

**GRAETTINGER  
COMMUNITY SCHOOL DISTRICT**

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

JUNE 30, 2007

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**GRAETTINGER COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September, 2006 Election)</b>		
Bill Brown Jr.	President	2007
Rick Hopper	Vice President	2007
Duane Hoffman		2008
Roger Schmitt		2008
Kevin Jensen		2006

**(After September, 2006 Election)**

Bill Brown Jr.	President	2007
Rick Hopper	Vice President	2007
Duane Hoffman		2008
Roger Schmitt		2008
Kevin Jensen		2009

**School Officials**

Dan Mart	Superintendent
Lisa Chapman	District Secretary/ Treasurer

**BRUCE D. FRINK**  
Certified Public Accountant

Independent Auditor's Report

To the Board of Education of  
Graettinger Community School District:

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

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 Graettinger Community School District, Graettinger, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 12, 2008 on our consideration of Graettinger 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 28 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Graettinger Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2005 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 12, 2008

# GRAETTINGER COMMUNITY SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Graettinger 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

- The District's overall financial position improved from the prior year. The unreserved/undesignated general fund balance increased from \$575,253 to \$635,857. This improved the District's financial solvency ratio to 23.13%, which is well above the target range of 5%-10%.
- We are entering the 4<sup>th</sup> year of the academic sharing agreement between Graettinger and Terril. Plans for reorganization will be discussed more in depth in fiscal year 2008.
- The Graettinger Community School District certified enrollment count taken on September 2007 was 238. This count represents 2 more students than the September 2006 count of 236.
- Interest rates were on a slow steady decline in fiscal year 2007. July 2006 began with .75% APY in the General Fund. By November we had decreased to .69% and dropping to .60% in December then remaining steady until the end of the year. The T-Bill account was opened in July of 2005 with a \$300,000 deposit from the checking account. The APY in July 2006 was 3.91%. The rate dropped in November to 3.85% and again in December to 3.75% and finally to 3.65% in January. The rate remained at 3.65% until the end of June. Interest earned from the T-Bill resulted in \$10,960 while the checking account earned only \$1,138. Two hundred thousand was transferred from the checking account to the T-Bill in October 2006 and withdrawn in January 2007 in order to purchase a one-year CD from Bank Plus in Graettinger. The District will continue to invest cash in certificates of deposit.
- The District ended fiscal year 2006 with a fund balance of \$575,253. For fiscal year 2007 this balance declined to \$411,964. This decrease of \$163,289 is primarily due to a \$13,032 increase in supplies, \$27,390 increase of equipment purchases, \$4,754 in dues and fees and an increase in salaries and benefits in the amount of \$55,282. Due to our superintendent sharing with Terril, our administrator salary is again 50%. We also shared a music teacher, band teacher and Spanish teacher. We sold 100% of the services for middle school reading and middle school math. We also purchased 100% of the services for high school science and kindergarten from Terril. We will be continuing to share staff into fiscal year 2008.
- The Nutrition Fund ended June 2007 with a cash balance of \$17,058. June 2007 decreased to a balance of \$8,361. A salad bar was purchased in the amount of \$1,537 and \$574 was spent to repair the main water supply to the kitchen. Prices have been raised to fiscal year 2008 as well as decreasing staff by .5. A longtime employee has retired and new staff will be looking at new menu items and adjusting to new kitchen procedures.
- Local Option and PPEL revenue totaled \$235,819 and expenditures were \$269,477. Expenditures made in the summer of 2006 included new rubber flooring for the hallway from Jim's Floor Coverings in the amount of \$19,200 and lockers from Decker Equipment for \$5,799. Included in the floor improvement were payments to the asbestos remover, Pro Environmental, in the amount of \$11,897 and Ames Environmental for air quality in the amount of \$2,500. All of the lockers in the downstairs hallway were removed while new lockers were placed upstairs. Improvements were also made electrically by adding a new air handler in the library in the amount of \$22,650 from Swift air. There were many computer updates, including hardware and software. All the high school teachers laptops were replaced with Windows machines and software. Elementary teachers received Apple desktop computers. Architects spent time drawing up plans for an office remodel and gym

addition. A new sidewalk and street were constructed in August. The city paid for the street renovation while the school paid for the sidewalk in the amount of \$48,611. Financial payment to Haselhoff Construction was made in September 2006 for the bathroom remodel from last summer in the amount of \$75,170.

- The Special Education program final balances have not been sent out by the DE, however, initial reports showed the balance at an approximate positive \$2,300. We are currently in the process of facilitating a transfer from special education accounts to general fund computer and vehicle accounts (to cover the expense of the special education van & computers) to bring the initial negative balance of \$49,000 down. Anticipation is that expenses will be down for fiscal year 2008 as we have lost a high cost student although special educations expenses are always hard to predict.
- The contribution ratio shows that the District increased revenue at the state level by a small margin. Local revenue decreased in the amount of \$87,475. The District's taxable valuation increased by \$2,469,799 from January 2005 (used for 05-06 budgets) to January 2006 (used for 06-07 budgets).
- The Day's Net Cash Ratio shows that the District continues to improve cash flow capacity. On June 30, 2007 the District had a combination of cash and investments on hand in the amount of \$768,800. This amount when divided by fiscal year 2007 average daily expenditures of \$9,049 yields 85 days of operating cash flow. This is an increase of 11 days over fiscal year 2006.

The following pages are the District's *Annual Financial Health Report*. It contains different indicators of the District's financial condition.

## Financial Indicator Summary Sheet

	2003	2004	2005	2006	2007
<b>Balance Sheet Comparison</b>					
% of Change between years:					
Assets	-13.4%	25.30%	57.4%	0.1%	5.1%
Liabilities	-86.4%	25.60%	0.1%	-25.6%	113.3%
Fund Balance	224.2%	191.10%	34.4%	18.3%	9.5%
<b>Rev. &amp; Exp. Comparison</b>					
% of Change between years					
Revenues	1.3%	3.60%	16.00%	7.9%	-4.3%
Expenditures	-2.0%	4.30%	2.90%	10.0%	1.9%
Fund Balance	-29.4%	12.60%	234.10%	-0.9%	53.6%
<b>Financial Solvency Ratio</b>					
District Equity Position	4.86%	11.95%	17.80%	20.07%	23.13%
<b>Rev. &amp; Exp. Change Ratio</b>					
Measures Trends	2.2	7.6	0.5	0.8	1.6%
<b>Rev. (Deficit) Margin Ratio</b>					
Measures Operating Results	-11.89%	7.84%	5.72%	3.66%	2.20%
<b>Contribution Ratio</b>					
Measures Local Taxation Effort:					
Local	41.4%	44.1%	53.6%	55.9%	55.1%
State	49.9%	50.1%	41.3%	40.1%	41.1%
Federal	8.7%	5.7%	5.1%	4.0%	3.8%
Other	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Day's Net Cash Ratio</b>					
Short Term Solvency (Days)	12	43	64	73	104
<b>Assets to Liab. Ratio,</b>					
Measures Short-term solvency	130.70%	220.05%	448.66%	672.91%	396.84%

