

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

JUNE 30, 2007

Contents

| | | <u>Page</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------|
| Officials | | 1 |
| Independent Auditor's Report | | 2-3 |
| Management's Discussion and Analysis (MD&A) | | 4-13 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-Wide Financial Statements: | | |
| Statement of Net Assets | A | 14 |
| Statement of Activities | B | 15 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 16 |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets | D | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E | 18 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities | F | 19 |
| Propriety Fund Financial Statements: | | |
| Statement of Net Assets | G | 20 |
| Statement of Revenues, Expenses and Changes in Net Assets | H | 21 |
| Statement of Cash Flows | I | 22 |
| Fiduciary Fund Financial Statements: | | |
| Statement of Fiduciary Net Assets | J | 23 |
| Statement of Changes in Fiduciary Net Assets | K | 24 |
| Notes to Financial Statements | | 25-35 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund | | 36 |
| Notes to Required Supplementary Information - Budgetary Reporting | | 37 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Nonmajor Governmental Funds: | | |
| Combining Balance Sheet | 1 | 38 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 2 | 38 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 | 40-41 |
| Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund | 4 | 42-43 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types | 5 | 44 |
| Schedule of Expenditures of Federal Awards | 6 | 45-46 |
| 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 <u>Government Auditing Standards</u> | | 47-48 |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 | | 49-50 |
| Schedule of Findings and Questioned Costs | | 51-57 |

Fairfield Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|----------------------------------------------------------------|------------------------------------------------------|---------------------|
| Board of Education (Before September 2006 Election) | | |
| Terry Cochran | President | 2007 |
| Margaret Dwyer | Vice President | 2007 |
| Gerry Garles | Board Member | 2006 |
| Sandy Worley | Board Member | 2006 |
| Joe Stever | Board Member | 2007 |
| Gail Miller | Board Member | 2008 |
| Doug Flournoy | Board Member | 2008 |
| Board of Education (After September 2006 Election) | | |
| Terry Cochran | President | 2007 |
| Margaret Dwyer | Vice President | 2007 |
| Joe Stever | Board Member | 2007 |
| Gail Miller | Board Member | 2008 |
| Doug Flournoy | Board Member | 2008 |
| Sheila Clements | Board Member | 2009 |
| Robert Waugh | Board Member | 2009 |
| School Officials | | |
| Steve Triplett | Superintendent | 2007 |
| Janne Hunsaker | District Secretary/Treasurer and Business Manager | 2007 |
| Gary Cameron | Attorney | 2007 |

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Fairfield 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 the Fairfield Community School District, Fairfield, 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 that our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated March 21, 2008 on our consideration of the Fairfield Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fairfield 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 three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fairfield 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 \$16,122,450 in fiscal 2006 to \$16,745,519 in fiscal 2007, while General Fund expenditures increased from \$15,554,620 in fiscal 2006 to \$16,205,068 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$978,194 in fiscal 2006 to \$1,449,386 in fiscal 2007, a 48.2% increase from the prior year. The District's solvency ratio improved from 6.06% to 11.70%.
- The increase in General Fund revenues was attributable to an increase in federal and state grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- An increase in interest rates, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$59,820 in fiscal year 2006 to \$95,324 in fiscal year 2007.

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 Fairfield 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 Fairfield 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 Fairfield Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

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

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

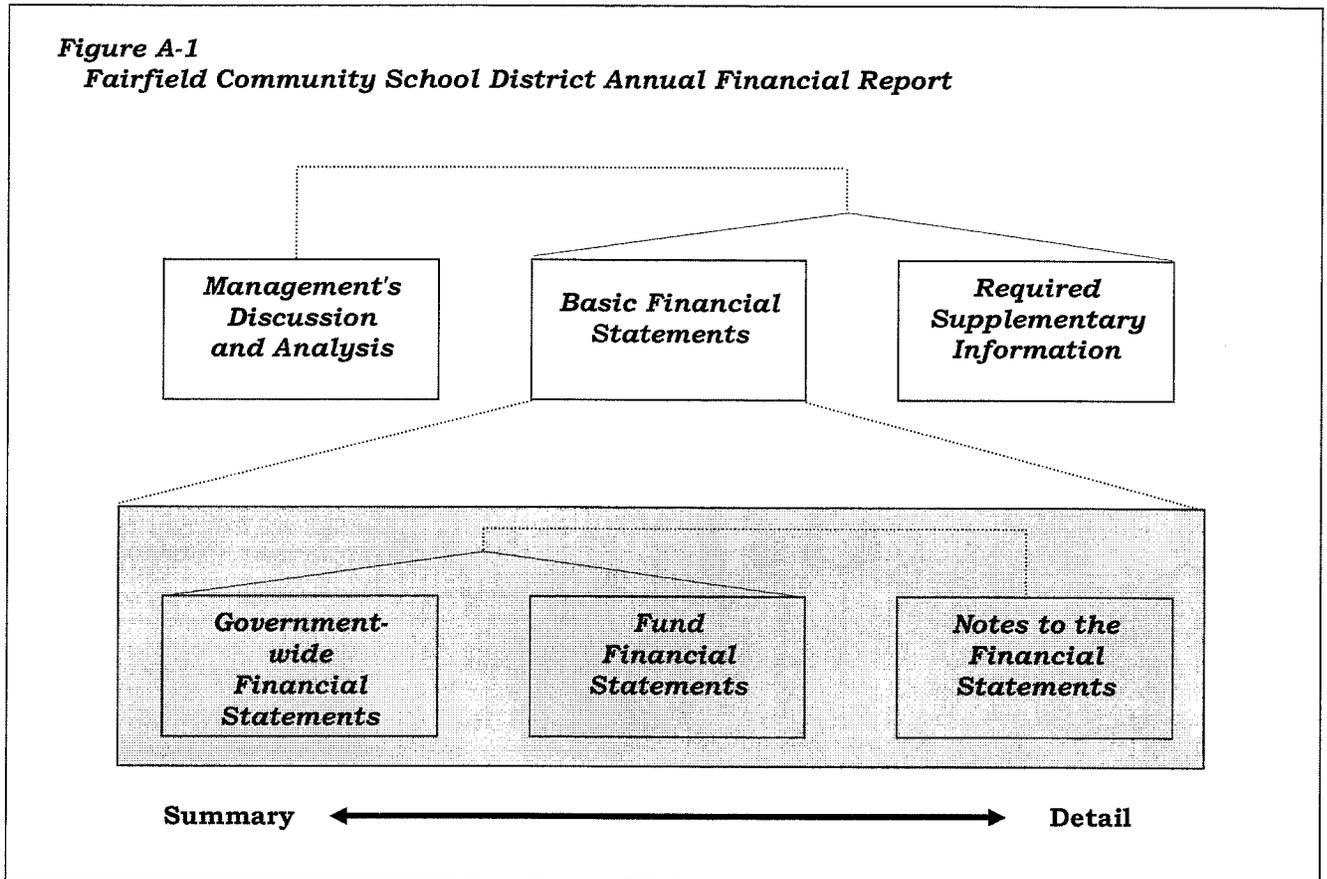


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

| | Government-wide Statements | Fund Statements | | |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire district (except fiduciary funds) | The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance | Activities the district operates similar to private businesses: food services and adult education | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances | <ul style="list-style-type: none"> • Statement of revenues, expenses and changes in 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, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All additions and deductions during the year, regardless of when cash is received or paid |

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition 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 the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

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

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

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

- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the 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 total 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 |
|----------------------------------------------------|-------------------------|------------|--------------------------|---------|-----------------------|------------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| Current and other assets | \$ 12,053,189 | 10,926,801 | 146,831 | 115,596 | 12,200,020 | 11,042,397 | 10.48% |
| Capital assets | 7,926,784 | 6,281,376 | 120,178 | 59,284 | 8,046,962 | 6,340,660 | 26.91% |
| Total assets | 19,979,973 | 17,208,177 | 267,009 | 174,880 | 20,246,982 | 17,383,057 | 16.48% |
| Long-term obligations | 1,912,007 | 1,452,112 | 0 | 0 | 1,912,007 | 1,452,112 | 31.67% |
| Other liabilities | 9,665,395 | 8,197,924 | 21,883 | 9,153 | 9,687,278 | 8,207,077 | 18.04% |
| Total liabilities | 11,577,402 | 9,650,036 | 21,883 | 9,153 | 11,599,285 | 9,659,189 | 20.09% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 7,920,421 | 6,268,914 | 120,178 | 59,284 | 8,040,599 | 6,328,198 | 27.06% |
| Restricted | 229,081 | 740,773 | 0 | 0 | 229,081 | 740,773 | -69.08% |
| Unrestricted | 253,069 | 548,454 | 124,948 | 106,443 | 378,017 | 654,897 | -42.28% |
| Total net assets | \$ 8,402,571 | 7,558,141 | 245,126 | 165,727 | 8,647,697 | 7,723,868 | 11.96% |

The District’s combined net assets increased by 11.96%, or \$923,829, over the prior year. The largest portion of the District’s net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s

restricted net assets decreased \$511,692 or 69.08% over the prior year. The decrease was primarily a result of the decrease 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 – decreased \$276,880 or 42.28%. This decrease in unrestricted net assets was a result of the increased early retirement benefits payable from the Special Revenue-Management Levy and the General Fund.

