

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2007

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-14
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements	
Statement of Net Assets	A 16
Statement of Activities	B 17-18
Governmental Fund Financial Statements	
Balance Sheet	C 19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 20
Statement of Revenues, Expenditures and Changes in Fund Balances	E 21-22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 23
Proprietary Fund Financial Statements	
Statement of Net Assets	G 24
Statement of Revenues, Expenses and Changes in Net Assets	H 25
Statement of Cash Flows	I 26
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	J 27
Statement of Changes in Fiduciary Net Assets	K 28
Notes to Financial Statements	29-40
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Enterprise Fund	42
Notes to Required Supplementary Information - Budgetary Reporting	43

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2007

	<u>Schedule</u>	<u>Page</u>
Other Supplementary Information		
Nonmajor Special Revenue Fund		
Combining Balance Sheet	1	45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	46
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	47-48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	49
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		50-52
Schedule of Findings		53-56
Audit Staff		57

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September, 2006 Election)		
Mark Glover	Board President	2008
Peggy Kedley	Board Member	2006
Brent Montz	Board Member	2006
Tim Drewelow	Board Member	2007
Duane Stonerook	Board Member	2008
(After September, 2006 Election)		
Mark Glover	Board President	2008
Tim Drewelow	Board Member	2007
Duane Stonerook	Board Member	2008
Peggy Kedley	Board Member	2009
Brent Montz	Board Member	2009
School Officials		
Mary Jo Hainstock	Superintendent	2008
Jean Esbaum	District Secretary	2007
Brian Gruhn	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
North Cedar Community School District

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

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

The financial statements of the North Cedar Community School District Foundation have not been audited, and I was not engaged to audit the Foundation financial statements as part of my audit of the North Cedar Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

Because the Foundation's financial statements have not been audited, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit of the North Cedar Community School District, as of and for the year ended June 30, 2007.

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

In accordance with Government Auditing Standards, I have also issued my report dated February 15, 2008 on my consideration of North Cedar Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 42 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Cedar Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 4, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.



Kay L. Chapman, CPA PC
February 15, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Cedar 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 \$7,120,108 in fiscal 2006 to \$7,754,773 in fiscal 2007, and General Fund expenditures increased from \$7,080,547, in fiscal 2006 to \$7,502,267 in fiscal 2007. The District's General Fund balance increased from \$970,129 in fiscal 2006 to \$1,222,635 in fiscal 2007, a 26% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, building repair, utilities, vehicle fuel, and substitute teacher expense.
- An increase in General Fund interest earnings resulted from improved cash flow with more dollars available to be invested. Comparison information from the last four years is shown below.

2004 \$9,668	2005 \$28,729	2006 \$58,822	2007 \$75,681
--------------	---------------	---------------	---------------

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 North Cedar 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 North Cedar 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 North Cedar 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 nonmajor Governmental Funds.

