

IKM COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2007

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IKM COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education**

(Before September 2006 Election)

Richard Wiig	President	2008
Dennis Erb	Vice President	2007
Lori Baughman	Board Member	2006
Lynn Barry	Board Member	2008
David Heller	Board Member	2007
Dennis Kasparbauer	Board Member	2008
Jim Rasmussen	Board Member	2006

(After September 2006 Election)

Richard Wiig	President	2008
Dennis Erb	Vice President	2007
Lynn Barry	Board Member	2008
David Heller	Board Member	2007
Kenny Juhl	Board Member	2007
Dennis Kasparbauer	Board Member	2008
Brian Miller	Board Member	2009

**School Officials**

Jeff Kruse	Superintendent
Mary Heller	District Secretary/Treasurer

Independent Auditor's Report

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated [September 4, 2007](#), on our consideration of IKM 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 12 and 33 through 34 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 IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

September 4, 2007

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The IKM Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,072,167 in fiscal 2006 to \$4,207,511 in fiscal 2007, while General Fund expenditures increased from \$3,968,319 in fiscal 2006 to \$4,045,352 in fiscal 2007. The District's General Fund balance increased from \$633,853 in fiscal 2006 to \$790,178 in fiscal 2007, a 25% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

### USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

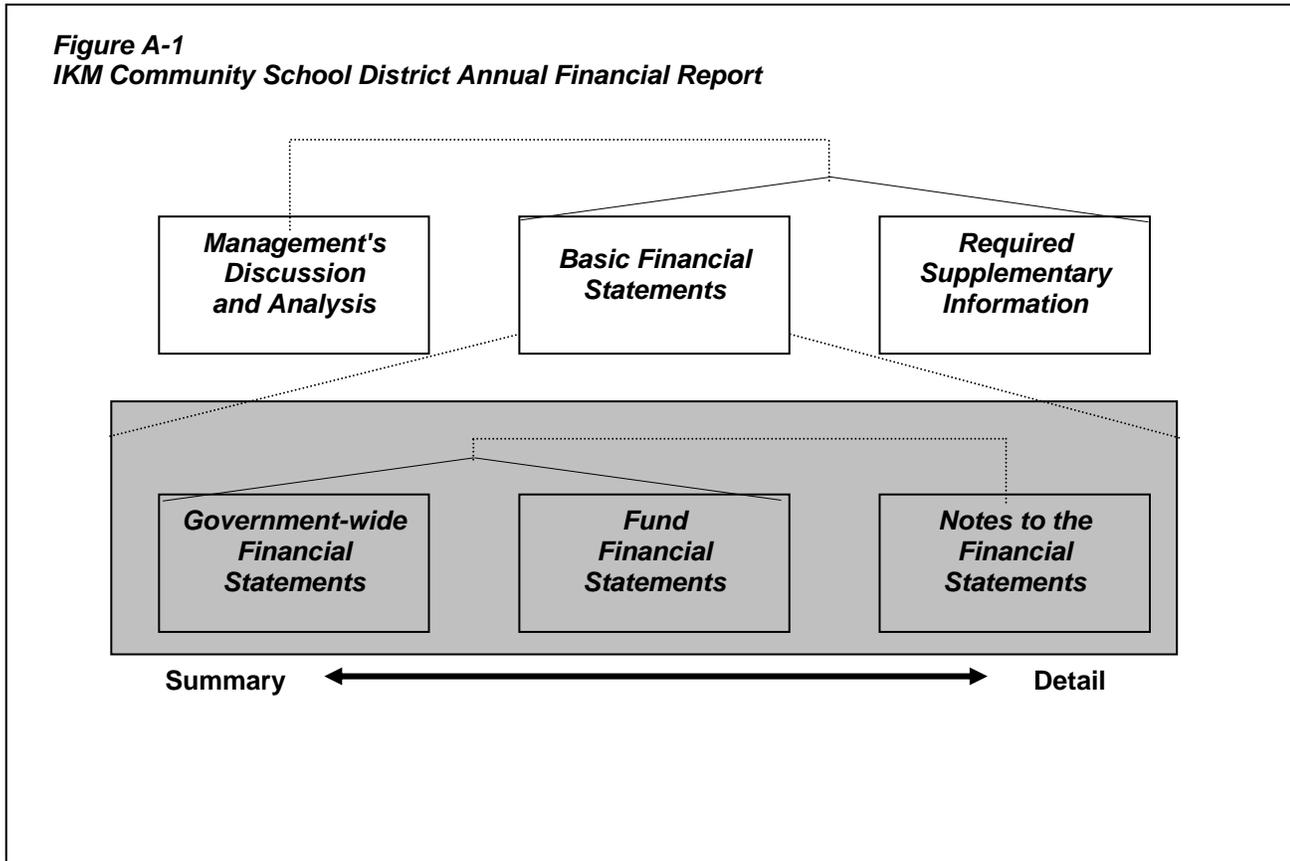


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health,

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Agency Funds – These are funds through which the District administers and accounts for certain monies on behalf of other entities.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,778,520	3,317,453	59,551	73,598	3,838,071	3,391,051	13.2
Capital assets	682,219	652,790	9,320	4,454	691,539	657,244	5.2
<b>Total assets</b>	<b>4,460,739</b>	<b>3,970,243</b>	<b>68,871</b>	<b>78,052</b>	<b>4,529,610</b>	<b>4,048,295</b>	<b>11.9</b>
Long-term liabilities	26,072	48,068	0	0	26,072	48,068	-45.8
Other liabilities	1,595,120	1,548,364	1,303	1,154	1,596,423	1,549,518	3.0
<b>Total liabilities</b>	<b>1,621,192</b>	<b>1,596,432</b>	<b>1,303</b>	<b>1,154</b>	<b>1,622,495</b>	<b>1,597,586</b>	<b>1.5</b>
Net Assets:							
Invested in capital assets, net of related debt	679,279	643,969	9,320	4,454	688,599	648,423	6.2
Restricted	1,185,730	911,629	0	0	1,185,730	911,629	30.1
Unrestricted	974,538	818,213	58,248	72,444	1,032,786	890,657	16.0