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

Figure A-4
Changes of Net Assets

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|------------------------------------------------------------|-------------------------|------------|--------------------------|---------|-----------------------|------------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| Revenues: | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ 1,009,250 | 841,839 | 330,744 | 334,514 | 1,339,994 | 1,176,353 | 13.91% |
| Operating grants and contributions and restricted interest | 2,310,700 | 2,110,640 | 328,971 | 306,826 | 2,639,671 | 2,417,466 | 9.19% |
| Capital grants and contributions and restricted interest | 76,245 | 16,170 | 0 | 0 | 76,245 | 16,170 | 371.52% |
| General revenues: | | | | | | | |
| Local tax | 6,869,471 | 6,771,003 | 0 | 0 | 6,869,471 | 6,771,003 | 1.45% |
| Local option sales and services tax | 1,145,037 | 566,425 | 0 | 0 | 1,145,037 | 566,425 | 102.15% |
| Unrestricted state grants | 7,943,301 | 7,752,605 | 0 | 0 | 7,943,301 | 7,752,605 | 2.46% |
| Other | 307,283 | 36,816 | 2,489 | 58,922 | 309,772 | 95,738 | 223.56% |
| Transfers | (143,568) | 0 | 138,994 | 0 | (4,574) | 0 | -100.00% |
| Total revenues | 19,517,719 | 18,095,498 | 801,198 | 700,262 | 20,318,917 | 18,795,760 | 8.10% |
| Program expenses: | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction | 11,271,937 | 10,642,648 | 0 | 0 | 11,271,937 | 10,642,648 | 5.91% |
| Support services | 5,958,109 | 5,711,141 | 29 | 0 | 5,958,138 | 5,711,141 | 4.32% |
| Non-instructional programs | 0 | 2,734 | 721,770 | 698,861 | 721,770 | 701,595 | 2.88% |
| Other expenses | 1,443,243 | 1,038,115 | 0 | 0 | 1,443,243 | 1,038,115 | 39.03% |
| Total expenses | 18,673,289 | 17,394,638 | 721,799 | 698,861 | 19,395,088 | 18,093,499 | 7.19% |
| Changes in net assets | 844,430 | 700,860 | 79,399 | 1,401 | 923,829 | 702,261 | 31.55% |
| Beginning net assets | 7,558,141 | 6,857,281 | 165,727 | 164,326 | 7,723,868 | 7,021,607 | 10.00% |
| Ending net assets | \$ 8,402,571 | 7,558,141 | 245,126 | 165,727 | 8,647,697 | 7,723,868 | 11.96% |

In fiscal 2007, property tax and unrestricted state grants account for 75.9% of the revenue from governmental activities while charges for services and operating grants and contributions account for 82.3% of the revenue from business type activities.

The District's total revenues were approximately \$20.3 million of which \$19.5 million was for governmental activities and \$.8 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced an 8.10% increase in revenues and a 7.19% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits and construction costs.

Governmental Activities

Revenues, net of transfers for governmental activities were \$19,517,719 and expenses were \$18,673,289.

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 2006-07 | 2007 | 2006 | Change 2006-07 |
| Instruction | \$ 11,271,937 | 10,642,648 | 5.91% | 8,594,320 | 8,305,427 | 3.48% |
| Support services | 5,958,109 | 5,711,141 | 4.32% | 5,956,422 | 5,709,992 | 4.32% |
| Non-instructional | 0 | 2,734 | -100.00% | 0 | 2,734 | -100.00% |
| Other expenses | 1,443,243 | 1,038,115 | 39.03% | 726,352 | 407,836 | 78.10% |
| Totals | <u>\$ 18,673,289</u> | <u>17,394,638</u> | <u>7.35%</u> | <u>15,277,094</u> | <u>14,425,989</u> | <u>5.90%</u> |

- The cost financed by users of the District's programs was \$1,009,250.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,386,945.
- The net cost of governmental activities was financed with \$6,869,471 in property tax, \$1,145,037 in local option sales and services tax, \$7,943,301 in unrestricted state grants and \$159,223 in interest income and \$148,060 in other general revenues.

Business-Type Activities

Revenues and transfers of the District's business-type activities were \$801,198 and expenses were \$721,799. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,883,569, below last year's ending fund balances of \$2,286,643. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the decrease in the Capital Projects Fund.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in tax levy during the year in tax and grants resulted in an increase in revenues. The increase in General Fund expenditures was less than the increase in General Fund revenues ensuring the financial position of the District increase.
- The Physical Plant and Equipment Levy (PEL) Fund balance increased from a deficit \$343,179 in fiscal 2006 to a deficit \$284,180 in fiscal 2007. Both revenues and expenditures

decreased during the year. The revenues however exceeded expenditures allowing the fund balance to increase \$58,999 during the year.

- The Management Levy fund balance increased during the year from \$912,271 to \$1,203,151. This was the result of an increase in local tax revenues and a decrease in total expenditures during the year.
- The Capital Projects Fund balance decrease from a positive \$551,404 in 2006 to a deficit \$695,784 in 2007. The primary reason for this decrease was due to the construction costs during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$165,727 at June 30, 2006 to \$245,126 at June 30, 2007, representing an increase of 47.9%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Fairfield Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas.

The District's revenues were \$690,810 more than budgeted revenues, a variance of 3.5%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the District had invested \$8,046,962, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 26.91% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$546,112.

The original cost of the District's capital assets was \$16.6 million. Governmental funds account for \$16.3 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$1,340,958 at June 30, 2007. This increase was the result from construction that was started during the year but not finished.

Figure A-6
Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|--------------------------|-------------------------|-----------|--------------------------|--------|-----------------------|-----------|--------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2006-07 |
| Land | \$ 149,402 | 149,402 | 0 | 0 | 149,402 | 149,402 | 0.00% |
| Construction in progress | 1,340,958 | 0 | 0 | 0 | 1,340,958 | 0 | 100.00% |
| Buildings | 5,102,292 | 5,332,782 | 0 | 0 | 5,102,292 | 5,332,782 | -4.32% |
| Land improvements | 722,451 | 142,151 | 0 | 0 | 722,451 | 142,151 | 408.23% |
| Machinery and equipment | 611,681 | 657,041 | 120,178 | 59,284 | 731,859 | 716,325 | 2.17% |
| Total | \$ 7,926,784 | 6,281,376 | 120,178 | 59,284 | 8,046,962 | 6,340,660 | 26.91% |

Long-Term Debt

At June 30, 2007, the District had \$1,912,007 in other long-term debt outstanding. This represents an increase of 31.67% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding Tractor Loan indebtedness at June 30, 2007 of \$6,363. This loan is payable from the General Fund.

The District also had total outstanding Early Retirement payable from the General and Special Revenue - Management Funds of \$1,905,644 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

| | Total School District | | Total Change |
|------------------|-----------------------|-----------|--------------|
| | June 30, | | June 30, |
| | 2007 | 2006 | 2006-07 |
| Tractor Loan | \$ 6,363 | 12,462 | -48.94% |
| Early Retirement | 1,905,644 | 1,439,650 | 32.37% |
| Totals | \$ 1,912,007 | 1,452,112 | 31.67% |

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 has experienced declining enrollment for a few years. This trend is expected for a minimum of four more years.
- The District continues to utilize At-Risk funding to provide opportunities of support for students.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- All bargaining unit contracts are one-year contracts and open for renegotiations next year. Total 2006-07 salaries and benefits paid from the General Fund represented 78.09% of the total 2006-07 General Fund expenditures.

