)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		(73,946)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(68,998)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>251,303</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	98,006
Accounts receivable	1,947
Inventories	3,200
Capital assets, net of accumulated depreciation	<u>16,652</u>
Total assets	<u>119,805</u>
Liabilities	
Accounts payable	482
Salaries and benefits payable	16,072
Deferred revenue	<u>1,930</u>
Total liabilities	<u>18,484</u>
Net assets	
Invested in capital assets, net of related debt	16,652
Unrestricted	<u>84,669</u>
Total net assets	<u><u>101,321</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund
Net Assets
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>153,685</u>
Operating expenses:	
Non-instructional programs:	
Salaries	69,870
Benefits	21,166
Purchased services	1,901
Supplies	124,223
Depreciation	3,095
Other	3,001
	<u>223,256</u>
Operating gain (loss)	<u>(69,571)</u>
Non-operating revenue:	
State sources	3,298
Federal sources	96,276
Interest income	1,653
Total non-operating revenue	<u>101,227</u>
Change in net assets	31,656
Net assets beginning of year	<u>69,665</u>
Net assets end of year	<u><u>101,321</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	155,458
Cash payments to employees for services	(90,361)
Cash payments to suppliers for goods or services	(117,580)
Net cash used by operating activities	<u>(52,483)</u>
Cash flows from non-capital financing activities:	
State grants received	3,298
Federal grants received	83,851
Net cash provided by non-capital financing activities	<u>87,149</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>1,653</u>
Net increase (decrease) in cash and cash equivalents	36,319
Cash and cash equivalents at beginning of year	<u>61,687</u>
Cash and cash equivalents at end of year	<u><u>98,006</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(69,571)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	12,425
Depreciation	3,095
Decrease (increase) in inventories	532
Decrease (increase) in accounts receivable	1,776
(Decrease) increase in accounts payable	(1,412)
(Decrease) increase in salaries and benefits payable	674
(Decrease) increase in deferred revenue	(2)
Net cash used in operating activities	<u><u>(52,483)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$12,425 of federal commodities.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

1. Summary of Significant Accounting Policies

East Buchanan Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Winthrop, Aurora and Quasquerton, Iowa and the predominately agricultural territory in a portion of Buchanan County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, East Buchanan 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 East Buchanan Community School District has no component units that 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 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 that do not meet 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 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 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 instruction, 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 District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

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 accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments 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, have a maturity date no longer than three 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 the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% 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 repair 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	-
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30-45 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. The board of directors has designated \$950,000 of the General Fund unreserved fund balance for cash flow.

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007 expenditures exceeded the budget in the support services function.

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.

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

3. Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
		\$
Nonmajor Governmental Funds Debt Service Fund	Nonmajor Governmental Funds Physical Plant and Equipment Levy Fund	69,582

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2006-07B	01/26/07	01/25/08	236,396	5,336	237,000	4,277
2007-08A	06/27/07	06/27/08	500,208	150	501,000	123
			<u>736,604</u>	<u>5,486</u>	<u>738,000</u>	<u>4,400</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2007, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2006-07B	4.250	5.315
2007-08A	4.500	5.455

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	48,355	-	-	48,355
Capital assets being depreciated:				
Buildings	3,849,317	41,437	-	3,890,754
Improvements other than buildings	364,892	-	-	364,892
Furniture and equipment	960,933	146,046	15,234	1,091,745
Total capital assets being deprec.	<u>5,175,142</u>	<u>187,483</u>	<u>15,234</u>	<u>5,347,391</u>
Less accumulated depreciation for:				
Buildings	1,101,261	92,713	-	1,193,974
Improvements other than buildings	91,112	15,421	-	106,533
Furniture and equipment	771,640	72,492	5,585	838,547
Total accumulated depreciation	<u>1,964,013</u>	<u>180,626</u>	<u>5,585</u>	<u>2,139,054</u>
Total capital assets being depreciated, net	<u>3,211,129</u>	<u>6,857</u>	<u>9,649</u>	<u>3,208,337</u>
Governmental activities capital assets, net	<u>3,259,484</u>	<u>6,857</u>	<u>9,649</u>	<u>3,256,692</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	56,284	-	-	56,284
Less accumulated depreciation	<u>36,537</u>	<u>3,095</u>	-	<u>39,632</u>
Business type activities capital assets, net	<u>19,747</u>	<u>3,095</u>	-	<u>16,652</u>
Depreciation expense was charged to the following functions:				
				\$
Governmental activities:				
Instruction:				
Regular				41,414
Support Services:				
Operation and maintenance of plant services				2,597
Transportation				28,481
				<u>72,492</u>
Unallocated depreciation				<u>108,134</u>
Total depreciation expense – governmental activities				<u>180,626</u>
Business type activities:				
Food services				<u>3,095</u>