<b>TOTAL NET ASSETS</b>	<b>2,839,547</b>	<b>2,373,811</b>	<b>67,568</b>	<b>76,898</b>	<b>2,907,115</b>	<b>2,450,709</b>	<b>18.6</b>

The District's combined net assets increased by nearly 18.6%, or \$456,406, over the prior year. The smallest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The district has an approximate equal balance between restricted and unrestricted net assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$274,101 or 30.1% over the prior year. The restricted net asset balance is increasing because IKM is saving local option sales tax proceeds and physical plant and equipment property tax levy monies to be used for future building improvements and equipment purchases.

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 \$142,129, or 15.6%. This increase in unrestricted net assets was a result of the District building carryover fund balance to meet its financial obligations during the upcoming years as enrollments decline.

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

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007 \$	2006 \$	2007 \$	2006 \$	2007 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	399,985	334,978	81,596	86,735	481,581	421,713	14.2
Operating grants & contributions	513,341	494,053	75,179	74,282	588,520	568,335	3.6
Capital grants & contributions	0	10,000	0	0	0	10,000	-100.0
General Revenues:							
Property taxes	1,548,684	1,483,397	0	0	1,548,684	1,483,397	4.4
Income Surtax	221,897	206,264	0	0	221,897	206,264	7.6
Local option sales tax	267,460	249,292	0	0	267,460	249,292	7.3
Unrestricted state grants	1,710,477	1,743,088	0	0	1,710,477	1,743,088	-1.9
Unrestricted investment earnings	62,099	43,751	1,813	1,547	63,912	45,298	41.1
Other revenue	13,584	88,853	0	0	13,584	88,853	-84.7
<b>Total Revenues</b>	<b>4,737,527</b>	<b>4,653,676</b>	<b>158,588</b>	<b>162,564</b>	<b>4,896,115</b>	<b>4,816,240</b>	<b>1.7</b>
Expenses:							
Instruction	2,744,586	2,721,226	0	0	2,744,586	2,721,226	.9
Support services	1,339,761	1,322,152	0	0	1,339,761	1,322,152	1.3
Non-instructional programs	146	142	168,378	158,295	168,524	158,437	6.4
Other expenditures	186,838	193,332	0	0	186,838	193,332	-3.4
<b>Total expenses</b>	<b>4,271,331</b>	<b>4,236,852</b>	<b>168,378</b>	<b>158,295</b>	<b>4,439,709</b>	<b>4,395,147</b>	<b>1.0</b>
<b>Change in net assets before transfers</b>	<b>466,196</b>	<b>416,824</b>	<b>(9,790)</b>	<b>4,269</b>	<b>456,406</b>	<b>421,093</b>	<b>8.4</b>
Transfers	(460)	0	460	0	0	0	0.0
<b>CHANGE IN NET ASSETS</b>	<b>465,736</b>	<b>416,824</b>	<b>(9,330)</b>	<b>4,269</b>	<b>456,406</b>	<b>421,093</b>	<b>8.4</b>
Net assets beginning of year	2,373,811	1,956,987	76,898	72,629	2,450,709	2,029,616	20.7
Net assets end of year	<b>2,839,547</b>	<b>2,373,811</b>	<b>67,568</b>	<b>76,898</b>	<b>2,907,115</b>	<b>2,450,709</b>	<b>18.6</b>