-
- The National School Fitness Foundation has declared bankruptcy and is no longer reimbursing districts for their participation in the “Health and Wellness Physical Education Program”. This program was designed to equip schools with faculty training and support, education curriculum, and exercise machines. Settlement is unknown at this time.

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 Janne Hunsaker, District Secretary/Treasurer and Business Manager, Fairfield Community School District, 403 South 20th Street, Fairfield, Iowa, 52556-2996.

BASIC FINANCIAL STATEMENTS

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

| | Governmental Activities | Business-type Activities | Total |
|-------------------------------------------------------------|----------------------------|-----------------------------|-------------------|
| Assets | | | |
| Cash and pooled investments | \$ 4,237,419 | 112,853 | 4,350,272 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 106,360 | 0 | 106,360 |
| Succeeding year | 6,789,113 | 0 | 6,789,113 |
| Income surtax | 476,537 | 0 | 476,537 |
| Accounts | 14,009 | 9 | 14,018 |
| Due from other governments | 429,751 | 0 | 429,751 |
| Inventories | 0 | 33,969 | 33,969 |
| Capital assets, net of accumulated depreciation (Note 5) | 7,926,784 | 120,178 | 8,046,962 |
| Total Assets | 19,979,973 | 267,009 | 20,246,982 |
| Liabilities | | | |
| Accounts payable | 579,160 | 14,288 | 593,448 |
| Salaries and benefits payable | 1,427,063 | 1,469 | 1,428,532 |
| Anticipatory warrants (Note 6) | 870,059 | 0 | 870,059 |
| Deferred revenue: | | | |
| Succeeding year property tax | 6,789,113 | 0 | 6,789,113 |
| Unearned revenues | 0 | 6,126 | 6,126 |
| Long-term liabilities (Note 7): | | | |
| Portion due within one year: | | | |
| Tractor Loan payable | 6,363 | 0 | 6,363 |
| Early retirement payable | 495,073 | 0 | 495,073 |
| Portion due after one year: | | | |
| Early retirement payable | 1,410,571 | 0 | 1,410,571 |
| Total Liabilities | 11,577,402 | 21,883 | 11,599,285 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 7,920,421 | 120,178 | 8,040,599 |
| Restricted for: | | | |
| Beginning teacher mentoring | 1,121 | 0 | 1,121 |
| Additional teacher contract day | 2,601 | 0 | 2,601 |
| Professional development | 179 | 0 | 179 |
| Market factor | 14,039 | 0 | 14,039 |
| Non-public textbook | 145 | 0 | 145 |
| Other special revenue purposes | 210,996 | 0 | 210,996 |
| Unrestricted | 253,069 | 124,948 | 378,017 |
| Total Net Assets | \$ 8,402,571 | 245,126 | 8,647,697 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | Total |
|------------------------------------------------|-------------------|-------------------------|------------------------------------------------------|----------------------------------------------------|----------------------------------------------------|-----------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants, Contributions and Restricted | Capital Grants, Contributions and Restricted | Governmental Activities | Business-Type Activities | |
| | | | Interest | Interest | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | \$ 7,161,064 | 360,006 | 1,555,613 | 0 | (5,245,445) | 0 | (5,245,445) |
| Special instruction | 2,341,124 | 90,660 | 114,441 | 0 | (2,136,023) | 0 | (2,136,023) |
| Other instruction | 1,769,749 | 556,897 | 0 | 0 | (1,212,852) | 0 | (1,212,852) |
| | <u>11,271,937</u> | <u>1,007,563</u> | <u>1,670,054</u> | <u>0</u> | <u>(8,594,320)</u> | <u>0</u> | <u>(8,594,320)</u> |
| Support services: | | | | | | | |
| Student services | 476,032 | 0 | 0 | 0 | (476,032) | 0 | (476,032) |
| Instructional staff services | 1,050,851 | 0 | 0 | 0 | (1,050,851) | 0 | (1,050,851) |
| Administration services | 1,839,228 | 0 | 0 | 0 | (1,839,228) | 0 | (1,839,228) |
| Operation and maintenance of plant services | 1,565,424 | 0 | 0 | 0 | (1,565,424) | 0 | (1,565,424) |
| Transportation services | 1,026,574 | 1,687 | 0 | 0 | (1,024,887) | 0 | (1,024,887) |
| | <u>5,958,109</u> | <u>1,687</u> | <u>0</u> | <u>0</u> | <u>(5,956,422)</u> | <u>0</u> | <u>(5,956,422)</u> |
| Other expenditures: | | | | | | | |
| Facilities acquisitions | 523,701 | 0 | 0 | 76,245 | (447,456) | 0 | (447,456) |
| Long-term debt interest | 411 | 0 | 0 | 0 | (411) | 0 | (411) |
| AEA flowthrough | 640,646 | 0 | 640,646 | 0 | 0 | 0 | 0 |
| Depreciation(unallocated)* | 278,485 | 0 | 0 | 0 | (278,485) | 0 | (278,485) |
| | <u>1,443,243</u> | <u>0</u> | <u>640,646</u> | <u>76,245</u> | <u>(726,352)</u> | <u>0</u> | <u>(726,352)</u> |
| Total governmental activities | 18,673,289 | 1,009,250 | 2,310,700 | 76,245 | (15,277,094) | 0 | (15,277,094) |
| Business-Type activities: | | | | | | | |
| Support services | | | | | | | |
| Administration | 29 | 0 | 0 | 0 | 0 | (29) | (29) |
| Non-instructional programs: | | | | | | | |
| Nutrition services | 721,770 | 330,744 | 328,971 | 0 | 0 | (62,055) | (62,055) |
| | <u>721,799</u> | <u>330,744</u> | <u>328,971</u> | <u>0</u> | <u>0</u> | <u>(62,084)</u> | <u>(62,084)</u> |
| Total | \$ 19,395,059 | 1,339,994 | 2,639,671 | 76,245 | (15,277,094) | (62,084) | (15,339,178) |
| General Revenues and Transfers: | | | | | | | |
| General Revenues: | | | | | | | |
| Local tax for: | | | | | | | |
| General purposes | | | | \$ 6,582,064 | 0 | 6,582,064 | |
| Capital outlay | | | | 287,407 | 0 | 287,407 | |
| Local option sales and services tax | | | | 1,145,037 | 0 | 1,145,037 | |
| Unrestricted state grants | | | | 7,943,301 | 0 | 7,943,301 | |
| Unrestricted investment earnings | | | | 159,223 | 2,489 | 161,712 | |
| Other | | | | 148,060 | 0 | 148,060 | |
| Transfers | | | | (143,568) | 138,994 | (4,574) | |
| Total general revenues and transfers | | | | <u>16,121,524</u> | <u>141,483</u> | <u>16,263,007</u> | |
| Changes in net assets | | | | 844,430 | 79,399 | 923,829 | |
| Net assets beginning of year | | | | 7,558,141 | 165,727 | 7,723,868 | |
| Net assets end of year | | | | <u>\$ 8,402,571</u> | <u>245,126</u> | <u>8,647,697</u> | |