**Balance Sheet Comparisons  
General Fund Only**

	FY06	FY07	\$ Change	% Change	leacar
<b>ASSETS:</b>					
Cash & Investments	\$552,450	\$768,800	\$216,350	39.2%	P2L1-2
Receivables	\$123,212	\$81,267	(\$41,945)	-34.0%	P2L3-7
Inventories	\$0	\$0	\$0	0.0%	P2L8
ISCAP	\$0	\$0	\$0	0.0%	P2L10-11
Other Assets	\$0	\$0	\$0	0.0%	P2L12
<b>Total Assets</b>	<u>\$675,662</u>	<u>\$850,067</u>	<u>\$174,405</u>	<u>5.1%</u>	
<b>LIABILITIES:</b>					
Payables	\$100,409	\$214,210	\$113,801	113.3%	P2L24-29
Payroll	\$0	\$0	\$0	0.0%	P2L30-31
ISCAP	\$0	\$0	\$0	0.0%	P2L33-34
Other Liabilities	\$0	\$0	\$0	0.0%	P2L32&35
<b>Total Liabilities</b>	<u>\$100,409</u>	<u>\$214,210</u>	<u>\$113,801</u>	<u>113.3%</u>	
<b>Fund Balance:</b>					
Reserved	\$0	\$0	\$0	0.0%	P2L44-53
Unreserved	\$575,253	\$635,857	\$60,604	9.5%	P2L54
<b>Total Fund Balance</b>	<u>\$575,253</u>	<u>\$635,857</u>	<u>\$60,604</u>	<u>9.5%</u>	

**Revenue Expenditures Comparison  
General Fund Only**

	FY06	FY07	\$ Change	% Change	
REVENUES:					leacar
Local Sources	\$1,602,731	\$1,515,256	(\$87,475)	-5.8%	P5L39
State Sources	\$1,149,201	\$1,128,483	(\$20,718)	-1.8%	P5L54
Federal Sources	\$114,567	\$104,279	(\$10,288)	-9.9%	P5L78
Other Sources		\$560	\$560	100.0%	P5L84
Total Revenues	\$2,866,499	\$2,748,578	(\$117,921)	-4.3%	
EXPENDITURES:					
Instruction	\$2,033,403	\$2,143,691	\$110,288	5.1%	P6L1-7
Support Services	\$625,132	\$703,048	\$77,916	11.1%	P6L8-25
Non-instructional	\$0	\$372,703	\$372,703	0.0%	P6L26-30
Other expenditures	\$80,572	\$83,493	\$2,921	3.5%	P6L31-33
Total expenditures	\$2,739,107	\$3,302,935	\$563,828	20.6%	
Changes in Fund Balance:					
Excess (deficiency of)					
revenues over/under	-\$22,340	\$0			
expenditures	\$127,392	-\$532,017	(\$659,409)	123.9%	
					Downward adjustment for Self Fund

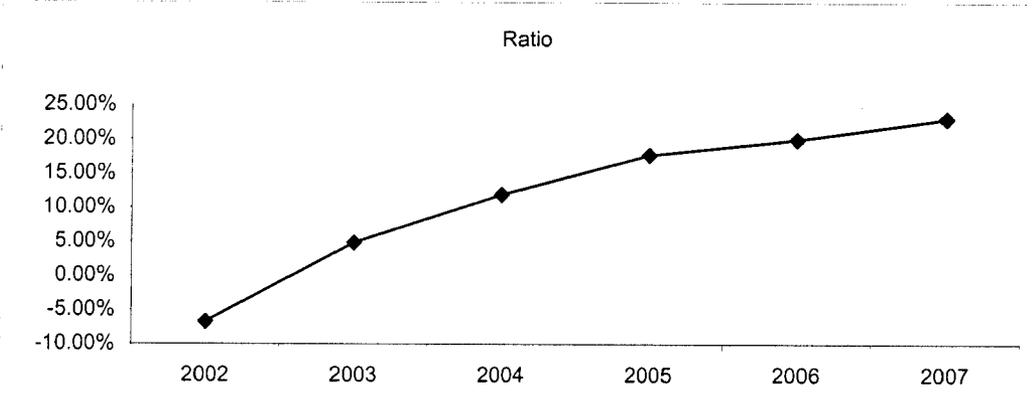
## Financial Solvency Ratio

**Formula:** 
$$\frac{\text{Unreserved Undesignated Fund Balance (UUFB)}}{\text{Total GF Revenue}}$$

**Financial Information and Computation:**

Year		UUFB	Total Revenue	Ratio
2002		-\$154,412	\$2,301,655	-6.71%
2003		\$104,110	\$2,140,971	4.86%
2004		\$308,383	\$2,581,286	11.95%
2005		\$470,201	\$2,641,400	17.80%
2006		\$575,253	\$2,866,498	20.07%
2007		\$635,857	\$2,748,577	23.13%

leacar                      P2L54                      P5L85



**Purpose:** Measure's the District's Fund Equity position

**Trend:** UP

**Target:** Short term greater than zero  
Long term over 8 percent

**Need/Concern:** Full funding of budget revenue resources

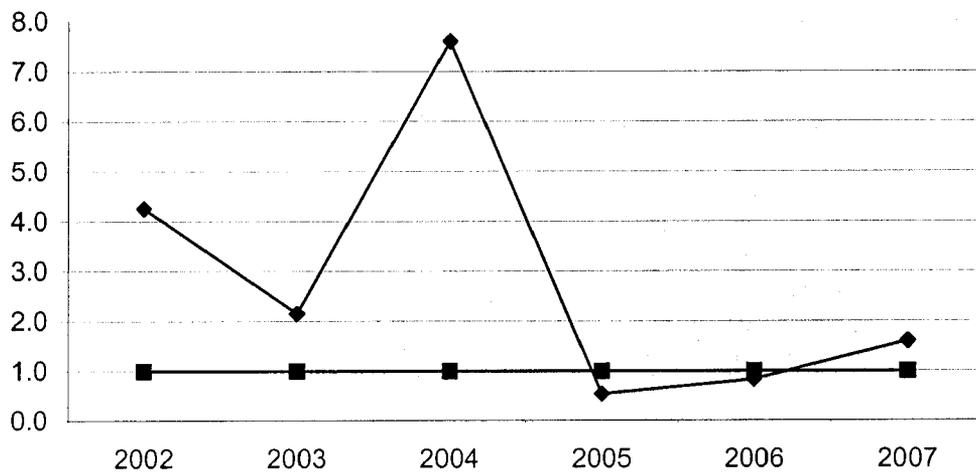
**Corrective Action:** Levy for cash reserve

## Revenue and Expenditures Change Ratio

**Formula:** 
$$\frac{\text{Current Year Revenue} - \text{Prior Year Revenue}}{\text{Current Year Expenditures} - \text{Prior Year Expenditures}}$$

**Financial Information and Computation:**

Year		Revenue	Expenditures	Ratio	
				Rev	Exp
2001		\$2,073,660	\$2,342,000	0.9	1.0
2002		\$2,301,655	\$2,395,536	4.3	1.0
2003		\$2,140,971	\$2,320,916	2.2	1.0
2004		\$2,581,286	\$2,378,844	7.6	1.0
2005		\$2,641,400	\$2,490,266	0.5	1.0
2006		\$2,866,498	\$2,761,446	0.8	1.0
2007		\$2,748,577	\$2,687,973	1.6	1.0
	leacar	P5L85	P6L34		



**Purpose:** Measure trends

**Trend:** Down

**Target:** Revenue ratio less than expenditure ratio

**Need/Concern:** Cause for concern exists when revenue change is less than the expenditure change from one fiscal year to the next. Long-term this has the effect of eroding the District's fund balance position.