6. 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
	\$	\$	\$	\$	\$
Capital leases	-	68,998	24,108	44,890	21,908
Capital loan notes	161,234	-	37,225	124,009	39,129
Termination benefits	292,454	161,268	87,322	366,400	92,121
Total	453,688	230,266	148,655	535,299	153,158

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

At June 30, 2007, the District has obligations to sixteen participants with a total liability of \$366,400. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$87,322.

Capital Loan Notes

The District issued \$206,200 of capital loan notes during the year ended June 30, 2006. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2008	5.0	39,129	6,345	45,474
2009	5.0	41,131	4,343	45,474
2010	5.0	43,749	2,238	45,987
		<u>124,009</u>	<u>12,926</u>	<u>136,935</u>

During the year ended June 30, 2007 the District made principal and interest payments totaling \$45,474 under the note agreements.

Capital Leases

The District's capital lease indebtedness and related schedule of future minimum lease payments under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2007 are as follows:

	Year Ending June 30,	Amount
		\$
	2008	24,108
	2009	24,107
Minimum Lease Payments		48,215
Less Amount Representing Interest		3,325
Present Value of Minimum Lease Payments		<u>44,890</u>

7. Pension and Retirement Benefits

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

Plan members are required to contribute 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 contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$145,311, \$137,304 and \$141,074 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$186,713 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.

REQUIRED SUPPLEMENTARY INFORMATION

EAST BUCHANAN 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

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,903,710	155,338	3,059,048	2,802,730	2,802,730	256,318
State sources	2,612,883	3,298	2,616,181	2,609,864	2,609,864	6,317
Federal sources	163,531	96,276	259,807	784,425	784,425	(524,618)
Total revenues	<u>5,680,124</u>	<u>254,912</u>	<u>5,935,036</u>	<u>6,197,019</u>	<u>6,197,019</u>	<u>(261,983)</u>
Expenditures:						
Instruction	3,462,587	-	3,462,587	3,677,025	3,677,025	214,438
Support services	1,578,727	-	1,578,727	1,567,395	1,567,395	(11,332)
Non-instructional programs	-	223,256	223,256	281,882	281,882	58,626
Other expenditures	398,611	-	398,611	1,652,925	1,652,925	1,254,314
Total expenditures	<u>5,439,925</u>	<u>223,256</u>	<u>5,663,181</u>	<u>7,179,227</u>	<u>7,179,227</u>	<u>1,516,046</u>
Excess (deficiency) of revenues over (under) expenditures	240,199	31,656	271,855	(982,208)	(982,208)	1,254,063
Other financing sources (uses) net	<u>72,528</u>	<u>-</u>	<u>72,528</u>	<u>-</u>	<u>-</u>	<u>72,528</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	312,727	31,656	344,383	(982,208)	(982,208)	1,326,591
Balance beginning of year	<u>1,830,572</u>	<u>69,665</u>	<u>1,900,237</u>	<u>1,754,775</u>	<u>1,754,775</u>	<u>145,462</u>
Balance end of year	<u><u>2,143,299</u></u>	<u><u>101,321</u></u>	<u><u>2,244,620</u></u>	<u><u>772,567</u></u>	<u><u>772,567</u></u>	<u><u>1,472,053</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAPP 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 ended June 30, 2007, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Management</u>	<u>Student</u>	<u>Physical</u>	
	<u>Levy</u>	<u>Activity Fund</u>	<u>Plant and</u>	
	<u>\$</u>	<u>\$</u>	<u>Equipment</u>	<u>\$</u>
			<u>Levy</u>	
Cash and pooled investments	147,241	82,031	244,673	473,945
Receivables:				
Property tax:				
Delinquent	2,699	-	1,802	4,501
Succeeding year	240,000	-	146,066	386,066
Accounts	-	-	700	700
	<u>389,940</u>	<u>82,031</u>	<u>393,241</u>	<u>865,212</u>
Total assets				
	<u>389,940</u>	<u>82,031</u>	<u>393,241</u>	<u>865,212</u>
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	240,000	-	146,066	386,066
Fund balances:				
Unreserved reported in:				
Special revenue funds	149,940	82,031	247,175	479,146
	<u>149,940</u>	<u>82,031</u>	<u>247,175</u>	<u>479,146</u>
Total liabilities and fund balances	<u>389,940</u>	<u>82,031</u>	<u>393,241</u>	<u>865,212</u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	210,240	-	143,533	-	353,773
Other	6,423	205,660	19,815	-	231,898
State sources	151	-	100	-	251
Total revenues	<u>216,814</u>	<u>205,660</u>	<u>163,448</u>	<u>-</u>	<u>585,922</u>
Expenditures:					
Current:					
Instruction:					
Regular	86,323	-	-	-	86,323
Other	-	183,898	-	-	183,898
Support services:					
Instructional staff	18,899	-	-	-	18,899
Administration	20,925	-	-	-	20,925
Operation and maintenance of plant	22,731	-	-	-	22,731
Transportation	13,275	-	68,998	-	82,273
Other expenditures:					
Facilities acquisition	-	-	13,361	-	13,361
Long-term debt:					
Principal	-	-	-	37,225	37,225
Interest and fiscal charges	-	-	-	32,357	32,357
Total expenditures	<u>162,153</u>	<u>183,898</u>	<u>82,359</u>	<u>69,582</u>	<u>497,992</u>
Excess (deficiency) of revenues over (under) expenditures	<u>54,661</u>	<u>21,762</u>	<u>81,089</u>	<u>(69,582)</u>	<u>87,930</u>
Other financing sources (uses):					
Proceeds from long-term loans	-	-	68,998	-	68,998
Operating transfers in	-	-	-	69,582	69,582
Operating transfers out	-	-	(69,582)	-	(69,582)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(584)</u>	<u>69,582</u>	<u>68,998</u>
Net change in fund balances	54,661	21,762	80,505	-	156,928
Fund balances beginning of year	<u>95,279</u>	<u>60,269</u>	<u>166,670</u>	<u>-</u>	<u>322,218</u>
Fund balances end of year	<u><u>149,940</u></u>	<u><u>82,031</u></u>	<u><u>247,175</u></u>	<u><u>-</u></u>	<u><u>479,146</u></u>