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

| | General | Capital Projects | Special Revenue - Management Levy | Other Nonmajor Governmental Funds | Total |
|--------------------------------------------|---------------------|---------------------|--------------------------------------------|--------------------------------------------|-------------------|
| Assets | | | | | |
| Cash and pooled investments | \$ 2,817,287 | 0 | 1,185,274 | 207,170 | 4,209,731 |
| Receivables: | | | | | |
| Property tax | | | | | |
| Delinquent | 88,022 | 0 | 13,525 | 4,813 | 106,360 |
| Succeeding year | 5,373,121 | 0 | 1,104,765 | 311,227 | 6,789,113 |
| Income surtax | 476,537 | 0 | 0 | 0 | 476,537 |
| Interfund | 80,000 | 0 | 0 | 0 | 80,000 |
| Accounts | 5,773 | 0 | 4,352 | 3,884 | 14,009 |
| Due from other governments | 235,433 | 194,318 | 0 | 0 | 429,751 |
| Total Assets | \$ 9,076,173 | 194,318 | 2,307,916 | 527,094 | 12,105,501 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Interfund payable | \$ 0 | 0 | 0 | 80,000 | 80,000 |
| Accounts payable | 350,066 | 218,343 | 0 | 10,751 | 579,160 |
| Salaries and benefits payable | 1,427,063 | 0 | 0 | 0 | 1,427,063 |
| Anticipatory warrants (Note 6) | 0 | 671,759 | 0 | 198,300 | 870,059 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 5,373,121 | 0 | 1,104,765 | 311,227 | 6,789,113 |
| Income surtax | 476,537 | 0 | 0 | 0 | 476,537 |
| Total liabilities | 7,626,787 | 890,102 | 1,104,765 | 600,278 | 10,221,932 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Beginning teacher mentoring | 1,121 | 0 | 0 | 0 | 1,121 |
| Additional teacher contract day | 2,601 | 0 | 0 | 0 | 2,601 |
| Professional development | 179 | 0 | 0 | 0 | 179 |
| Market factor | 14,039 | 0 | 0 | 0 | 14,039 |
| Non-public textbook | 145 | 0 | 0 | 0 | 145 |
| Unreserved fund balances | 1,431,301 | (695,784) | 1,203,151 | (73,184) | 1,865,484 |
| Total fund balances | 1,449,386 | (695,784) | 1,203,151 | (73,184) | 1,883,569 |
| Total Liabilities and Fund Balances | \$ 9,076,173 | 194,318 | 2,307,916 | 527,094 | 12,105,501 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD 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 (page 16) | \$ 1,883,569 |
| <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 in the governmental funds. | 7,926,784 |
| Blending of the Internal Service Fund to be reflected on an entity-wide basis. | 27,688 |
| Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period. | 476,537 |
| Long-term liabilities, including tractor loan payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(1,912,007)</u> |
| Net assets of governmental activites (page 14) | <u><u>\$ 8,402,571</u></u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

| | General | Capital Projects | Special Revenue - Management Levy | Other Nonmajor Governmental Funds | Total |
|--------------------------------------------------------------|--------------|---------------------|--------------------------------------------|--------------------------------------------|------------|
| REVENUES: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 5,724,674 | 1,145,037 | 797,081 | 287,407 | 7,954,199 |
| Tuition | 450,666 | 0 | 0 | 0 | 450,666 |
| Other | 310,533 | 22,959 | 60,811 | 471,564 | 865,867 |
| State sources | 9,335,591 | 0 | 0 | 0 | 9,335,591 |
| Federal sources | 918,410 | 76,245 | 0 | 0 | 994,655 |
| Total revenues | 16,739,874 | 1,244,241 | 857,892 | 758,971 | 19,600,978 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 6,550,679 | 0 | 223,543 | 0 | 6,774,222 |
| Special instruction | 2,297,829 | 0 | 43,295 | 0 | 2,341,124 |
| Other instruction | 1,221,940 | 0 | 28,304 | 523,547 | 1,773,791 |
| | 10,070,448 | 0 | 295,142 | 523,547 | 10,889,137 |
| Support services: | | | | | |
| Student services | 473,442 | 0 | 22,982 | 0 | 496,424 |
| Instructional staff services | 915,616 | 0 | 5,798 | 0 | 921,414 |
| Administration services | 1,801,604 | 3,247 | 43,824 | 18,296 | 1,866,971 |
| Operation and maintenance of plant services | 1,481,080 | 0 | 157,608 | 0 | 1,638,688 |
| Transportation services | 822,232 | 0 | 37,231 | 125,740 | 985,203 |
| | 5,493,974 | 3,247 | 267,443 | 144,036 | 5,908,700 |
| Non-instructional programs: | | | | | |
| Food service operations | 0 | 0 | 4,427 | 0 | 4,427 |
| Other expenditures: | | | | | |
| Facilities acquisitions | 0 | 2,488,182 | 0 | 4,772 | 2,492,954 |
| Long-term debt: | | | | | |
| Principal | 0 | 0 | 0 | 6,099 | 6,099 |
| Interest and fiscal charges | 0 | 0 | 0 | 411 | 411 |
| AEA flowthrough | 640,646 | 0 | 0 | 0 | 640,646 |
| | 640,646 | 2,488,182 | 0 | 11,282 | 3,140,110 |
| Total expenditures | 16,205,068 | 2,491,429 | 567,012 | 678,865 | 19,942,374 |
| Excess (deficiency) of revenues over (under) expenditures | 534,806 | (1,247,188) | 290,880 | 80,106 | (341,396) |
| Other financing sources (uses): | | | | | |
| Transfers in | 0 | 0 | 0 | 6,510 | 6,510 |
| Transfers out | (69,259) | 0 | 0 | (4,574) | (73,833) |
| Sale of equipment | 5,645 | 0 | 0 | 0 | 5,645 |
| Total other financing sources (uses) | (63,614) | 0 | 0 | 1,936 | (61,678) |
| Net change in fund balances | 471,192 | (1,247,188) | 290,880 | 82,042 | (403,074) |
| Fund balances beginning of year | 978,194 | 551,404 | 912,271 | (155,226) | 2,286,643 |
| Fund balances end of year | \$ 1,449,386 | (695,784) | 1,203,151 | (73,184) | 1,883,569 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD 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 (page 18) | | \$ (403,074) |
| <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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows: | | |
| Capital outlays | \$ 2,185,351 | |
| Depreciation expense | (530,962) | |
| Loss on disposal of capital assets | <u>(8,981)</u> | 1,645,408 |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. | | |
| | | 6,099 |
| Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. | | |
| | | 1,682 |
| Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. | | |
| | | 60,309 |
| 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. | | |
| Early retirement | | <u>(465,994)</u> |
| Changes in net assets of governmental activities (page 15) | | <u>\$ 844,430</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2007

| | Business-Type | |
|-------------------------------------------------------------|----------------------------------------------------------|------------------------------------------------------------|
| | Activities: Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
| Assets | | |
| Cash and pooled investments | \$ 112,853 | 27,688 |
| Accounts receivable | 9 | 0 |
| Inventories | 33,969 | 0 |
| Capital assets, net of accumulated depreciation (Note 5) | 120,178 | 0 |
| Total Assets | 267,009 | 27,688 |
| Liabilities | | |
| Accounts payable | 14,288 | 0 |
| Salaries and benefits payable | 1,469 | 0 |
| Unearned revenues | 6,126 | 0 |
| Total Liabilities | 21,883 | 0 |
| Net Assets | | |
| Invested in capital assets | 120,178 | 0 |
| Unrestricted | 124,948 | 27,688 |
| Total Net Assets | \$ 245,126 | 27,688 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

| | Business-Type | |
|---------------------------------------------------------------|-----------------------------------|------------------------------------------------------------|
| | Activities: Enterprise Fund | Governmental Activities: Internal Service Fund |
| | School Nutrition | |
| OPERATING REVENUE: | | |
| Local sources: | | |
| Charges for services | \$ 330,744 | 93,472 |
| TOTAL OPERATING REVENUES | <u>330,744</u> | <u>93,472</u> |
| OPERATING EXPENSES: | | |
| Support services: | | |
| Administration | | |
| Benefits | 0 | 91,790 |
| Services | 13 | 0 |
| Supplies | 16 | 0 |
| | <u>29</u> | <u>91,790</u> |
| Non-instructional programs: | | |
| Food service programs: | | |
| Salaries | 250,995 | 0 |
| Benefits | 96,976 | 0 |
| Services | 10,787 | 0 |
| Supplies | 347,661 | 0 |
| Depreciation | 15,150 | 0 |
| | <u>721,569</u> | <u>0</u> |
| TOTAL OPERATING EXPENSES | <u>721,598</u> | <u>91,790</u> |
| OPERATING INCOME (LOSS) | <u>(390,854)</u> | <u>1,682</u> |
| NON-OPERATING REVENUES: | | |
| State sources | 8,553 | 0 |
| Federal sources | 320,418 | 0 |
| Interest income | 2,489 | 0 |
| TOTAL NON-OPERATING REVENUES | <u>331,460</u> | <u>0</u> |
| Change in net assets before other financing sources (uses) | (59,394) | 1,682 |
| Other financing sources (uses): | | |
| Loss on disposal of assets | (201) | 0 |
| Capital contributions | 76,245 | 0 |
| Transfer in | 62,749 | 0 |
| Total other financing sources (uses) | <u>138,793</u> | <u>0</u> |
| Net income | 79,399 | 1,682 |
| Net assets beginning of year | <u>165,727</u> | <u>26,006</u> |
| Net assets end of year | <u>\$ 245,126</u> | <u>27,688</u> |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