**Corrective Action:** Spend less than allowed each budget year.

## Revenue (Deficit) Margin Ratio

**Formula:** 
$$\frac{\text{Revenue} - \text{Expenditures (Net Revenue)}}{\text{Total Revenue}}$$

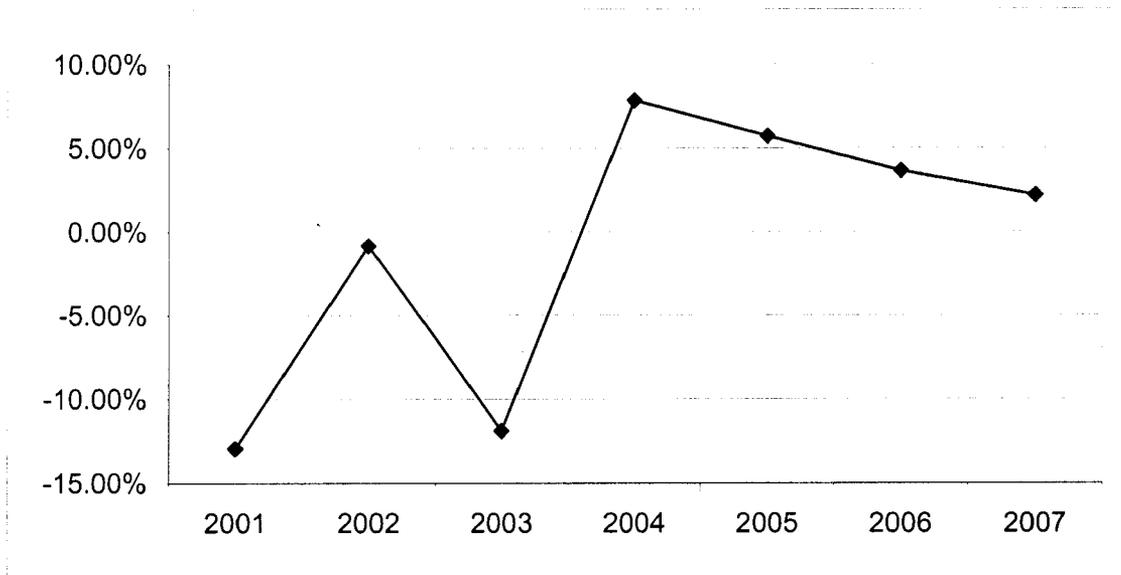
**Financial Information and Computation:**

Year	Net Revenue (Expenditures)	Total Revenue	Ratio	Year
2001	-\$268,340	\$2,073,660	-12.94%	2001
2002	-\$19,261	\$2,301,655	-0.84%	2002
2003	-\$254,565	\$2,140,971	-11.89%	2003
2004	\$202,442	\$2,581,286	7.84%	2004
2005	\$151,134	\$2,641,400	5.72%	2005
2006	\$105,052	\$2,866,498	3.66%	2006
2007	\$60,604	\$2,748,577	2.20%	2007

leacar

P5L85-P6L34

P5L85



**Purpose:** Measure operating results

**Trend:** Continuing downward

**Target:** Greater than zero

**Need/Concern:** Full funding needed for budget revenue resources.

**Corrective Action:** Increase revenue sources or reduce expenditures

## Contribution Ratio

**Formula:** 
$$\frac{\text{Line Source Revenue}}{\text{Total Revenue}}$$

**Financial Information and Computation:**

	FY2006	
Line	Amount	Ratio
Source		
Local	\$1,602,731	55.9%
State	\$1,149,201	40.1%
Federal	\$114,567	4.0%
Other	\$0	0.0%
<b>Total</b>	<b>\$2,866,499</b>	<b>100.0%</b>

	FY2007	
Line	Amount	Ratio
Source		
Local	\$1,515,256	55.1%
State	\$1,128,483	41.1%
Federal	\$104,279	3.8%
Other	\$560	0.0%
<b>Total</b>	<b>\$2,748,578</b>	<b>100.0%</b>

leacar  
P5L39  
P5L54  
P5L78  
P5L84

Year	Local	State	Federal	Other
2003	41.4%	49.9%	8.7%	0.0%
2004	44.1%	50.1%	5.7%	0.0%
2005	53.6%	41.3%	5.1%	0.0%
2006	55.9%	40.1%	4.0%	0.0%
2007	55.1%	41.1%	3.8%	0.0%

Purpose: Measures local tax effort

Trend: NA

Target: NA

Need/Concern: As a district's property tax wealth grows the school aid formula shifts financial responsibility from the state to the local district. This can be seen in the table above.

Corrective Action: NA

## Day's Net Cash Ratio

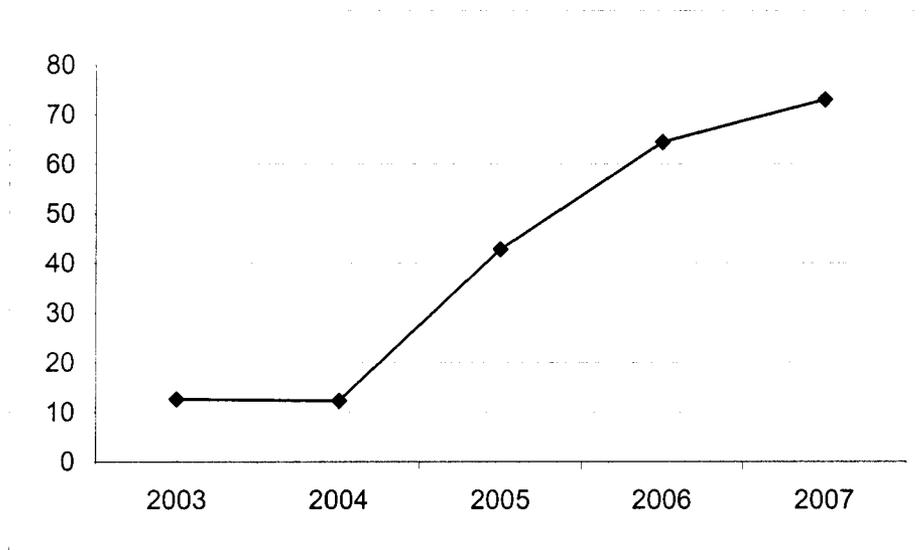
**Formula:**

$$\frac{\text{Cash \& Investments}}{\text{Average Daily Cash Expenditures}}$$

**Financial Information and Computation:**

Year	Cash & Investments	Total Expenditures	Daily (365) Expenditures	Ratio In Days
2002	\$83,147	\$2,395,536	\$6,563	13
2003	\$78,642	\$2,320,916	\$6,359	12
2004	\$279,086	\$2,378,844	\$6,517	43
2005	\$439,457	\$2,490,266	\$6,823	64
2006	\$552,450	\$2,761,446	\$7,566	73
2007	\$768,800	\$2,687,973	\$7,364	104

leacar-P2L1,2      leacar-P6L34



**Purpose:** Measures short term solvency and the ability to cash follow expenditures without receiving additional revenue.