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$4,737,527 and expenses were \$4,271,331. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2007 \$	2006 \$	Change 2006-2007	2007 \$	2006 \$	Change 2006-2007
Instruction	2,744,586	2,721,226	23,360	2,053,505	2,088,235	-34,730
Support Services	1,339,761	1,322,152	17,609	1,259,379	1,263,686	-4,307
Non-instructional Programs	146	142	4	146	142	4
Other Expenses	186,838	193,332	-6,494	44,975	45,758	-783
<b>TOTAL</b>	<b>4,271,331</b>	<b>4,236,852</b>	<b>34,479</b>	<b>3,358,005</b>	<b>3,397,821</b>	<b>-39,816</b>

- The cost financed by users of the District's programs was \$399,985. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$513,341.
- The net cost of governmental activities was financed with \$2,037,604 in property and local other taxes and \$1,710,477 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$158,588 and expenses were \$163,378. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District maintained current meal prices.

### INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,999,040, well above last year's ending fund balances of \$1,584,729.

### Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors.
- The General Fund balance increased from \$633,853 to \$790,178. Staff reductions and sharing opportunities in previous years are the main reason for improvement in the general fund.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from a \$163,368 to \$144,897 in fiscal 2006. Revenues decreased during the year and expenses remained approximately the same.
- The Capital Projects Fund balance increased from \$535,034 during fiscal year 2006 to \$786,260 during fiscal 2007. The increase in revenue is desirable as the district continues to explore heating and cooling upgrades for both buildings.

## Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$76,898 at June 30, 2006 to \$67,568 at June 30, 2007, representing a decrease of approximately 12%. For fiscal 2007, the District maintained current meal prices.

## BUDGETARY HIGHLIGHTS

The District's receipts were \$24,698 less than budgeted receipts, a variance of .5%.

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 \$691,539, 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 5.2% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$76,930.

During the fiscal year 2007, the District spent approximately \$36,000 for building improvements. The District also purchased a bus for approximately \$63,000.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2006-2007
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	0	0	10,000	10,000	0
Buildings	446,504	458,052	0	0	446,504	458,052	-2.5
Improvements	72,944	77,246	0	0	72,944	77,246	-5.6
Equipment & Furniture	152,771	107,492	9,320	4,454	162,091	111,946	44.8
<b>TOTAL</b>	<b>682,219</b>	<b>652,790</b>	<b>9,320</b>	<b>4,454</b>	<b>691,539</b>	<b>657,244</b>	<b>5.2</b>

### Long-Term Debt

At June 30, 2007, the District had \$26,072 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 46% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District received a long-term loan of \$105,858 from the EPA for asbestos removal in 1991. The loan has .5 years remaining until completion of repayment.

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

	<b>Total School District</b>		<b>Percentage</b>
	<b>2007</b>	<b>2006</b>	<b>Change</b>
	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
	\$	\$	
Termination benefits	23,132	39,247	-41.1
EPA Asbestos Loan	2,940	8,821	-66.7
	<u>26,072</u>	<u>48,068</u>	<u>-45.8</u>

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

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

- School financing is highly dependent upon student enrollment. The District's October 2007 enrollment decreased by approximately 20 students. This drop in enrollment will decrease the District's funding for fiscal year 2009.
- Although the District has experienced declining enrollment for the past several years. The District expects this trend to continue; therefore, whole-grade sharing conversations with a neighboring school district are being planned for fiscal year 2009.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one suburban must be replaced during fiscal 2008 at a cost of \$35,000. To pay for these buses, the District will use the Physical Plant and Equipment Levy Fund.
- Annually the District negotiates a new Master Contract with the IKMEA. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

### **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 Jeff Kruse, IKM superintendent, IKM Community School District, 755 Main Street, Manilla, Iowa, 51454.