| | Business-Type | |
|----------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------------------------|
| | Enterprise Fund School Nutrition | Governmental Activities: Internal Service Fund |
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | \$ 327,216 | 0 |
| Cash received from miscellaneous operating activities | 1,888 | 93,472 |
| Cash payments to employees for services | (347,863) | (91,790) |
| Cash payments to suppliers for goods or services | (308,792) | 0 |
| Net cash provided by(used in) operating activities | (327,551) | 1,682 |
| Cash flows from non-capital financing activities: | | |
| State grants received | 8,553 | 0 |
| Federal grants received | 278,553 | 0 |
| Transfers from the general fund | 62,749 | 0 |
| Net cash provided by non-capital financing activities | 349,855 | 0 |
| Cash flows from investing activities: | | |
| Interest on investment | 2,489 | 0 |
| Net increase in cash and cash equivalents | 24,793 | 1,682 |
| Cash and cash equivalents at beginning of year | 88,060 | 26,006 |
| Cash and cash equivalents at end of year | \$ 112,853 | 27,688 |
| Reconciliation of operating income(loss) to net cash provided by(used in) operating activities: | | |
| Operating income(loss) | \$ (390,854) | 1,682 |
| Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities: | | |
| Commodities consumed | 41,865 | 0 |
| Depreciation | 15,150 | 0 |
| Increase in inventories | (6,468) | 0 |
| Decrease in accounts receivable | 26 | 0 |
| Increase in accounts payable | 14,288 | 0 |
| Increase in salary and benefits payable | 108 | 0 |
| Decrease in unearned revenue | (1,666) | 0 |
| Net cash provided by(used in) operating activities | \$ (327,551) | 1,682 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET: | | |
| Current assets: | | |
| Cash and investments | \$ 112,853 | 27,688 |

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued of \$41,865.

During the year ended June 30, 2007, the District received capital contributions from the Capital Projects Fund of \$76,245.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

| | Private Purpose Trust | |
|-----------------------------|--------------------------|--------|
| | Scholarships | Agency |
| Assets | | |
| Cash and pooled investments | \$ 1,984 | 16,726 |
| Liabilities | | |
| Due to other groups | 0 | 16,726 |
| Net Assets | | |
| Restricted for scholarships | \$ 1,984 | 0 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 STATEMENT CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2007

| | Private Purpose Trust Scholarship |
|-------------------------------------------|-----------------------------------------|
| Additions: | |
| Local sources: | |
| Interest | \$ 0 |
| Deductions: | |
| Scholarships | 2,590 |
| Loss before other financing sources(uses) | (2,590) |
| Other financing sources(uses): | |
| Transfer in | 4,574 |
| Change in net assets | 1,984 |
| Net assets beginning of year | 0 |
| Net assets end of year | \$ 1,984 |

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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

The Fairfield Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Fairfield, Iowa, and the predominate agricultural territory in Van Buren, Washington, Henry, Wapello, and Jefferson 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, Fairfield 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 Fairfield 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 do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Van Buren, Washington, Henry, Wapello, and Jefferson Counties Assessors' 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 support.

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 assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The District reports the following major governmental funds:

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

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

The Special Revenue - Management Levy Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is

used to account for the District's self-funded health insurance plan.

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the 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 three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following

fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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, machinery, 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.

| Asset Class | Amount |
|---------------------------------|----------|
| Land | \$ 2,500 |
| Buildings | 2,500 |
| Land improvements | 2,500 |
| Machinery and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other machinery and equipment | 2,500 |

Property, machinery and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

| Asset Class | Estimated Useful Lives (In Years) |
|-------------------------|-----------------------------------|
| Buildings | 50 years |
| Land improvements | 20 years |
| Machinery and equipment | 5-15 years |

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July 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 receivables and other receivables not collected within sixty days after year end.

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

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

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

Fund 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.

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

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

At June 30, 2007, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | Amortized Cost |
|-------------------------------------|-------------------|
| Iowa Schools Joint Investment Trust | \$ 2,743 |

(3) Transfers

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

| Transfer to | Transfer from | Amount |
|-------------------------------|-----------------------------------|------------------|
| Debt Service | General | \$ 6,510 |
| Private Purpose Trust | Special Revenue, Expendable Trust | 4574 |
| Enterprise - School Nutrition | General | <u>62,749</u> |
| Total | | <u>\$ 73,833</u> |

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

(4) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2007 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-----------------------------------------------------|-----------|
| General | Special Revenue - Physical Plant and Equipment Levy | \$ 80,000 |

(5) Capital Assets

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

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|---------------------------------------------|---------------------------------|-----------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 149,402 | 0 | 0 | 149,402 |
| Construction in progress | 0 | 1,340,958 | 0 | 1,340,958 |
| Total capital assets not being depreciated | 149,402 | 1,340,958 | 0 | 1,490,360 |
| Capital assets being depreciated: | | | | |
| Buildings | 10,768,809 | 3,340 | 0 | 10,772,149 |
| Land improvements | 327,738 | 624,955 | 0 | 952,693 |
| Machinery and equipment | 3,003,809 | 216,098 | 127,035 | 3,092,872 |
| Total capital assets being depreciated | 14,100,356 | 844,393 | 127,035 | 14,817,714 |
| Less accumulated depreciation for: | | | | |
| Buildings | 5,436,027 | 233,830 | 0 | 5,669,857 |
| Land improvements | 185,587 | 44,655 | 0 | 230,242 |
| Machinery and equipment | 2,346,768 | 252,477 | 118,054 | 2,481,191 |
| Total accumulated depreciation | 7,968,382 | 530,962 | 118,054 | 8,381,290 |
| Total capital assets being depreciated, net | 6,131,974 | 313,431 | 8,981 | 6,436,424 |
| Governmental activities capital assets, net | \$ 6,281,376 | 1,654,389 | 8,981 | 7,926,784 |

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year |
|----------------------------------------------|---------------------------------|-----------|-----------|---------------------------|
| Business-type activities: | | | | |
| Machinery and equipment | \$ 239,443 | 76,245 | 1,520 | 314,168 |
| Less accumulated depreciation | 180,159 | 15,150 | 1,319 | 193,990 |
| Business-type activities capital assets, net | \$ 59,284 | 61,095 | 201 | 120,178 |

Depreciation expense was charged by the District as follows:

| | | |
|----------------------------------------------------|--|------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | | \$ 94,400 |
| Support services: | | |
| Instructional staff | | 8,794 |
| Administration | | 725 |
| Operation and maintenance | | 22,375 |
| Transportation | | 126,183 |
| | | 252,477 |
| Unallocated depreciation | | 278,485 |
| Total governmental activities depreciation expense | | \$ 530,962 |
| Business-type activities: | | |
| Food services | | \$ 15,150 |

(6) Anticipatory Warrants

Anticipatory warrant activity for the year ended June 30, 2007 is as follows:

| | Balance Beginning of Year | Issued During Year | Redeemed During Year | Balance End of Year |
|-----------------------------------------------------------|---------------------------------|--------------------------|----------------------------|---------------------------|
| Special Revenue - Physical Plant and Equipment Levy | \$ 335,599 | 207,085 | 344,384 | 198,300 |
| Capital Projects | | 0 1,095,703 | 423,944 | 671,759 |
| | <u>\$ 335,599</u> | <u>1,302,788</u> | <u>768,328</u> | <u>870,059</u> |

(7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year | Due Within One Year |
|------------------|---------------------------------|----------------|----------------|---------------------------|---------------------------|
| Tractor Loan | \$ 12,462 | 0 | 6,099 | 6,363 | 6,363 |
| Early Retirement | 1,439,650 | 764,503 | 298,509 | 1,905,644 | 495,073 |
| Total | <u>\$ 1,452,112</u> | <u>764,503</u> | <u>304,608</u> | <u>1,912,007</u> | <u>501,436</u> |

Tractor Loan

Details of the District's June 30, 2007 Tractor Loan indebtedness is as follows:

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|-----------|----------|--------------|
| 2008 | 4.33 % | \$ 6,363 | 148 | <u>6,511</u> |

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application within a seven-year window of eligibility. This application is required to be approved by the Board of Education. The district will pay the retiree a monthly payment beginning the first month of retirement and continuing for a maximum of 84 months. The early retirement incentive for each eligible employee is equal to .020 times the annual salary received by the retiree during the fiscal year immediately preceding retirement. "Annual salary" refers to compensation which the retiree received under Schedule A of the Master Contract, between the Fairfield Community School District

and the Fairfield Community Education Association, the annual salary for administrators, and the annual salary for non-certified staff. It excludes all supplemental pay, extra-duty pay and extended contract pay. Early retirement benefits paid during the year ended June 30, 2007, totaled \$298,509.