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

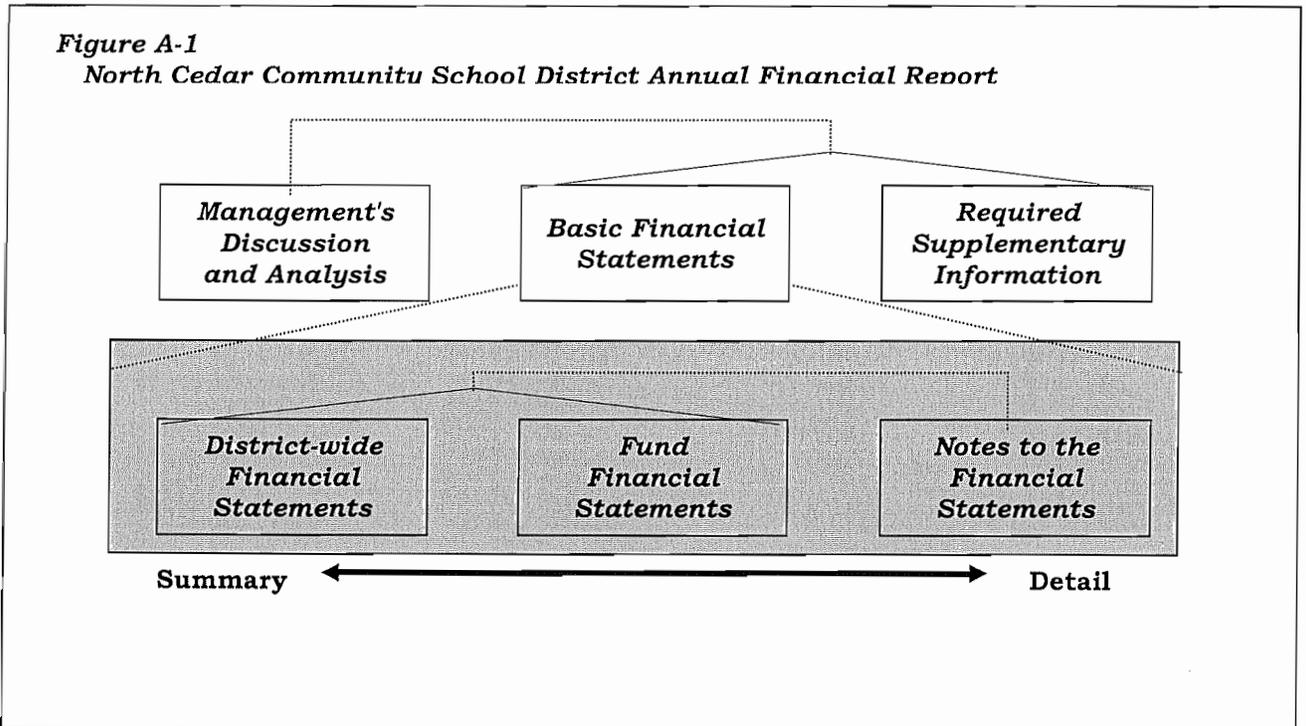


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

In the government-wide financial statements, the District's activities are divided into three 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.
- *Component Unit:* This includes the activities of the North Cedar Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

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. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the employee benefit fund.

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

Condensed Statement of Net Assets							
	Governmental		Business Type		Total		Total Change <u>2006-</u> <u>2007</u>
	Activities		Activities		School District		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Current and other assets	\$ 9,630,010	\$ 14,108,786	\$ 19,517	\$ 36,304	\$ 9,649,527	\$ 14,145,090	-31.78%
Capital assets	<u>8,515,347</u>	<u>803,372</u>	<u>21,396</u>	<u>16,552</u>	<u>8,536,743</u>	<u>819,924</u>	941.16%
Total assets	<u>18,145,357</u>	<u>14,912,158</u>	<u>40,913</u>	<u>52,856</u>	<u>18,186,270</u>	<u>14,965,014</u>	21.53%
Long-term obligations	8,491,403	8,763,406	-	-	8,491,403	8,763,406	-3.10%
Other liabilities	<u>5,524,306</u>	<u>3,495,812</u>	<u>3,790</u>	<u>5,357</u>	<u>5,528,096</u>	<u>3,501,169</u>	57.89%
Total liabilities	<u>14,015,709</u>	<u>12,259,218</u>	<u>3,790</u>	<u>5,357</u>	<u>14,019,499</u>	<u>12,264,575</u>	14.31%
Net assets							
Invested in capital assets, net of related debt	1,127,162	23,489	21,396	5,105	1,148,558	28,594	3916.78%
Restricted	1,230,304	1,466,324	-	-	1,230,304	1,466,324	-16.10%
Unrestricted	<u>1,772,182</u>	<u>1,163,127</u>	<u>15,727</u>	<u>42,394</u>	<u>1,787,909</u>	<u>1,205,521</u>	48.31%
Total net assets	<u>\$ 4,129,648</u>	<u>\$ 2,652,940</u>	<u>\$ 37,123</u>	<u>\$ 47,499</u>	<u>\$ 4,166,771</u>	<u>\$ 2,700,439</u>	54.30%

The District's combined net assets increased by approximately 54%, or \$1,466,332, from the prior year. The largest portion of the District's net assets is unrestricted net assets, which are net assets that are available for general use by the District.

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 decreased \$236,020, or approximately 16% from the prior year. The District's restricted net assets decreased due to changes outside the control of the district in program revenues, expense, and related debt.

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 \$582,388, or approximately 48%. This increase in unrestricted net assets was a result of increased property tax which improved cash flow and allowed the District to meet financial obligations and remain within its budget.