**Trend:** Volatile

**Target:** 90 days

**Need Concern:** Need to target for stability.

**Corrective Action:** Levy for cash reserve

## Assets to Liabilities Ratio

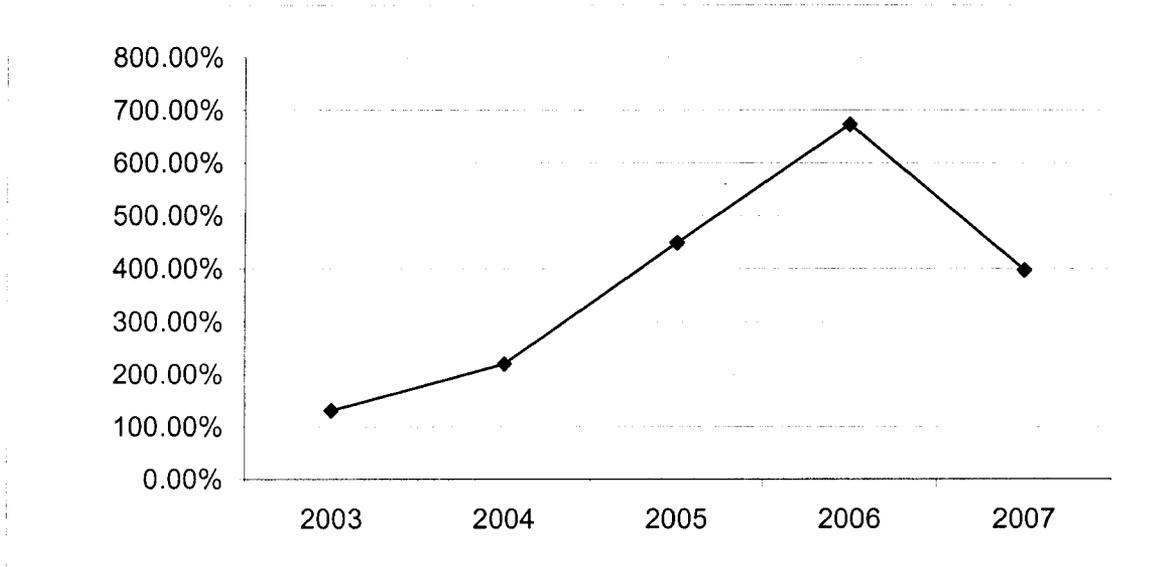
**Formula:** 
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Financial Information and Computation:**

Year	Assets	Liabilities	Ratio
2003	\$451,014	\$345,073	130.70%
2004	\$565,260	\$256,877	220.05%
2005	\$605,060	\$134,859	448.66%
2006	\$675,662	\$100,409	672.91%
2007	\$850,067	\$214,210	396.84%

leacar-P2L13

leacar-P2L36



**Purpose:** Measures short term solvency

**Trend:** down

**Target:** Greater than 100%

**Need/Concern:** When the assets/liabilities ratio is below 100% the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. Should the district seek a bond issue in the future, this ratio needs to be greater than 100% to obtain the best bond rating possible.

**Corrective Action:** Levy for cash reserve

**Comments:** We are currently on the downward slope. We had a considerable increase in the past years. This will be an area of concern with the increase in declining enrollment. We had a large drop in the past year. We will need to keep expenses in check.

### Historical Data

YEAR	Certified Enrollment	State Aid-Per Pupil	Medical Insurance Cost		Spouse or Ch.	Open	
			Single	Family		Enrollment-IN	Open Enrollment-OUT
September 2000	299.2		\$ 300	\$ 591		13	16
September 2001	302.4	\$4338-FY02	\$ 279	\$ 657		15	20
September 2002	286.2	\$4512-FY03	\$ 325	\$ 888		15	22
September 2003	272.1	\$4557-FY04	\$ 380	\$ 1,049		15	22
September 2004	279.1	\$4648-FY05	\$ 380	\$ 1,049		19	23
September 2005	268.1	\$4741-FY06	\$ 406	\$ 1,174	\$ 920	18	23
September 2006	236	\$4931-FY07	\$ 420	\$ 1,285	\$ 912	19	25
September 2007	237	\$5128-FY08	\$ 420	\$ 1,285	\$ 912	14	28

**New Staff for FY08:**

Traci Ness  
 Marlys Graetfingier

**Shared Teachers for FY08:**

Traci Ness-sold 25%  
 Jan Torkelson-purchased 75%  
 Mel DeGroot-sold 100%  
 Anne Sexe-sold 37.5%  
 Marjorie Tindall-sold 100%  
 Nora Epping-sold 37.5%  
 Marc Benedict-purchased 100%

## 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 Graettinger 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 Graettinger Community School District 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 Graettinger Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds. In addition, the Schedule of Expenditures of Federal Awards provides details 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.