## BASIC FINANCIAL STATEMENTS

## IKM COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,906,009	53,018	1,959,027
Receivables:			
Property tax:			
Delinquent	25,518	-	25,518
Succeeding year	1,547,134	-	1,547,134
Accounts	351	335	686
Due from other governments	299,508	-	299,508
Inventories	-	6,198	6,198
Capital assets, net of accumulated depreciation	682,219	9,320	691,539
<b>Total assets</b>	<b>4,460,739</b>	<b>68,871</b>	<b>4,529,610</b>
<b>Liabilities</b>			
Accounts payable	47,986	-	47,986
Deferred revenue:			
Succeeding year property tax	1,547,134	-	1,547,134
Other	-	1,303	1,303
Long-term liabilities:			
Portion due within one year:			
Termination benefits	8,226	-	8,226
EPA asbestos loan payable	2,940	-	2,940
Portion due after one year:			
Termination benefits	14,906	-	14,906
<b>Total liabilities</b>	<b>1,621,192</b>	<b>1,303</b>	<b>1,622,495</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	679,279	9,320	688,599
Restricted for:			
Management levy	175,840	-	175,840
Physical plant and equipment levy	144,897	-	144,897
Other special revenue purposes	78,733	-	78,733
Local option sales and services tax capital projects	786,260	-	786,260
Unrestricted	974,538	58,248	1,032,786
<b>Total net assets</b>	<b>2,839,547</b>	<b>67,568</b>	<b>2,907,115</b>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular	1,706,173	216,506	253,583	-
Special	509,778	26,514	26,511	-
Other	528,635	103,856	64,111	-
	<u>2,744,586</u>	<u>346,876</u>	<u>344,205</u>	<u>-</u>
Support services:				
Student	89,785	-	-	-
Instructional staff	197,776	-	27,273	-
Administration	470,292	51,009	-	-
Operation and maintenance of plant	331,479	2,100	-	-
Transportation	250,429	-	-	-
	<u>1,339,761</u>	<u>53,109</u>	<u>27,273</u>	<u>-</u>
Non-instructional programs	146	-	-	-
Other expenditures:				
AEA flowthrough	141,863	-	141,863	-
Depreciation (unallocated)*	44,975	-	-	-
	<u>186,838</u>	<u>-</u>	<u>141,863</u>	<u>-</u>
Total governmental activities	4,271,331	399,985	513,341	-
Business type activities:				
Non-instructional programs:				
Food service operations	168,378	81,596	75,179	-
Total	<u>4,439,709</u>	<u>481,581</u>	<u>588,520</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				
<b>Change in net assets</b>				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,236,084)	-	(1,236,084)
(456,753)	-	(456,753)
<u>(360,668)</u>	-	<u>(360,668)</u>
<u>(2,053,505)</u>	-	<u>(2,053,505)</u>
(89,785)	-	(89,785)
(170,503)	-	(170,503)
(419,283)	-	(419,283)
(329,379)	-	(329,379)
(250,429)	-	(250,429)
<u>(1,259,379)</u>	-	<u>(1,259,379)</u>
<u>(146)</u>	-	<u>(146)</u>
-	-	-
(44,975)	-	(44,975)
<u>(44,975)</u>	-	<u>(44,975)</u>
(3,358,005)	-	(3,358,005)
-	(11,603)	(11,603)
<u>(3,358,005)</u>	<u>(11,603)</u>	<u>(3,369,608)</u>
1,509,144	-	1,509,144
39,540	-	39,540
221,897	-	221,897
267,460	-	267,460
1,710,477	-	1,710,477
62,099	1,813	63,912
13,584	-	13,584
3,824,201	1,813	3,826,014
<u>(460)</u>	460	-
<u>3,823,741</u>	<u>2,273</u>	<u>3,826,014</u>
465,736	(9,330)	456,406
<u>2,373,811</u>	<u>76,898</u>	<u>2,450,709</u>
<u>2,839,547</u>	<u>67,568</u>	<u>2,907,115</u>

## IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund \$	Capital Projects Sales Tax \$	Nonmajor Governmental Funds \$	Total \$
<b>Assets</b>				
Cash and pooled investments	790,002	695,686	420,321	1,906,009
Receivables:				
Property tax:				
Delinquent	23,588	-	1,930	25,518
Succeeding year	1,427,342	-	119,792	1,547,134
Accounts	-	-	351	351
Due from other governments	208,934	90,574	-	299,508
<b>Total assets</b>	<u>2,449,866</u>	<u>786,260</u>	<u>542,394</u>	<u>3,778,520</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	47,986	-	-	47,986
Deferred revenue:				
Succeeding year property tax	1,427,342	-	119,792	1,547,134
Other	184,360	-	-	184,360
Total liabilities	<u>1,659,688</u>	<u>-</u>	<u>119,792</u>	<u>1,779,480</u>
Fund balances:				
Reserved for:				
Unreserved, reported in:				
General fund	790,178	-	-	790,178
Special revenue funds	-	-	422,602	422,602
Capital project fund	-	786,260	-	786,260
Total fund balances	<u>790,178</u>	<u>786,260</u>	<u>422,602</u>	<u>1,999,040</u>
<b>Total liabilities and fund balances</b>	<u>2,449,866</u>	<u>786,260</u>	<u>542,394</u>	<u>3,778,520</u>

## IKM 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>	1,999,040
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	682,219
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	184,360
Long-term liabilities, including notes payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(26,072)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,839,547</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,653,513	213,508	117,068	1,984,089
Tuition	145,497	-	-	145,497
Other	184,769	19,861	125,332	329,962
State sources	2,080,443	53,952	86	2,134,481
Federal sources	143,289	-	-	143,289
Total revenues	<u>4,207,511</u>	<u>287,321</u>	<u>242,486</u>	<u>4,737,318</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,705,167	-	-	1,705,167
Special	509,778	-	-	509,778
Other	442,541	-	86,094	528,635
	<u>2,657,486</u>	<u>-</u>	<u>86,094</u>	<u>2,743,580</u>
Support services:				
Student	89,785	-	-	89,785
Instructional staff	203,247	-	-	203,247
Administration	449,921	-	36,486	486,407
Operation and maintenance of plant	290,691	-	41,248	331,939
Transportation	212,359	-	71,914	284,273
	<u>1,246,003</u>	<u>-</u>	<u>149,648</u>	<u>1,395,651</u>
Non-instructional programs	-	-	146	146
Other expenditures:				
Facilities acquisition	-	36,095	-	36,095
Long-term debt:				
Principal	-	-	5,881	5,881
AEA flowthrough	141,863	-	-	141,863
	<u>141,863</u>	<u>36,095</u>	<u>5,881</u>	<u>183,839</u>
Total expenditures	<u>4,045,352</u>	<u>36,095</u>	<u>241,769</u>	<u>4,323,216</u>
Excess (deficiency) of revenues over (under) expenditures	<u>162,159</u>	<u>251,226</u>	<u>717</u>	<u>414,102</u>
Other financing sources (uses):				
Sales of real estate and equipment	47	-	162	209
Operating transfers in	-	-	5,881	5,881
Operating transfers out	(5,881)	-	-	(5,881)
Total other financing sources (uses)	<u>(5,834)</u>	<u>-</u>	<u>6,043</u>	<u>209</u>
Net change in fund balances	156,325	251,226	6,760	414,311
Fund balances beginning of year	633,853	535,034	415,842	1,584,729
Fund balances end of year	<u>790,178</u>	<u>786,260</u>	<u>422,602</u>	<u>1,999,040</u>

See notes to financial statements.

## IKM 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>		414,311
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	105,067	
Depreciation expense	<u>(75,638)</u>	29,429
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		5,881
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		<u>16,115</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>465,736</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2007

	<u>Nonmajor School Nutrition</u>
	\$
<b>Assets</b>	
Cash and cash equivalents	53,018
Accounts receivable	335
Inventories	6,198
Capital assets, net of accumulated depreciaiton	<u>9,320</u>
<b>Total assets</b>	<u>68,871</u>
<b>Liabilities</b>	
Deferred revenue	<u>1,303</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	9,320
Unrestricted	<u>58,248</u>
<b>Total net assets</b>	<u><u>67,568</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Fund