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

	Governmental Activities		Business Type Activities		Total District		Total
	2007	2006	2007	2006	2007	2006	Change 2006-2007
Revenues							
Program revenues							
Charges for service and sales	\$ 509,936	\$ 414,447	\$ 255,899	\$ 242,007	\$ 765,835	\$ 656,454	16.66%
Operating grants and contributions	901,454	860,493	142,845	150,084	1,044,299	1,010,577	3.34%
Capital grants	32,145	-	-	-	32,145	-	100.00%
General revenues							
Property tax	3,773,370	3,045,514	-	-	3,773,370	3,045,514	23.90%
Local option sales and services tax	695,229	356,394	-	-	695,229	356,394	95.07%
Unrestricted state grants	3,749,787	3,668,366	-	-	3,749,787	3,668,366	2.22%
Unrestricted investment earnings	400,722	396,824	991	1,422	401,713	398,246	0.87%
Contributions and donations	8,030	-	-	-	8,030	-	100.00%
Other	10,207	250	-	-	10,207	250	3982.80%
Total revenues	<u>10,080,880</u>	<u>8,742,288</u>	<u>399,735</u>	<u>393,513</u>	<u>10,480,615</u>	<u>9,135,801</u>	14.72%
Program expenses							
Governmental activities							
Instruction	5,398,023	5,002,700	-	-	5,398,023	5,002,700	7.90%
Support services	2,137,550	2,025,762	-	-	2,137,550	2,025,762	5.52%
Non-instructional programs	347	347	410,111	406,723	410,458	407,070	0.83%
Other expenses	<u>1,067,852</u>	<u>1,793,385</u>	<u>-</u>	<u>-</u>	<u>1,067,852</u>	<u>1,793,385</u>	-40.46%
Total expenses	<u>8,603,772</u>	<u>8,822,194</u>	<u>410,111</u>	<u>406,723</u>	<u>9,013,883</u>	<u>9,228,917</u>	-2.33%
Change in net assets	<u>\$ 1,477,108</u>	<u>\$ (79,906)</u>	<u>\$ (10,376)</u>	<u>\$ (13,210)</u>	<u>\$ 1,466,732</u>	<u>\$ (93,116)</u>	-1675.17%

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

The District's total revenues were approximately \$10.5 million of which \$10.1 million was for governmental activities and approximately \$400,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 14.7% increase in revenues and a 2.3% decrease in expenses. Property tax increased approximately \$727,856 to fund increases in expenditures. There were increases in expenses related to negotiated salary and benefits as well as increases in expenses funded by grants received by the District. However, there was a larger decrease in expenses related to upkeep of facilities, which resulted in the overall decrease in expenses. The increase in revenue can be attributed to receiving additional LOSST dollars.

Governmental Activities

Revenues for governmental activities were \$10,080,880 and expenses were \$8,603,772. The District was able to remain within its budget due to planning and reviewing expenditures on a daily basis.

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

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 5,398,023	\$ 5,002,700	7.9%	\$ 4,301,545	\$ 4,049,483	6.2%
Support services	2,137,550	2,025,762	5.5%	2,133,461	1,998,988	6.7%
Non-instructional programs	347	347	0.0%	347	347	0.0%
Other expenses	<u>1,067,852</u>	<u>1,793,385</u>	<u>-40.5%</u>	<u>724,884</u>	<u>1,498,436</u>	<u>-51.6%</u>
Total expenses	<u>\$ 8,603,772</u>	<u>\$ 8,822,194</u>	<u>-2.5%</u>	<u>\$ 7,160,237</u>	<u>\$ 7,547,254</u>	<u>-5.1%</u>

- The cost financed by users of the District’s programs was \$509,936.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$933,599.
- The net cost of governmental activities was financed with \$4,468,599 in property and other taxes and \$3,749,787 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$399,735 representing a 1.6 percent increase over the year while expenses totaled \$410,111, an 8.2 percent increase over the prior year. The District’s business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District did not increase meal prices. The District considers meal price increases only when deemed necessary to meet the obligations of the School Nutrition Fund. However, food and salary/benefit costs continue to increase. The District will review and determine if an increase in meal prices is necessary.