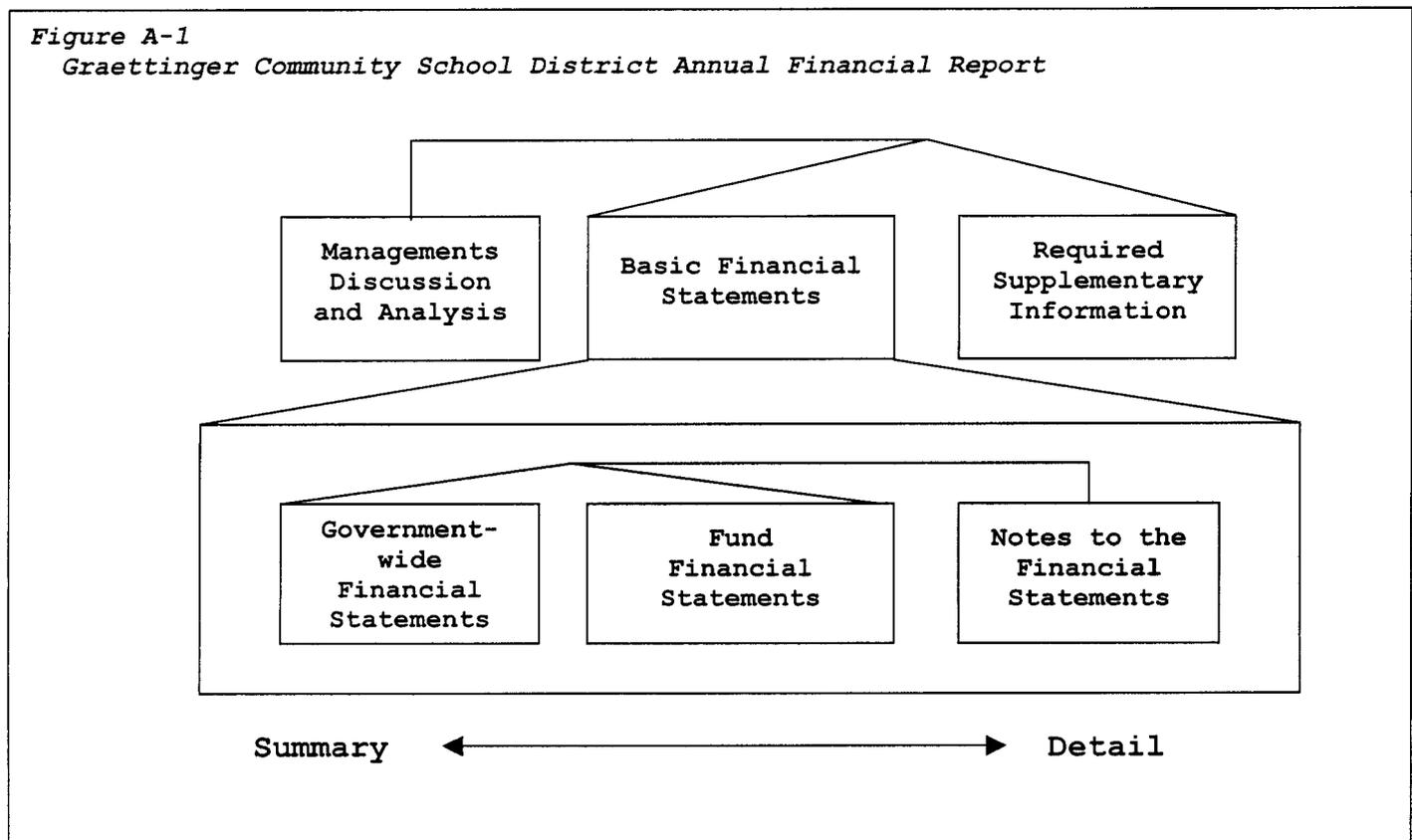


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b>			
<b>Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
Required financial statements	<ul style="list-style-type: none"> <li>. Statement of net assets</li> <li>. Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>. Balance sheet</li> <li>. Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>. Statement of net assets</li> <li>. Statement of revenues, expenses and changes in fund net assets</li> <li>. Statement of cash flows</li> </ul>
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
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
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

## 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 - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets 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 funds statements provide a detailed short-term view that helps the reader 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 and Capital Projects Fund.

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

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Current assets	2,167	1,932	43	29	2,210	1,961	12.70%
Capital assets	1,466	1,312	1	-	1,467	1,312	11.81%
<b>Total assets</b>	<u>3,633</u>	<u>3,244</u>	<u>44</u>	<u>29</u>	<u>3,677</u>	<u>3,273</u>	<u>12.34%</u>
Current liabilities	1,144	991	1	-	1,145	991	15.54%
Non-current liabilities	-	-	-	-	-	-	0.00%
<b>Total liabilities</b>	<u>1,144</u>	<u>991</u>	<u>1</u>	<u>-</u>	<u>1,145</u>	<u>991</u>	<u>15.54%</u>
Net Assets							
Invested in capital assets, net of related debt	1,466	1,312	1	-	1,467	1,312	11.81%
Restricted	275	262	-	-	275	262	4.96%
Unrestricted	748	679	42	29	790	708	11.58%
<b>Total net assets</b>	<u>2,489</u>	<u>2,253</u>	<u>43</u>	<u>29</u>	<u>2,532</u>	<u>2,282</u>	<u>10.96%</u>

The District's combined net assets increased by 11%, or approximately \$250,000 over the prior year. The largest portion of the District's net assets are invested in cash and capital assets.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$82,000 or 11%. This growth was due in large part to spending controls that were put in place during the year.

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

**Figure A-4**  
**Change in Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	660	734	111	90	771	824	-6.43%
Operating grants, contributions and restricted interest	509	519	54	55	563	574	-1.92%
General revenues:							
Property and income surtaxes	977	946	-	-	977	946	3.28%
Local option sales tax	169	140	-	-	169	140	20.71%
Unrestricted state grants	887	899	-	-	887	899	-1.33%
Other	21	124	-	-	21	124	-83.06%
Total revenues	<u>3,223</u>	<u>3,362</u>	<u>165</u>	<u>145</u>	<u>3,388</u>	<u>3,507</u>	<u>-3.39%</u>
Program expenses:							
Governmental activities:							
Instruction	2,091	2,202	-	-	2,091	2,202	-5.04%
Support Services	656	665	-	-	656	665	-1.35%
Non-instructional programs	-	-	151	137	151	137	10.22%
Other expenses	240	223	-	-	240	223	7.62%
Total expenses	<u>2,987</u>	<u>3,090</u>	<u>151</u>	<u>137</u>	<u>3,138</u>	<u>3,227</u>	<u>-2.76%</u>
Change in net assets	<u>236</u>	<u>272</u>	<u>14</u>	<u>8</u>	<u>250</u>	<u>280</u>	<u>-10.71%</u>

Property tax and unrestricted state grants account for 55% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

**Governmental Activities**

Revenues for governmental activities were \$3,223,280 and expenses were \$2,987,045.

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

**Figure A-5  
Total and Net Cost of Governmental Activities  
(Expressed in Thousands)**

	Total Cost of Services		Net Change	Net Cost of Services		Net Change
	2007	2006	2006-07	2007	2006	2006-07
	\$	\$		\$	\$	
Instruction	2,091	2,202	-5.04%	1,009	1,107	-8.85%
Support Services	656	665	-1.35%	653	588	11.05%
Other expenses	240	223	7.62%	156	142	9.86%
<b>Totals</b>	<b>2,987</b>	<b>3,090</b>	<b>-3.33%</b>	<b>1,818</b>	<b>1,837</b>	<b>-1.03%</b>

- The cost financed by users of the District's programs was \$660,083.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$262,124.
- The net cost of governmental activities was financed with \$826,447 in property and other taxes and \$887,220 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$165,199 and expenses were \$151,012. The District's business type activities include the School Nutrition Fund and a Preschool Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District held meal prices along with daycare and preschool rates steady. The District began the preschool program in fiscal year 2006 in an effort to increase future enrollment.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 2,489,223, an 11% increase over last year's ending fund balances of \$2,252,988.

## **Governmental Fund Highlights**

- The District's General Fund financial status has improved again this year. The District carefully monitors discretionary spending to avoid decreases in fund balances. This becomes more difficult every year due to state's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PEEL levy) increased by \$30,000 as a result of the District using the Capital Projects Fund for a variety of projects that were formerly paid for from the PEEL levy.
- The Capital Projects fund decreased in the fiscal year ending June 30, 2007. This money can be used for many of the same purposes as the District's PEEL levy. The District is currently using these funds for infrastructure projects.

## **Proprietary Fund Highlights**

Beginning in the 2005-2006 school year a fund was established for a preschool operated by the District. It is hoped that this will assist in maintaining future enrollment. The fund is operating at a profit.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$29,546 more than budgeted receipts. The most significant variance resulted from the District receiving more in miscellaneous revenues 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.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the District had invested \$1,467,943, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 20% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$129,733.