(8) 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 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 \$589,195, \$569,192 and \$582,893 respectively, equal to the required contributions for each year.

(9) Risk Management

Fairfield 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.

(10) 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 \$640,646 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.

(11) Deficit Fund Balance

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund and the Capital Projects Fund had deficit undesignated fund balances of \$284,180 and \$695,784 at June 30, 2007.

(12) Construction Commitment

The District has entered into various contracts totaling \$1,421,816 for the gym and auditorium projects. As of June 30, 2007, costs of \$1,340,958 had been incurred against the contracts. The balance of \$80,858 remaining at June 30, 2007 will be paid as work on the projects progresses.

(13) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2007

| | Governmental | Proprietary | Total Actual | Budgeted Amounts | | Final to |
|--------------------------------------------------------------------------------------------------------------------|--------------|-------------|-----------------|------------------|-------------|-----------|
| | Funds | Fund | | Original | Final | Actual |
| | Actual | Actual | | | | Variance |
| Revenues: | | | | | | |
| Local sources | \$ 9,270,732 | 333,233 | 9,603,965 | 9,220,236 | 9,220,236 | 383,729 |
| State sources | 9,335,591 | 8,553 | 9,344,144 | 9,317,609 | 9,317,609 | 26,535 |
| Federal sources | 994,655 | 320,418 | 1,315,073 | 1,034,527 | 1,034,527 | 280,546 |
| Total revenues | 19,600,978 | 662,204 | 20,263,182 | 19,572,372 | 19,572,372 | 690,810 |
| Expenditures: | | | | | | |
| Instruction | 10,889,137 | 0 | 10,889,137 | 10,867,412 | 11,445,366 | 556,229 |
| Support services | 5,908,700 | 29 | 5,908,729 | 5,793,009 | 5,872,455 | (36,274) |
| Non-instructional programs | 4,427 | 721,569 | 725,996 | 844,595 | 895,300 | 169,304 |
| Other expenditures | 3,140,110 | 0 | 3,140,110 | 3,083,540 | 3,246,083 | 105,973 |
| Total expenditures | 19,942,374 | 721,598 | 20,663,972 | 20,588,556 | 21,459,204 | 795,232 |
| Excess(deficiency) of revenues over(under) expenditures | (341,396) | (59,394) | (400,790) | (1,016,184) | (1,886,832) | 1,486,042 |
| Other financing sources, net | (61,678) | 138,793 | 77,115 | 0 | 0 | 77,115 |
| Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses | (403,074) | 79,399 | (323,675) | (1,016,184) | (1,886,832) | 1,563,157 |
| Balance beginning of year | 2,286,643 | 165,727 | 2,452,370 | 1,786,283 | 1,786,283 | 666,087 |
| Balance end of year | \$ 1,883,569 | 245,126 | 2,128,695 | 770,099 | (100,549) | 2,229,244 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$870,648.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2007

| | Special Revenue Funds | | |
|--------------------------------------------|-----------------------|--------------------------------------------|--------------------------------------|
| | Student Activity | Physical Plant and Equipment Levy | Total Special Revenue Funds |
| Assets | | | |
| Cash and pooled investments | \$ 207,112 | 58 | 207,170 |
| Receivables: | | | |
| Property tax | | | |
| Delinquent | 0 | 4,813 | 4,813 |
| Succeeding year | 0 | 311,227 | 311,227 |
| Accounts | 3,884 | 0 | 3,884 |
| Total Assets | \$ 210,996 | 316,098 | 527,094 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Interfund payable | \$ 0 | 80,000 | 80,000 |
| Accounts payable | 0 | 10,751 | 10,751 |
| Anticipatory warrants (Note 6) | 0 | 198,300 | 198,300 |
| Deferred revenue: | | | |
| Succeeding year property tax | 0 | 311,227 | 311,227 |
| Total liabilities | 0 | 600,278 | 600,278 |
| Fund balances: | | | |
| Unreserved fund balances | 210,996 | (284,180) | (73,184) |
| Total Liabilities and Fund Balances | \$ 210,996 | 316,098 | 527,094 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD 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 |
|--------------------------------------------------------------|----------------------------------------------|-------------------|---------------------|--------------------------------------|-----------------|--------------------------------------------|
| | Physical Plant and Student Activity | Equipment Levy | Expendable Trust | Total Special Revenue Funds | Debt Service | Other Nonmajor Governmental Funds |
| REVENUES: | | | | | | |
| Local sources: | | | | | | |
| Local tax | \$ 0 | 287,407 | 0 | 287,407 | 0 | 287,407 |
| Other | 471,164 | 400 | 0 | 471,564 | 0 | 471,564 |
| TOTAL REVENUES | 471,164 | 287,807 | 0 | 758,971 | 0 | 758,971 |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| Instruction: | | | | | | |
| Other instruction | 443,547 | 80,000 | 0 | 523,547 | 0 | 523,547 |
| Support services: | | | | | | |
| Administration services | 0 | 18,296 | 0 | 18,296 | 0 | 18,296 |
| Transportation services | 0 | 125,740 | 0 | 125,740 | 0 | 125,740 |
| | 0 | 144,036 | 0 | 144,036 | 0 | 144,036 |
| Other expenditures: | | | | | | |
| Facilities acquisitions | 0 | 4,772 | 0 | 4,772 | 0 | 4,772 |
| Long-term debt: | | | | | | |
| Principal | 0 | 0 | 0 | 0 | 6,099 | 6,099 |
| Interest and fiscal charges | 0 | 0 | 0 | 0 | 411 | 411 |
| | 0 | 4,772 | 0 | 4,772 | 6,510 | 11,282 |
| TOTAL EXPENDITURES | 443,547 | 228,808 | 0 | 672,355 | 6,510 | 678,865 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 27,617 | 58,999 | 0 | 86,616 | (6,510) | 80,106 |
| Other financing sources (uses): | | | | | | |
| Transfers in | 0 | 0 | 0 | 0 | 6,510 | 6,510 |
| Transfers out | 0 | 0 | (4,574) | (4,574) | 0 | (4,574) |
| | 0 | 0 | (4,574) | (4,574) | 6,510 | 1,936 |
| Net change in fund balance | 27,617 | 58,999 | (4,574) | 82,042 | 0 | 82,042 |
| Fund balance beginning of year | 183,379 | (343,179) | 4,574 | (155,226) | 0 | (155,226) |
| Fund balance end of year | \$ 210,996 | (284,180) | 0 | (73,184) | 0 | (73,184) |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|---------------------|---------------------------------|----------|-------------------|---------------------------|
| HS Drama | \$ 3,631 | 11,923 | 14,511 | 1,043 |
| MS Drama | 4,180 | 901 | 660 | 4,421 |
| HS Vocal Music | 12,958 | 115,439 | 123,925 | 4,472 |
| MS Vocal Music | 2,449 | 601 | 196 | 2,854 |
| HS Band 1000 | 7,290 | 15,493 | 12,300 | 10,483 |
| MS Band | 0 | 5,863 | 4,025 | 1,838 |
| HS Musical | 8,368 | 3,243 | 3,172 | 8,439 |
| HS Athletics | 309 | 118,947 | 100,362 | 18,894 |
| MS Athletics | 770 | 5,272 | 5,962 | 80 |
| Libertyville | 2,536 | 3,405 | 4,601 | 1,340 |
| Lincoln | 1,949 | 5,805 | 3,302 | 4,452 |
| Pence | 6,187 | 8,494 | 9,142 | 5,539 |
| Washington | 7,894 | 8,378 | 11,868 | 4,404 |
| MS Library | 1,004 | 4,310 | 4,240 | 1,074 |
| MS Student Council | 1,071 | 693 | 63 | 1,701 |
| MS Pop/Juice | 2,243 | 9,110 | 9,975 | 1,378 |
| MS Activity Ticket | 3,914 | 1,005 | 1,528 | 3,391 |
| MS Ice Cream | 864 | 2,930 | 2,692 | 1,102 |
| MS Cheerleader Org. | 1,655 | 930 | 447 | 2,138 |
| MS Yearbook | 4,216 | 3,348 | 2,924 | 4,640 |
| MS Interest | 2,807 | 596 | 1,497 | 1,906 |
| HS CD/Interest | 2,722 | 2,078 | (1) | 4,801 |
| MS Environment | 238 | 0 | 0 | 238 |
| HS FBLA Club | 1,200 | 6,694 | 6,561 | 1,333 |
| HS FCA Club | 8,337 | 230 | 1,614 | 6,953 |
| HS Ice Cream | 1,430 | 0 | 0 | 1,430 |
| HS Concessions | 698 | 17,384 | 16,228 | 1,854 |
| HS Cheerleaders | 50 | 1,030 | 801 | 279 |
| HS Los Gringos | 3,198 | 998 | 175 | 4,021 |
| HS FFA | 318 | 42,998 | 36,225 | 7,091 |
| HS FHA | 3,044 | 0 | 0 | 3,044 |
| HS Dance-Drill | 850 | 5,423 | 6,221 | 52 |
| HS Library | 1,187 | 0 | 0 | 1,187 |
| HS Quill | 10,248 | 9,153 | 8,005 | 11,396 |
| HS Science Club | 1,309 | 0 | 0 | 1,309 |
| HS Student Council | 15,471 | 14,145 | 9,591 | 20,025 |
| HS Resource | 4,880 | 1,043 | 553 | 5,370 |
| HS Torch Club | 1,317 | 300 | 99 | 1,518 |