INDIVIDUAL FUND ANALYSIS

As previously noted, North Cedar 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 \$3,563,086, well below last year’s ending fund

balances of \$10,427,088. The primary reason for the decrease in combined fund balances in fiscal 2007 is due to the building project, combined with salary/benefit increases and declining enrollment.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. The increase in revenues was more than the District's increase in General Fund expenditures.
- The General Fund balance increased from \$970,129 to \$1,222,635, due in part to an increase in property tax, the Instructional Support Levy and no assistance from the General Fund to the health insurance program.
- The Capital Project Fund balance decreased significantly due to expenditures associated with the building project.
- The Debt Service Fund balance decreased slightly from \$7,112 at June 30, 2006 to \$6,929 at June 30, 2007.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$47,499 at June 30, 2006 to \$37,123 at June 30, 2007, representing a decrease of approximately 21%. This is due primarily to salary/benefit increases and equipment repair expenses.

BUDGETARY HIGHLIGHTS

Over the course of the year, North Cedar Community School District amended its annual budget one time to reflect additional expenditures associated with unexpected increased costs of operations including pay applications for the building project.

The District's revenues were \$786,725 more than budgeted revenues, a variance of 8%. The most significant variance resulted from the District receiving more in state aid and grants than originally anticipated.

Total expenditures were \$3,175,991 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 \$8,536,743 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 941% 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 \$196,271.

The original cost of the District's capital assets was \$12,876,399. Governmental funds account for \$12,741,090, with the remainder of \$135,309 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category, which increased by \$6,719,663. This increase resulted from expenses associated with the building/remodeling projects.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 63,072	\$ 63,072	\$ -	\$ -	\$ 63,072	\$ 63,072	0.00%
Construction in progress	6,719,663	-	-	-	6,719,663	-	100.00%
Buildings and improvements	1,211,812	267,452	-	-	1,211,812	267,452	353.10%
Improvements, other than buildings	43,166	55,268	-	-	43,166	55,268	-21.90%
Furniture and equipment	<u>477,634</u>	<u>417,580</u>	<u>21,396</u>	<u>16,551</u>	<u>499,030</u>	<u>434,131</u>	14.95%
Totals	<u>\$8,515,347</u>	<u>\$ 803,372</u>	<u>\$21,396</u>	<u>\$16,551</u>	<u>\$8,536,743</u>	<u>\$ 819,923</u>	941.16%

Long-Term Debt

At June 30, 2007, the District had \$8,491,403 in general obligation and other long-term debt outstanding. This represents a decrease of 3.1% 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.

Figure A-7
Outstanding Long-term Obligations

	Total School District		Total Change
	2007	2006	2006-2007
General obligation bonds	\$8,400,000	\$8,705,000	-3.50%
Early retirement	<u>91,403</u>	<u>58,406</u>	56.50%
Total	<u>\$8,491,403</u>	<u>\$8,763,406</u>	-3.10%

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:

- Enrollment must remain stable or increase. District funding is driven by enrollment, therefore future enrollment stability is a critical element in maintaining a sound financial foundation. The District anticipates a decline in K-12 enrollment and a greater number of open-enrolled out students than open-enrolled in students.
- The District negotiated a new agreement with the North Cedar Education Association (NCEA) for fiscal 2008. Settlements in excess of "new money" or allowable growth in state funding for Certified as well as Classified staff will have an adverse effect on the District's General budget and related fund balance.
- The District is currently undergoing construction projects at three sites. Due to increased construction costs, the District will need to allocate additional funds to complete the project over the next two fiscal years.

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 Jean Esbaum, District Secretary/Treasurer and Business Manager, North Cedar Community School District, 400 Ball Street, Clarence, Iowa, 52216.