The original cost of the District's capital assets was \$3,150,305. Governmental funds account for \$3,128,932, with the remainder of \$21,373 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings and transportation categories. The District spent over \$280,000 on a variety of building projects and equipment purchases.

**Figure A-6**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Land	89	89	-	-	89	89	0.00%
Buildings and improvements	981	779	-	-	981	779	25.93%
Furniture and equipment	397	444	1	-	398	444	-10.36%
<b>Totals</b>	<u>1,467</u>	<u>1,312</u>	<u>1</u>	<u>-</u>	<u>1,468</u>	<u>1,312</u>	<u>11.89%</u>

**Long-Term Debt**

The District has no long-term debt.

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence out the part of the administration and board of education.
- The District receives sharing dollars from the Terril District. This is just one way that the District is working to expand educational programs.
- Adequate allowable growth is a necessity in order for the District to properly maintain its educational opportunities.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our 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 Lisa Chapman, District Secretary/Treasurer, Graettinger Community School District, 400 W Lost Island St, Graettinger, IA 51342.

## Basic Financial Statements

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	1,052,109	38,798	1,090,907
Receivables:			
Property tax:			
Current year	11,360	-	11,360
Succeeding year	880,184	-	880,184
Income surtax - succeeding year	112,312	-	112,312
Due from other governments	87,515	-	87,515
Other receivables	23,466	-	23,466
Inventories	-	4,302	4,302
Capital assets, net of accumulated depreciation	<u>1,466,534</u>	<u>1,409</u>	<u>1,467,943</u>
<b>Total assets</b>	<u>3,633,480</u>	<u>44,509</u>	<u>3,677,989</u>
<b>Liabilities</b>			
Accounts payable	524	1,272	1,796
Payroll benefits payable	263,549	-	263,549
Deferred revenue:			
Succeeding year property tax	<u>880,184</u>	<u>-</u>	<u>880,184</u>
<b>Total liabilities</b>	<u>1,144,257</u>	<u>1,272</u>	<u>1,145,529</u>
<b>Net assets</b>			
Invested in capital assets	1,466,534	1,409	1,467,943
Restricted for:			
Management levy	30,346	-	30,346
Student activities	73,292	-	73,292
Physical plant and equipment levy	48,259	-	48,259
Capital projects	122,623	-	122,623
Unrestricted	<u>748,169</u>	<u>41,828</u>	<u>789,997</u>
<b>Total net assets</b>	<u>2,489,223</u>	<u>43,237</u>	<u>2,532,460</u>

See notes to financial statements.

**GRAETTINGER COMMUNITY SCHOOL DISTRICT**

Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Service	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
Expenses	\$	\$	\$	\$	\$	\$
	2,090,911	660,083	421,544	(1,009,284)	-	(1,009,284)
<b>Functions/Programs</b>						
Governmental activities:						
Instruction:						
Support services:						
Student services	18,998	-	-	(18,998)	-	(18,998)
Instructional staff services	31,613	-	-	(31,613)	-	(31,613)
Administration services	314,589	-	-	(314,589)	-	(314,589)
Operation and maintenance of plant services	182,806	3,814	-	(178,992)	-	(178,992)
Transportation services	108,165	-	-	(108,165)	-	(108,165)
	656,171	-	3,814	(652,357)	-	(652,357)
Other expenditures:						
AEA flowthrough	83,493	-	83,493	-	-	-
Facilities acquisition and construction	26,865	-	188	(26,677)	-	(26,677)
Depreciation (unallocated)*	129,605	-	-	(129,605)	-	(129,605)
	239,963	-	83,681	(156,282)	-	(156,282)
Total governmental activities	2,987,045	660,083	509,039	(1,817,923)	-	(1,817,923)

GRAETTINGER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business type activities:						
Non-instructional programs:						
Nutrition and day care services	151,012	110,862	54,337	-	14,187	14,187
Total	3,138,057	770,945	563,376	(1,817,923)	14,187	(1,803,736)
<b>General revenues:</b>						
Property tax levied for:						
General purposes				741,818	-	741,818
Management fund				60,651	-	60,651
Capital outlay				23,978	-	23,978
Income surtaxes collected for:						
General purposes				89,522	-	89,522
Capital outlay				60,408	1	60,409
Sales tax collected for:						
Capital outlay				169,215	-	169,215
Unrestricted state grants				887,220	-	887,220
Unrestricted investment earnings				12,098	-	12,098
Other				9,248	-	9,248
Total general revenue				2,054,158	1	2,054,159
Change in net assets				236,235	14,188	250,423
Net assets beginning of year				2,252,988	29,050	2,282,038
Net assets end of year				2,489,223	43,238	2,532,461

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

See notes to financial statements.

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	818,139	47,718	88,993	97,259	1,052,109
Receivables:					
Property tax:					
Current year	9,445	541	-	1,374	11,360
Succeeding year	802,866	29,318	-	48,000	880,184
Income surtax - succeeding year	70,195	42,117	-	-	112,312
Due from other governments	53,885	-	33,630	-	87,515
Other receivables	17,937	-	-	5,529	23,466
<b>Total assets</b>	<u>1,772,467</u>	<u>119,694</u>	<u>122,623</u>	<u>152,162</u>	<u>2,166,946</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	-	-	-	524	524
Payroll benefits payable	263,549	-	-	-	263,549
Deferred revenue:					
Succeeding year property tax	802,866	29,318	-	48,000	880,184
Succeeding year income surtax	70,195	42,117	-	-	112,312
<b>Total liabilities</b>	<u>1,136,610</u>	<u>71,435</u>	<u>-</u>	<u>48,524</u>	<u>1,256,569</u>
Fund balances:					
Reserved for capital projects	-	-	122,623	-	122,623
Unreserved	635,857	48,259	-	103,638	787,754
Total fund balances	<u>635,857</u>	<u>48,259</u>	<u>122,623</u>	<u>103,638</u>	<u>910,377</u>
<b>Total liabilities and fund balances</b>	<u>1,772,467</u>	<u>119,694</u>	<u>122,623</u>	<u>152,162</u>	<u>2,166,946</u>

See notes to financial statements.