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletics	12,516	64,305	57,668	(258)	18,895
Annual	3,037	11,302	11,263	(113)	2,963
Buccaneer club	522	2,376	1,899	(39)	960
Drama/speech	853	3,018	2,380	-	1,491
FBLA	255	7,250	7,666	161	-
Feed store	491	635	740	75	461
Fitness club	1,051	3,114	3,648	-	517
Shop club	(862)	1,803	873	-	68
Library club	1,454	3,959	4,512	-	901
Marketing	26	-	-	-	26
Music	1,072	6,188	4,484	-	2,776
Newspaper	796	655	55	-	1,396
Pep band	582	452	994	-	40
Color guard	117	-	-	-	117
Physics club	346	-	20	-	326
Spanish club	991	119	170	-	940
Speech	420	247	793	313	187
Elementary student council	3,903	3,413	3,716	140	3,740
Camp Wapsie Y	3,727	2,711	2,690	-	3,748
Softball fund raiser	6,739	12,416	9,247	(2,659)	7,249
Volleyball fund raiser	299	2,258	2,075	-	482
Girls basketball fund raiser	303	2,975	3,014	-	264
Girls track fund raiser	38	903	897	-	44
Boys basketball fund raiser	1,884	12,511	8,989	-	5,406
MS girls BB	4	432	410	-	26
Golf	793	1,308	1,456	-	645
Trapshooting fund raiser	-	850	838	-	12
Wrestling fund raiser	142	8,059	6,951	190	1,440
MS boys baseball	(371)	3,339	1,311	2,659	4,316
Football fund raiser	150	1,888	1,774	-	264
Music trip fund raiser	6,453	11,363	6,811	-	11,005
Sound system fund raiser	533	-	-	700	1,233
EB Hoopsters club	343	1,096	837	-	602
Class of 2006	585	-	585	-	-
Class of 2007	3,473	68	3,113	(428)	-
Class of 2008	540	16,642	14,601	400	2,981
Class of 2009	303	360	310	-	353
Class of 2010	-	415	39	-	376
Class of 2011	137	617	754	-	-