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2007

| Account | Balance Beginning of Year | Revenues | Expendi- tures | Balance End of Year |
|-----------------------|---------------------------------|----------------|-------------------|---------------------------|
| HS Troy Banner Org. | 952 | 325 | 222 | 1,055 |
| HS SADD Club | 1,659 | 0 | 0 | 1,659 |
| HS Young Farmers Org. | 0 | 2,025 | 0 | 2,025 |
| HS Vica Club | 852 | 935 | 959 | 828 |
| HS Student Assembly | 5,560 | 0 | 0 | 5,560 |
| HS Student Act/Ath | 7,601 | 11,000 | 3,626 | 14,975 |
| HS Class 2010 Org. | 0 | 4,302 | 2,801 | 1,501 |
| HS Class 2009 Org. | 2,558 | 0 | 139 | 2,419 |
| HS Class 2008 Org. | 3,411 | 1,927 | 3,718 | 1,620 |
| HS Class 2007 Org. | 2,600 | 619 | 1,629 | 1,590 |
| HS Class 2006 Org. | 0 | 0 | 40 | (40) |
| Wall of Honor | 3,742 | 1,055 | 1,284 | 3,513 |
| HS Pep Club | 1,394 | 100 | 1,043 | 451 |
| HS Career Club | 2,077 | 0 | 537 | 1,540 |
| HS French Club | 12,166 | 0 | 8,156 | 4,010 |
| HS Stud. Welfare | 2,490 | 5,621 | 5,544 | 2,567 |
| HS Sp/Forensics | 2,597 | 2,003 | 4,043 | 557 |
| HS Thespians | 0 | 616 | 616 | 0 |
| HS Act. Ticket | 0 | 1,623 | 1,623 | 0 |
| HS Renaissance | 0 | 10,220 | 3,472 | 6,748 |
| Home School Assist. | 0 | 631 | 631 | 0 |
| HS Art Club | 928 | 0 | 0 | 928 |
| Total | \$ 183,379 | 471,164 | 443,547 | 210,996 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|-----------------------------------|---------------------------------|-----------|-----------|---------------------------|
| <u>ADMINISTRATOR</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 224 | 130 | 133 | 221 |
| LIABILITIES | | | | |
| Due to other groups | \$ 224 | 130 | 133 | 221 |
| <u>ALUMNI</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 636 | 0 | 0 | 636 |
| LIABILITIES | | | | |
| Due to other groups | \$ 636 | 0 | 0 | 636 |
| <u>HIGH SCHOOL FACULTY</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 149 | 290 | 293 | 146 |
| LIABILITIES | | | | |
| Due to other groups | \$ 149 | 290 | 293 | 146 |
| <u>ATHLETIC TOURNAMENT</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 805 | 17,010 | 17,010 | 805 |
| LIABILITIES | | | | |
| Due to other groups | \$ 805 | 17,010 | 17,010 | 805 |
| <u>STUDENT INSURANCE</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 182 | 1,099 | 1,641 | (360) |
| LIABILITIES | | | | |
| Due to other groups | \$ 182 | 1,099 | 1,641 | (360) |

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|-----------------------------------------|---------------------------------|-----------|-----------|---------------------------|
| <u>HS MEMORIAL</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 0 | 15,303 | 25 | 15,278 |
| LIABILITIES | | | | |
| Due to other groups | \$ 0 | 15,303 | 25 | 15,278 |
| <u>TOTALS - ALL AGENCY FUNDS</u> | | | | |
| ASSETS | | | | |
| Cash and pooled investments | \$ 1,996 | 33,832 | 19,102 | 16,726 |
| LIABILITIES | | | | |
| Due to other groups | \$ 1,996 | 33,832 | 19,102 | 16,726 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

| | Modified Accrual Basis | | | |
|------------------------------------------------|------------------------|-------------------|-------------------|-------------------|
| | Years Ended June 30, | | | |
| | 2007 | 2006 | 2005 | 2004 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 7,954,199 | 7,248,837 | 6,376,510 | 6,252,144 |
| Tuition | 450,666 | 378,510 | 325,494 | 365,228 |
| Other | 865,867 | 635,419 | 665,816 | 539,195 |
| State sources | 9,335,591 | 8,974,692 | 8,537,210 | 7,883,952 |
| Federal sources | 994,655 | 827,013 | 751,011 | 738,468 |
| Total | \$ 19,600,978 | 18,064,471 | 16,656,041 | 15,778,987 |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 6,774,222 | 6,519,414 | 6,078,027 | 6,212,554 |
| Special instruction | 2,341,124 | 2,234,394 | 2,073,310 | 2,216,619 |
| Other instruction | 1,773,791 | 1,480,291 | 1,633,795 | 942,069 |
| Support services: | | | | |
| Student services | 496,424 | 517,807 | 314,393 | 493,244 |
| Instructional staff services | 921,414 | 990,180 | 889,753 | 654,740 |
| Administration services | 1,866,971 | 1,796,049 | 1,767,470 | 1,562,814 |
| Operation and maintenance of plant services | 1,638,688 | 1,664,539 | 1,578,778 | 1,483,756 |
| Transportation services | 985,203 | 908,404 | 901,805 | 770,661 |
| Central support services | 0 | 0 | 0 | 3,279 |
| Non-instructional programs | 4,427 | 7,161 | 111,196 | 98,757 |
| Other expenditures: | | | | |
| Facilities acquisitions | 2,492,954 | 493,932 | 35,741 | 54,606 |
| Long-term debt: | | | | |
| Principal | 6,099 | 68,747 | 79,331 | 76,273 |
| Interest and other charges | 411 | 1,769 | 4,233 | 7,291 |
| AEA flow-through | 640,646 | 614,109 | 590,231 | 579,419 |
| Total | \$ 19,942,374 | 17,296,796 | 16,058,063 | 15,156,082 |