**GRAETTINGER COMMUNITY SCHOOL DISTRICT**

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

June 30, 2007

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 910,377
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Income surtax receivable at June 30, 2007 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities.	112,312
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	<u>1,466,534</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u>\$ 2,489,223</u>

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	821,829	72,611	169,215	60,651	1,124,306
Tuition	484,002	-	-	-	484,002
Other	197,526	450	188	162,685	360,849
State sources	1,128,483	31	-	44	1,128,558
Federal sources	104,279	-	-	-	104,279
Total revenues	<u>2,736,119</u>	<u>73,092</u>	<u>169,403</u>	<u>223,380</u>	<u>3,201,994</u>
Expenditures:					
Instruction:	<u>1,959,706</u>	-	-	<u>162,592</u>	<u>2,122,298</u>
Support services:					
Student services	18,998	-	-	-	18,998
Instructional staff services	31,613	-	-	-	31,613
Administration services	288,931	11,797	9,751	4,110	314,589
Operation and maintenance of plant services	197,067	-	-	22,334	219,401
Transportation services	<u>108,165</u>	-	-	-	<u>108,165</u>
	<u>644,774</u>	<u>11,797</u>	<u>9,751</u>	<u>26,444</u>	<u>692,766</u>
Other expenditures					
AEA flowthrough	83,493	-	-	-	83,493
Facilities acquisition and construction	-	31,057	212,178	-	243,235
	<u>83,493</u>	<u>31,057</u>	<u>212,178</u>	-	<u>326,728</u>
Total expenditures	<u>2,687,973</u>	<u>42,854</u>	<u>221,929</u>	<u>189,036</u>	<u>3,141,792</u>
Excess (deficiency) of revenues over (under) expenditures	48,146	30,238	(52,526)	34,344	60,202
Fund balances beginning of year	<u>587,711</u>	<u>18,021</u>	<u>175,149</u>	<u>69,294</u>	<u>850,175</u>
Fund balances end of year	<u>635,857</u>	<u>48,259</u>	<u>122,623</u>	<u>103,638</u>	<u>910,377</u>

See notes to financial statements.

GRAETTINGER 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

<b>Net change in fund balances - total governmental funds (Exhibit E)</b>	\$ 60,202
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>	
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities	21,286
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	\$ 284,352
Depreciation expense	<u>(129,605)</u>
	<u>154,747</u>
<b>Change in net assets of governmental activities (Exhibit B)</b>	<u>\$ 236,235</u>

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

Combining Statement of Net Assets  
Proprietary Funds

June 30, 2007

	<u>Enterprise Funds</u>		
	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	8,361	30,437	38,798
Inventories	4,302	-	4,302
Capital assets, net of accumulated depreciation	<u>1,409</u>	<u>-</u>	<u>1,409</u>
<b>Total assets</b>	<u>14,072</u>	<u>30,437</u>	<u>44,509</u>
<b>Liabilities</b>			
Accounts payable	<u>35</u>	<u>1,237</u>	<u>1,272</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,409	-	1,409
Unrestricted	<u>12,628</u>	<u>29,200</u>	<u>41,828</u>
<b>Total net assets</b>	<u><u>14,037</u></u>	<u><u>29,200</u></u>	<u><u>43,237</u></u>

See notes to financial statements.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2007

	Enterprise Funds		
	School Nutrition	Preschool	Total
	\$		
Operating revenue:			
Local sources:			
Charges for services	67,292	43,570	110,862
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	53,091	-	53,091
Benefits	11,505	-	11,505
Services	426	-	426
Supplies	64,468	-	64,468
Depreciation	128	-	128
Total operating expenses	129,618	-	129,618
Community service programs:			
Salaries	-	16,528	16,528
Benefits	-	3,037	3,037
Services	-	183	183
Supplies	-	1,646	1,646
Total operating expenses	129,618	21,394	151,012
Operating profit (loss)	(62,326)	22,176	(40,150)
Non-operating revenues:			
Interest	109	-	109
State sources	1,590	-	1,590
Federal sources	52,638	-	52,638
	54,337	-	54,337
Change in net assets	(7,989)	22,176	14,187
Net assets beginning of year	22,026	7,024	29,050
Net assets end of year	14,037	29,200	43,237

See notes to financial statements.

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2007

	School Nutrition	Preschool	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	67,292	43,570	110,862
Cash payments to employees for services	(64,596)	(19,565)	(84,161)
Cash payments to suppliers for goods or services	(56,447)	(592)	(57,039)
Net cash provided by (used in) operating activities	<u>(53,751)</u>	<u>23,413</u>	<u>(30,338)</u>
Cash flows from non-capital financing activities:			
State grants received	1,590	-	1,590
Federal grants received	44,892	-	44,892
Net cash provided by non-capital financing activities	<u>46,482</u>	<u>-</u>	<u>46,482</u>
Cash flows from capital financing activities:			
Acquisition of fixed assets	(1,537)	-	(1,537)
Cash flows from investing activities:			
Interest on investments	109	-	109
Net increase (decrease) in cash and cash equivalents	(8,697)	23,413	14,716
Cash and cash equivalents beginning of year	<u>17,058</u>	<u>7,024</u>	<u>24,082</u>
Cash and cash equivalents end of year	<u>8,361</u>	<u>30,437</u>	<u>38,798</u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>			
Operating income (loss)	(62,326)	22,176	(40,150)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation expense	128	-	128
Commodities used	7,746	-	7,746
Decrease in inventory	666	-	666
Increase in accounts payable	35	1,237	1,272
	<u>(53,751)</u>	<u>23,413</u>	<u>(30,338)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>			
Current assets:			
Cash	<u>8,361</u>	<u>30,437</u>	<u>38,798</u>
<b>Non-cash investing, capital and financing activities:</b>			

During the year ended June 30, 2007, the District received federal commodities valued at \$7,746.

See notes to financial statements.

# GRAETTINGER COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2007

### (1) Summary of Significant Accounting Policies

Graettinger Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of Graettinger, Iowa, and agricultural area in Palo Alto and Emmett Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis. The District also contracts, as explained in note 6, with the Terril Community School District to educate students in grades five through twelve.

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, Graettinger Community School District has included all funds, organizations, account groups, 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. Graettinger Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for funds raised by the one cent School Infrastructure Local Option Sales Tax. These funds are being used for debt retirement and infrastructure expenses.

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Preschool Fund. These funds are used to account for the food service and preschool operations of the District.

### C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial 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 funds of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

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

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for 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 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 the 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 government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible 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.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

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 did not exceed the amounts budgeted in any of the four functions.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2007.

**(3) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	88,827	-	-	88,827
Capital assets being depreciated:				
Buildings and improvements	1,651,328	252,965	-	1,904,293
Furniture and Equipment	1,104,425	31,387	-	1,135,812
Total capital assets being depreciated	<u>2,755,753</u>	<u>284,352</u>	-	<u>3,040,105</u>
Less accumulated depreciation for:				
Buildings and improvements	872,188	50,832	-	923,020
Furniture and Equipment	660,605	78,773	-	739,378
Total accumulated depreciation	<u>1,532,793</u>	<u>129,605</u>	-	<u>1,662,398</u>
Total capital assets being depreciated, net	<u>1,222,960</u>	<u>154,747</u>	-	<u>1,377,707</u>
Governmental activities, capital assets, net	<u>1,311,787</u>	<u>154,747</u>	-	<u>1,466,534</u>
Business type activities:				
Furniture and equipment	19,836	1,537	-	21,373
Less accumulated depreciation	<u>19,836</u>	<u>128</u>	-	<u>19,964</u>
Business type activities capital assets, net	<u>-</u>	<u>1,409</u>	-	<u>1,409</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>129,605</u>
				<u>129,605</u>
Business Type activities				
Food service operations				<u>128</u>

**(4) 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, PO 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 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 \$71,527, \$72,577, and \$69,924 respectively, equal to the required contributions for each year.