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>81,596</u>
Operating expenses:	
Non-instructional programs:	
Salaries	54,347
Benefits	21,866
Purchased services	88
Supplies	90,785
Depreciation	<u>1,292</u>
	<u>168,378</u>
Operating gain (loss)	<u>(86,782)</u>
Non-operating revenues:	
State sources	2,347
Federal sources	72,832
Interest income	<u>1,813</u>
Total non-operating revenues	<u>76,992</u>
Gain (loss) before contributions	(9,790)
Capital contributions	<u>460</u>
Change in net assets	(9,330)
Net assets beginning of year	<u>76,898</u>
Net assets end of year	<u><u>67,568</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	82,493
Cash payments to employees for services	(76,213)
Cash payments to suppliers for goods or services	(80,153)
Net cash used by operating activities	<u>(73,873)</u>
Cash flows from non-capital financing activities:	
State grants received	2,347
Federal grants received	64,296
Net cash provided by non-capital financing activities	<u>66,643</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(5,699)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,814</u>
Net increase (decrease) in cash and cash equivalents	(11,115)
Cash and cash equivalents at beginning of year	<u>64,133</u>
Cash and cash equivalents at end of year	<u><u>53,018</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(86,782)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	8,536
Depreciation	1,292
Decrease (increase) in inventories	2,184
Decrease (increase) in accounts receivable	748
(Decrease) increase in deferred revenue	149
Net cash used in operating activities	<u><u>(73,873)</u></u>

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

During the year ended June 30, 2007, the District received \$8,536 of federal commodities.

# IKM COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2007

### 1. Summary of Significant Accounting Policies

IKM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford and Shelby 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, IKM 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 IKM Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006, through June 30, 2007, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

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

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

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

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

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

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

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

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

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

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

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

#### E. Budgeting and Budgetary Control

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

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

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

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

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

### 3. Interfund Transfers

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u> \$
Debt Service	General	5,881

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

### 4. Capital Assets

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

	<u>Balance Beginning of Year</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Balance End of Year</u> \$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	1,733,146	29,125	-	1,762,271
Improvements other than buildings	291,090	-	-	291,090
Furniture and equipment	839,969	75,942	69,679	846,232
Total capital assets being deprec.	<u>2,864,205</u>	<u>105,067</u>	<u>69,679</u>	<u>2,899,593</u>
Less accumulated depreciation for:				
Buildings	1,275,094	40,673	-	1,315,767
Improvements other than buildings	213,844	4,302	-	218,146
Furniture and equipment	732,477	30,663	69,679	693,461
Total accumulated depreciation	<u>2,221,415</u>	<u>75,638</u>	<u>69,679</u>	<u>2,227,374</u>
Total capital assets being depreciated, net	<u>642,790</u>	<u>29,429</u>	-	<u>672,219</u>
Governmental activities capital assets, net	<u>652,790</u>	<u>29,429</u>	-	<u>682,219</u>
	<u>Balance Beginning of Year</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Balance End of Year</u> \$
<b>Business type activities:</b>				
Furniture and equipment	79,354	6,158	14,839	70,673
Less accumulated depreciation	74,900	1,292	14,839	61,353
Business type activities capital assets, net	<u>4,454</u>	<u>4,866</u>	-	<u>9,320</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	1,013
Support services:	
Instructional support	712
Transportation	28,938
	<u>30,663</u>
Unallocated depreciation	44,975
	<u>75,638</u>
Total depreciation expense – governmental activities	
Business type activities:	
Food services	<u>1,292</u>

## 5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
EPA asbestos loan payable	8,821	-	5,881	2,940	2,940
Termination benefits	39,247	-	16,115	23,132	8,226
	<u>48,068</u>	<u>-</u>	<u>21,996</u>	<u>26,072</u>	<u>11,166</u>
Total	<u>48,068</u>	<u>-</u>	<u>21,996</u>	<u>26,072</u>	<u>11,166</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees until October 2004. Eligible employees must have completed at least fifteen years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which the employee resigned. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of three years of individual health insurance premiums to be paid by the District. The District's share of the premium will not exceed the premium amount in effect on March 1, of the year in which the employee applied for early retirement.

At June 30, 2007, the District has obligations to two participants with a total liability of \$23,132. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$16,115.

### EPA Asbestos Loan Payable

The District received a long-term loan of \$105,858 from the Environmental Protection Agency for removal of asbestos in 1991. The loan is payable in 36 semi-annual installments of \$2,940 and is without interest.