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Class of 2012	-	175	-	-	175
Class of 2013	-	155	-	-	155
Interest	-	1,674	700	(974)	-
Student Ins.	-	533	533	-	-
Advanced placement	228	497	497	-	228
National Honor Society	434	266	296	78	482
NHS care project	18	329	345	-	2
Self contained special educ.	22	-	-	-	22
Middle school student council	802	2,064	1,479	(252)	1,135
Cheerleading club	1,311	336	499	-	1,148
HS student council	2,883	10,409	11,894	7	1,405
Technology	926	175	72	-	1,029
	<u>60,269</u>	<u>205,660</u>	<u>183,898</u>	<u>-</u>	<u>82,031</u>
Total					

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,240,472	2,124,201	2,142,510	2,138,653
Tuition	198,534	78,929	108,939	61,589
Other	464,704	423,690	361,979	400,568
State sources	2,612,883	2,461,748	2,370,714	2,272,432
Federal sources	163,531	169,980	239,988	241,422
	<u>5,680,124</u>	<u>5,258,548</u>	<u>5,224,130</u>	<u>5,114,664</u>
Total revenues				
Expenditures:				
Instruction:				
Regular	2,274,328	2,240,325	2,259,994	2,178,189
Special	710,299	654,472	689,300	757,733
Other	477,960	452,809	488,937	433,991
Support services:				
Student	93,285	88,398	89,026	78,703
Instructional staff	129,403	152,772	89,778	81,494
Administration	649,162	564,177	523,854	556,540
Operation and maintenance of plant	359,808	356,346	343,217	361,179
Transportation	347,069	279,916	215,302	305,523
Non-instructional programs	-	16,756	6,365	65
Other expenditures:				
Facilities acquisition	142,316	278,586	176,424	377,044
Long-term debt:				
Principal	37,225	65,634	218,625	217,777
Interest and other charges	32,357	1,430	10,402	11,225
AEA flowthrough	186,713	176,569	175,067	176,916
	<u>5,439,925</u>	<u>5,328,190</u>	<u>5,286,291</u>	<u>5,536,379</u>
Total expenditures				

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

To the Board of Education of
East Buchanan Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of East Buchanan 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 our report thereon dated March 29, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we 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 East Buchanan 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 East Buchanan Community School District's financial statements that is more than inconsequential will not be prevented or detected by East Buchanan Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses 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 East Buchanan Community School District's internal control.

Our 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, we believe items 07-I-A, 07-I-B and 07-I-C are material weaknesses.

Compliance and Other Matters

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

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 our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

March 29, 2008

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

07-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparing and posting general journal entries, 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 we 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: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

07-I-B Financial Statement Preparation: Financial statement preparation is the responsibility of the District. At the present time District personnel do not have the skills necessary to be able to write the District's financial statements and the related note disclosures. This is not an unusual situation for small governmental entities.

Recommendation: District personnel should attend any governmental accounting and reporting training sessions that may be offered by the Iowa Department of Education, State Auditor's Office or Iowa Association of School Business Officials. The school business office should also have governmental accounting and reporting reference materials.

District Response: As a school we certainly understand the need for continuing education classes for all of our staff. However, we have a limited budget and must continually prioritize needs. At this point in time it is not cost effective to train our staff to the level necessary that would enable them to write the financial statements, nor is it feasible to hire additional employees that already possess the skills.

Conclusion: Response accepted.

07-I-C Signature Stamp: We noted that a stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. The Board Secretary prints the checks and uses the stamp to sign the checks.

Recommendation: This practice negates the control established by requiring two signatures on the checks. The board secretary should not have access to or use a stamp with the Board President's signature.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements (Continued):

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted

Instances of Noncompliance:

No matters were reported.

EAST BUCHANAN COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the support services functional area.

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

District Response: We will review these areas in future years to determine the need for amendment.

Conclusion: Response accepted.

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

07-II-C Travel Expenses: 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.

07-II-D Business Transactions: We noted no transactions between the District and District officials or employees.

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

07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

07-II-H Deposits and Investments: We 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.

07-II-I Certified Annual Report (CAR): The CAR was certified to the Iowa Department of Education timely.

07-II-J Physical Plant and Equipment Levy Fund: We noted that expenditures from this fund included some purchases for individual items of equipment with a cost of less than \$500.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund.

District Response: We will monitor expenditures from this fund.

Conclusion: Response accepted.