**(5) 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 \$83,493 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(6) Two-Way Whole Grade Sharing**

The District has entered into a contract with Terril Community School District to complete the academic and extra-curricular needs of students in grades six through twelve. All regular education students in grades three and nine through twelve attend the Graettinger Community School District. All regular education students in grades six through eight will attend the Terril Community School District.

**Required Supplementary Information**

**GRAETTINGER COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule 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 Fund Types		Proprietary Fund Type		Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual		Actual			Original	Final	
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources	1,969,157		110,971		2,080,128	1,958,996	1,958,996	121,132
State sources	1,128,558		1,590		1,130,148	1,202,651	1,202,651	(72,503)
Federal sources	104,279		52,638		156,917	176,000	176,000	(19,083)
Total revenues	<u>3,201,994</u>		<u>165,199</u>		<u>3,367,193</u>	<u>3,337,647</u>	<u>3,337,647</u>	<u>29,546</u>
Expenditures:								
Instruction	2,122,298		-		2,122,298	2,765,259	2,765,259	642,961
Support services	692,766		-		692,766	725,500	725,500	32,734
Non-instructional programs	-		151,012		151,012	162,000	162,000	10,988
Other expenditures	326,728		-		326,728	340,241	340,241	13,513
Total expenditures	<u>3,141,792</u>		<u>151,012</u>		<u>3,292,804</u>	<u>3,993,000</u>	<u>3,993,000</u>	<u>700,196</u>
Excess (deficiency) of revenues over (under) expenditures	60,202		14,187		74,389	(655,353)	(655,353)	729,742
Other financing sources (uses)	-		-		-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	60,202		14,187		74,389	(655,353)	(655,353)	729,742
Balance beginning of year	850,175		29,050		879,225	796,245	796,245	82,980
Balance end of year	<u>910,377</u>		<u>43,237</u>		<u>953,614</u>	<u>140,892</u>	<u>140,892</u>	<u>812,722</u>

See accompanying independent auditor's report.

**GRAETTINGER COMMUNITY SCHOOL DISTRICT**

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

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

During the year ended June 30, 2007, expenditures did not exceed the amount budgeted in any of the four functions. The District did not exceed its General Fund unspent authorized budget.

## Other Supplementary Information

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

	Management Levy	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	29,348	67,911	97,259
Property tax receivable:			
Current year	1,374	-	1,374
Succeeding year	48,000	-	48,000
Other receivables	-	5,529	5,529
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<u>78,722</u>	<u>73,440</u>	<u>152,162</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	376	148	524
Deferred revenue:			
Succeeding year property tax	48,000	-	48,000
	<u>48,376</u>	<u>148</u>	<u>48,524</u>
Fund balances:			
Unreserved fund balance	30,346	73,292	103,638
	<u>30,346</u>	<u>73,292</u>	<u>103,638</u>
<b>Total liabilities and fund balances</b>	<u>78,722</u>	<u>73,440</u>	<u>152,162</u>

See accompanying independent auditor's report.

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Management Levy	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	60,651	-	60,651
Other	3,289	159,396	162,685
State sources	44	-	44
Total revenues	<u>63,984</u>	<u>159,396</u>	<u>223,380</u>
Expenditures:			
Instruction:	24,510	138,082	162,592
Support services:			
Administration services	4,110	-	4,110
Plant operation and maintenance	22,334	-	22,334
Total expenditures	<u>50,954</u>	<u>138,082</u>	<u>189,036</u>
Excess (deficiency) of revenues over (under) expenditures	13,030	21,314	34,344
Fund balances beginning of year	<u>17,316</u>	<u>51,978</u>	<u>69,294</u>
Balance end of year	<u><u>30,346</u></u>	<u><u>73,292</u></u>	<u><u>103,638</u></u>

See accompanying independent auditor's report.

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Athletic	23,108	92,700	72,054	43,754
Student Council	6,268	4,937	10,093	1,112
FFA	4,750	25,783	24,031	6,502
Cheerleaders	47	638	576	109
National Honor Society	1,151	2,486	1,554	2,083
Speech/Drama	253	1,047	953	347
Class of 2007	2,143	2,050	3,473	720
Class of 2008	577	11,192	9,318	2,451
Class of 2009	200	1,675	-	1,875
Class of 2010	-	205	23	182
Elementary	238	1,274	1,233	279
Yearbook/Annual	1,768	6,111	6,086	1,793
Band	56	1,196	1,252	-
Vocal	850	110	(236)	1,196
Library	182	59	-	241
Miscellaneous	6,629	5,852	5,560	6,921
Interest	509	-	468	41
Office	2,380	1,906	1,213	3,073
Art	389	100	-	489
Marketing	-	75	30	45
Play	480	-	401	79
	<u>51,978</u>	<u>159,396</u>	<u>138,082</u>	<u>73,292</u>
Total				

See accompanying independent auditor's report.

## GRAETTINGER COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,124,306	1,085,501	1,049,547	932,582
Tuition	484,002	561,756	424,218	457,061
Other	360,849	342,220	356,201	173,639
State sources	1,128,558	1,149,242	1,090,642	1,112,187
Federal sources	104,279	131,651	135,352	126,899
Total	<u>3,201,994</u>	<u>3,270,370</u>	<u>3,055,960</u>	<u>2,802,368</u>
Expenditures:				
Instruction	2,122,298	2,201,515	2,048,458	1,952,041
Support services:				
Student	18,998	10,520	16,872	2,638
Instructional staff	31,613	53,397	10,156	40,687
Administration	314,589	305,483	244,511	232,608
Operation and maintenance of plant	219,401	250,727	243,369	241,671
Transportation	108,165	93,226	70,740	59,614
Noninstructional programs:				
Food service operations	-	-	-	2,219
Other expenditures:				
Facilities acquisition	243,235	70,849	60,697	14,186
AEA flowthrough	83,493	80,572	87,596	82,309
Total	<u>3,141,792</u>	<u>3,066,289</u>	<u>2,782,399</u>	<u>2,627,973</u>

See accompanying independent auditor's report.

**BRUCE D. FRINK**  
Certified Public Accountant

**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**

**Member:**

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

**Services:**

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

**Plus:**

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

To the Board of Education of  
Graettinger 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 Graettinger 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 12, 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 Graettinger 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 Graettinger Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Graettinger 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 Graettinger 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 Graettinger Community School District's financial statements that is more than inconsequential will not be prevented or detected by Graettinger Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Graettinger 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 07-I-A to be a material weakness.

#### Compliance and Other Matters

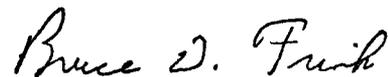
As part of obtaining reasonable assurance about whether Graettinger Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have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

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

Graettinger Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Graettinger 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 Graettinger Community School District and other parties to whom Graettinger 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 Graettinger 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.



**BRUCE D. FRINK**  
**Certified Public Accountant**

March 12, 2008

GRAETTINGER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

**Part I: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

07-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

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

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

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

- 07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.
- 07-II-B Certified Budget - Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted.
- 07-II-C Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 07-II-D 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.
- 07-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 07-II-F 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.
- 07-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

GRAETTINGER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued) :**

- 07-II-H      Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- 07-II-I      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.
- 07-II-J      Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.