Year Ending June 30,	Total
	\$
2008	<u>2,940</u>

During the year ended June 30, 2007 the District made principal payments totaling \$5,881 under the loan agreement.

#### **6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$135,190, \$133,776 and \$126,385 respectively, equal to the required contributions for each year.

#### **7. Risk Management**

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

#### **8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$141,863 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.

#### **9. Construction Commitment**

The District has entered into contracts totaling \$19,875 for building improvements. As of June 30, 2007 work on the projects had not started.

REQUIRED SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,459,548	83,409	2,542,957	2,541,433	2,541,433	1,524
State sources	2,134,481	2,347	2,136,828	2,069,171	2,069,171	67,657
Federal sources	143,289	72,832	216,121	310,000	310,000	(93,879)
Total revenues	<u>4,737,318</u>	<u>158,588</u>	<u>4,895,906</u>	<u>4,920,604</u>	<u>4,920,604</u>	<u>(24,698)</u>
Expenditures:						
Instruction	2,743,580	-	2,743,580	3,168,939	3,168,939	425,359
Support services	1,395,651	-	1,395,651	1,721,545	1,721,545	325,894
Non-instructional programs	146	168,378	168,524	314,629	314,629	146,105
Other expenditures	183,839	-	183,839	855,703	855,703	671,864
Total expenditures	<u>4,323,216</u>	<u>168,378</u>	<u>4,491,594</u>	<u>6,060,816</u>	<u>6,060,816</u>	<u>1,569,222</u>
Excess (deficiency) of revenues over (under) expenditures	414,102	(9,790)	404,312	(1,140,212)	(1,140,212)	1,544,524
Other financing sources (uses) net	<u>209</u>	<u>460</u>	<u>669</u>	<u>6,881</u>	<u>6,881</u>	<u>(6,212)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	414,311	(9,330)	404,981	(1,133,331)	(1,133,331)	1,538,312
Balance beginning of year	<u>1,584,729</u>	<u>76,898</u>	<u>1,661,627</u>	<u>1,278,331</u>	<u>1,278,331</u>	<u>383,296</u>
Balance end of year	<u><u>1,999,040</u></u>	<u><u>67,568</u></u>	<u><u>2,066,608</u></u>	<u><u>145,000</u></u>	<u><u>145,000</u></u>	<u><u>1,921,608</u></u>

## IKM COMMUNITY SCHOOL DISTRICT

### Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

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

OTHER SUPPLEMENTARY INFORMATION

## IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

<b>Assets</b>	<u>Special Revenue Funds</u>			<b>Total</b>	
	<b>Management</b>	<b>Student</b>	<b>Physical</b>		
	<b>Levy</b>	<b>Activity</b>	<b>Plant and</b>		
	<b>Levy</b>	<b>Fund</b>	<b>Equipment</b>	<b>Levy</b>	
	\$	\$	\$	\$	\$
Cash and pooled investments	197,694	78,382	144,245		420,321
Receivables:					
Property tax:					
Delinquent	1,278	-	652		1,930
Succeeding year	80,001	-	39,791		119,792
Accounts	-	351	-		351
<b>Total assets</b>	<b>278,973</b>	<b>78,733</b>	<b>184,688</b>		<b>542,394</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Deferred revenue:					
Succeeding year property tax	80,001	-	39,791		119,792
Fund balances:					
Unreserved fund balances reported in:					
Special revenue funds	198,972	78,733	144,897		422,602
<b>Total liabilities and fund balances</b>	<b>278,973</b>	<b>78,733</b>	<b>184,688</b>		<b>542,394</b>

## IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds				Total
	Management	Student	Physical	Debt	
	Levy	Activity	Plant and	Service	
		Equipment			
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	77,528	-	39,540	-	117,068
Other	17,150	103,602	4,580	-	125,332
State sources	57	-	29	-	86
Total revenues	<u>94,735</u>	<u>103,602</u>	<u>44,149</u>	<u>-</u>	<u>242,486</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	86,094	-	-	86,094
Support services:					
Administration services	36,486	-	-	-	36,486
Operation and maintenance of plant services	41,248	-	-	-	41,248
Transportation services	9,132	-	62,782	-	71,914
Non-instructional programs	146	-	-	-	146
Other expenditures:					
Long-term debt:					
Principal	-	-	-	5,881	5,881
Total expenditures	<u>87,012</u>	<u>86,094</u>	<u>62,782</u>	<u>5,881</u>	<u>241,769</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,723</u>	<u>17,508</u>	<u>(18,633)</u>	<u>(5,881)</u>	<u>717</u>
Other financing sources (uses):					
Sales of real property	-	-	162	-	162
Operating transfers in	-	-	-	5,881	5,881
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>162</u>	<u>5,881</u>	<u>6,043</u>
Net change in fund balance	7,723	17,508	(18,471)	-	6,760
Fund balances beginning of year	<u>191,249</u>	<u>61,225</u>	<u>163,368</u>	<u>-</u>	<u>415,842</u>
Fund balances end of year	<u>198,972</u>	<u>78,733</u>	<u>144,897</u>	<u>-</u>	<u>422,602</u>

## IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Drama	3,193	347	563	-	2,977
Basketball	3,801	13,713	10,805	-	6,709
Football/high school	469	17,425	17,960	66	-
Football/junior high	-	2,219	4,248	2,029	-
Track	-	110	3,560	3,450	-
Co-ed golf	-	585	1,785	1,200	-
Volleyball	2,267	2,646	2,834	-	2,079
Softball	-	3,227	5,005	1,778	-
Activity tickets	9,161	6,135	3,094	(2,189)	10,013
Concessions	9,888	16,356	10,769	(3,450)	12,025
Cheerleaders	659	777	1,181	-	255
Baseball	-	2,572	3,422	850	-
Class of 2007	2,231	-	-	(2,231)	-
Class of 2008	-	61	1,536	2,653	1,178
Class of 2009	-	9,193	8,014	(1,179)	-
Class of 2010	-	-	-	15	15
Class of 2011	-	15	-	(15)	-
Annual	5,467	8,147	8,175	-	5,439
FFA	5,282	-	-	-	5,282
Interest	13,880	2,507	183	(2,977)	13,227
Student council-MS	222	664	726	-	160
Student council-HS	4,643	828	1,314	-	4,157
Student council-Elem.	62	-	40	-	22
Music - instrumental	-	16,075	880	-	15,195
Total	61,225	103,602	86,094	-	78,733

## IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
<b>Assets</b>				
Cash	-	52,598	52,598	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Liabilities</b>				
Other liabilities	-	52,598	52,598	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

## IKM 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	1,984,089	1,898,510	1,920,010	2,041,334
Tuition	145,497	110,313	91,920	87,904
Other	329,962	288,687	295,670	263,884
State sources	2,134,481	2,113,616	2,001,821	1,780,773
Federal sources	143,289	160,543	157,422	186,535
Total revenues	<u>4,737,318</u>	<u>4,571,669</u>	<u>4,466,843</u>	<u>4,360,430</u>
Expenditures:				
Instruction:				
Regular	1,705,167	1,592,528	1,572,871	1,547,521
Special	509,778	601,808	549,380	647,788
Other	528,635	520,292	522,559	331,569
Support services:				
Student	89,785	82,763	78,677	78,592
Instructional staff	203,247	138,029	121,378	99,857
Administration	486,407	514,386	502,319	500,465
Operation and maintenance of plant	331,939	342,241	283,145	274,939
Transportation	284,273	279,743	193,675	186,662
Non-instructional programs	146	142	136	139
Other expenditures:				
Facilities acquisition	36,095	164,932	93,299	195,340
Long-term debt:				
Principal	5,881	5,881	5,881	5,881
AEA flowthrough	141,863	137,574	136,369	138,188
Total expenditures	<u>4,323,216</u>	<u>4,380,319</u>	<u>4,059,689</u>	<u>4,006,941</u>

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

To the Board of Education of  
IKM 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 IKM 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 [September 4, 2007](#). 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 IKM 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 IKM Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IKM 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 IKM 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 IKM Community School District's financial statements that is more than inconsequential will not be prevented or detected by IKM Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 07-I-A and 07-I-B are material weaknesses.

#### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

IKM Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the District's responses, we did not audit IKM 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 IKM Community School District and other parties to whom IKM Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

September 4, 2007

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

- 07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted.
- 07-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 07-II-C Travel Expenses: No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 07-II-D Business Transactions: No business transactions between the District and District officials or employees were noted:
- 07-II-E Bond Coverage: Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of bond coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.
- 07-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 07-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 07-II-I Certified Annual Report (CAR): The audit was completed before the Certified Annual Report due date.