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|--------------------------------------|----------------|-----------------|-------------------------|
| DIRECT: | | | |
| DEPARTMENT OF EDUCATION: | | | |
| FUND FOR THE IMPROVEMENT OF | | | |
| EDUCATION(CAROL M. WHITE PHYSICAL | | | |
| EDUCATION PROGRAM) | 84.215 | FY 07 | \$ <u>177,051</u> |
| INDIRECT: | | | |
| DEPARTMENT OF AGRICULTURE: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| FOOD DONATION (non-cash) | 10.550 | FY 07 | <u>41,865</u> |
| SCHOOL NUTRITION CLUSTER PROGRAMS: | | | |
| SCHOOL BREAKFAST PROGRAM | 10.553 | FY 07 | 31,218 |
| NATIONAL SCHOOL LUNCH PROGRAM | 10.555 | FY 07 | <u>247,335</u> |
| | | | <u>278,553</u> |
| DEPARTMENT OF EDUCATION: | | | |
| IOWA DEPARTMENT OF EDUCATION: | | | |
| TITLE I GRANTS TO LOCAL EDUCA- | | | |
| TIONAL AGENCIES | 84.010 | 2169-G-06 | 1,814 |
| TITLE I GRANTS TO LOCAL EDUCA- | | | |
| TIONAL AGENCIES | 84.010 | 2169-G | 285,979 |
| TITLE I GRANTS TO LOCAL EDUCA- | | | |
| TIONAL AGENCIES | 84.010 | 2169-GC | <u>36,413</u> |
| | | | <u>324,206</u> |
| VOCATIONAL EDUCATION - BASIC | | | |
| GRANTS TO STATES | 84.048 | FY 07 | <u>34,008</u> |
| SAFE AND DRUG-FREE SCHOOLS AND | | | |
| COMMUNITIES - STATE GRANTS | 84.186 | FY 07 | <u>9,457</u> |
| FUND FOR THE IMPROVEMENT OF | | | |
| EDUCATION | 84.215 | FY 07 | <u>76,245</u> |
| STATE GRANTS FOR INNOVATIVE PROGRAMS | 84.298 | FY 07 | <u>2,314</u> |
| ENHANCING EDUCATION THROUGH | | | |
| TECHNOLOGY | 84.318 | FY 07 | <u>10,048</u> |

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2007

| GRANTOR/PROGRAM | CFDA NUMBER | GRANT NUMBER | PROGRAM EXPENDITURES |
|-------------------------------------------------------------------|----------------|-----------------|-------------------------|
| DEPARTMENT OF EDUCATION (CONT) : | | | |
| ADVANCE PLACEMENT PROGRAM | 84.330 | FY 07 | 583 |
| IMPROVING TEACHER QUALITY STATE GRANTS | 84.367 | FY 07 | 117,472 |
| GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES | 84.369 | FY 07 | 13,328 |
| AREA EDUCATION AGENCY: | | | |
| SPECIAL EDUCATION - GRANTS TO STATES (NIMIS) | 84.027 | FY 07 | 375 |
| SPECIAL EDUCATION - GRANTS TO STATES (EVERY LEARNER INQUIRIES) | 84.027 | FY 07 | 1,526 |
| SPECIAL EDUCATION - GRANTS TO STATES (PART B) | 84.027 | FY 07 | 126,135 |
| TOTAL | | | \$ 1,213,166 |

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Fairfield 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 Fairfield 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 21, 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 Fairfield 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 Fairfield Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fairfield 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 Fairfield 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 Fairfield Community School District's financial statements that is more than inconsequential will not be prevented or detected by Fairfield Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs 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 Fairfield 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 item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairfield 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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

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

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2008

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

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

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Fairfield Community School District:

Compliance

We have audited the compliance of Fairfield Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Fairfield Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Fairfield Community School District's management. Our responsibility is to express an opinion on Fairfield Community School District's compliance based on our audit.

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

In our opinion, Fairfield Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

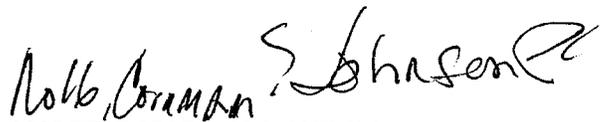
The management of Fairfield Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Fairfield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

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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


NOLTE, CORNMAN & JOHNSON, P.C.

March 21, 2008

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fairfield Community School District qualified as a low-risk auditee.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that in the Student Activity Fund the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-07 Authorized Check Signatures - We noted instances of checks written from the Student Activity Fund having only one signature. It was also noted that the Board President and Board Secretary are not signing these checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa. The Board President can designate an authorized signer other than himself; however, the Board Secretary may not delegate this duty.

Response - The District requires the expenditures be pre-approved by the Board and each check issued requires two signatures (high school secretary who processes the check and the high school principal). The District feels segregation of duties are being implemented. The District will look at available options.

Conclusion - Response accepted.

II-C-07 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the Activity fund to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis. Any reconciling items should be resolved and necessary adjustments made timely.

Response - High school administration will make arrangements for the activity fund personnel to receive the necessary training on activity fund bank reconciliations.

Conclusion - Response accepted.

II-D-07 Student Activity Fund - During our audit issues arose about the properness of certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would

include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. More specific examples of these instances of questioned items and recommendations are as follows:

Currently there is a library account that needs to be closed and transferred to the General Fund where the expenditures can legally occur.

It was also noted that there were Lifetouch and Target donations receipted into the Activity Fund. These donations should be receipted into the General Fund.

We noted when scholarships are being awarded to the student the check is written to the student instead of the college. The donations and expenditures for scholarships should be run through a trust fund instead of the Student Activity fund. The check should be written to the college instead of the student.

We noted expenditures for playground equipment and repairs and re-sodding of the baseball field. These expenditures should have been paid from the General or Physical Plant and Equipment Levy Funds instead of the Student Activity fund.

We noted there were balances remaining in the interest accounts. The interest earned every year should be allocated out among the various accounts within the Student Activity fund.

Response - High school administration will have the high school and middle school library accounts transferred to other activity accounts by board approval. In the future, library books will be considered as instructional supplies and the money will be deposited into the General Fund and library books will be purchased from the General Fund.

In the future, high school administration will deposit commission checks, such as Lifetouch, and Target donations into the General Fund and the General Fund line item budget account for that particular school(s) will be increased accordingly.

In the future, high school administration will have all playground fundraiser money deposited into the Physical Plant and Equipment Levy Fund and the PPEL line item, budget for that school(s) will be increased accordingly.

Conclusion - Response accepted.

II-E-07 Exclusive Vendor Contract - We noted during the audit that within the Student Activity Fund there was revenue received from an exclusive vendor contract.

Recommendation - According to guidance provided by the Iowa Department of Education, the Auditor of State and the Attorney General's Opinion dated February 15, 2000, Districts must record the revenue from exclusive vendor contracts in the General Fund. It may then be expended for General Fund purposes including athletics or other extracurricular activities to the extent the expenditures would be allowable and appropriate from the General Fund.

According to the contract, the vendor will donate \$11,000 annually and provide a \$1,000 annual scholarship to the Fairfield Community Schools. The \$11,000 should be receipted into the General Fund and the \$1,000 should be receipted into an expendable trust fund.

Response - In the future, high school administration will have all revenue from exclusive vendor contracts recorded directly in the District's General Fund and not in the Student Activity Fund. The General Fund line item budget account for that particular school(s) will be increased accordingly.

Conclusion - Response accepted.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No significant deficiencies were reported.

FAIRFIELD COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the support services expenditures program 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.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

| Name, Title and Business Connection | Transaction Description | Amount |
|---------------------------------------------------------------------------|----------------------------|---------|
| Amy Megrath, Teacher Spouse owns Megrath Enterprises | Purchased Services | \$637 |
| Jon Hesseltine, Custodian Owner of Jon's Janitorial | Carpet Cleaning | \$45 |
| Joe Stever, Board Member Affiliated with Waste Management | Purchased Services | \$654 |
| Dr. Terry Cochran, Board President Affiliated with Medical Arts Clinic | Purchased Service | \$3,107 |
| Steve Triplett, Superintendent Board Member of Iowa State Bank | | |

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with spouses of the District's employees, Superintendent and Board Members do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the custodian does not appear to represent a conflict of interest.

- IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- IV-J-07 Financial Condition - The District had a deficit undesignated fund balance in the Special Revenue - Physical Plant Equipment Levy fund and Capital Projects fund of \$284,180 and \$695,784, respectively.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. The District should consider a workout plan to bring the PPEL and Capital Projects funds to a solvent position.

Response - We are monitoring the expenditures in the PPEL and SILO Funds.

Conclusion - Response accepted.