Basic Financial Statements

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

	Governmental Activities	Business Type Activities	Total	Component Unit Foundation
Assets				
Cash and cash equivalents	\$ 5,102,895	\$ 15,655	\$ 5,118,550	\$ 97,815
Investments	-	-	-	87,236
Receivables				
Property tax				
Delinquent	35,321	-	35,321	-
Succeeding year	3,781,279	-	3,781,279	-
Accounts receivable	2,136	-	2,136	-
Income surtaxes	325,401	-	325,401	-
Due from other governments	382,978	-	382,978	-
Inventories	-	3,862	3,862	-
Non-depreciable capital assets	6,782,735	-	6,782,735	-
Capital assets, net of accumulated depreciation	<u>1,732,612</u>	<u>21,396</u>	<u>1,754,008</u>	<u>-</u>
Total assets	<u>18,145,357</u>	<u>40,913</u>	<u>18,186,270</u>	<u>185,051</u>
Liabilities				
Accounts payable	1,714,494	-	1,714,494	-
Accrued interest payable	28,533	-	28,533	-
Deferred revenue				
Succeeding year property tax	3,781,279	-	3,781,279	-
Other	-	3,790	3,790	-
Long-term liabilities				
Portion due within one year				
General obligation bonds payable	315,000	-	315,000	-
Early retirement payable	23,703	-	23,703	-
Portion due after one year				
General obligation bonds payable	8,085,000	-	8,085,000	-
Early retirement payable	<u>67,700</u>	<u>-</u>	<u>67,700</u>	<u>-</u>
Total liabilities	<u>14,015,709</u>	<u>3,790</u>	<u>14,019,499</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	1,127,162	21,396	1,148,558	-
Restricted for				
Management levy	17,571	-	17,571	-
Physical plant and equipment levy	733,437	-	733,437	-
Other special revenue purposes	119,166	-	119,166	-
Capital projects	360,130	-	360,130	-
Scholarships	-	-	-	185,051
Unrestricted	<u>1,772,182</u>	<u>15,727</u>	<u>1,787,909</u>	<u>-</u>
Total net assets	<u>\$ 4,129,648</u>	<u>\$ 37,123</u>	<u>\$ 4,166,771</u>	<u>\$ 185,051</u>

See notes to financial statements.

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

Exhibit B

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	
Primary Government						
Governmental activities						
Instruction						
Regular instruction	\$ 3,447,705	\$ 339,734	\$ 410,053	\$ -	\$ (2,697,918)	\$ (2,697,918)
Special instruction	1,109,835	167,671	152,229	-	(789,935)	(789,935)
Other instruction	840,483	-	26,791	-	(813,692)	(813,692)
	<u>5,398,023</u>	<u>507,405</u>	<u>589,073</u>	<u>-</u>	<u>(4,301,545)</u>	<u>(4,301,545)</u>
Support services						
Student	141,787	-	-	-	(141,787)	(141,787)
Instructional staff	84,487	-	-	-	(84,487)	(84,487)
Administration	798,390	-	-	-	(798,390)	(798,390)
Operation and maintenance of plant	732,860	-	-	-	(732,860)	(732,860)
Transportation	380,026	2,531	1,558	-	(375,937)	(375,937)
	<u>2,137,550</u>	<u>2,531</u>	<u>1,558</u>	<u>-</u>	<u>(2,133,461)</u>	<u>(2,133,461)</u>
Non-instructional programs	347	-	-	-	(347)	(347)
Other expenditures						
Facilities acquisition	352,127	-	-	32,145	(319,982)	(319,982)
Long-term debt interest	353,986	-	-	-	(353,986)	(353,986)
AEA flowthrough	310,823	-	310,823	-	-	-
Depreciation (unallocated) *	50,916	-	-	-	(50,916)	(50,916)
	<u>1,067,852</u>	<u>-</u>	<u>310,823</u>	<u>32,145</u>	<u>(724,884)</u>	<u>(724,884)</u>
Total governmental activities	<u>8,603,772</u>	<u>509,936</u>	<u>901,454</u>	<u>32,145</u>	<u>(7,160,237)</u>	<u>(7,160,237)</u>

See notes to financial statements.

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

Exhibit B

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government	Component Unit
	Expenses	for Services	and Restricted Interest	Governmental Business Type Activities	Activities
	Total	Total	Total	Total	Foundation
<u>Functions/Programs (continued)</u>					
Primary Government (continued)					
Business type activities					
Non-instructional programs					
Food service operations	\$ 410,111	\$ 255,899	\$ 142,845	\$ (11,367)	\$ (11,367)
Total primary government	<u>\$ 9,013,883</u>	<u>\$ 765,835</u>	<u>\$ 1,044,299</u>	<u>(11,367)</u>	<u>(7,171,604)</u>
Component Unit					
Foundation	<u>\$ 28,814</u>	<u>-</u>	<u>\$ 22,000</u>		<u>\$ (6,814)</u>
<u>General Revenues</u>					
Property tax levied for					
General purposes				2,946,109	-
Debt service				259,806	-
Capital outlay				567,455	-
Local option sales and services tax				695,229	-
Unrestricted state grants				3,749,787	-
Contributions and donations				8,030	8,030
Unrestricted investment earnings				400,722	991
Other				10,207	-
Total general revenues	<u>8,637,345</u>			<u>8,638,336</u>	<u>29,029</u>
Change in net assets	1,477,108			1,466,732	22,215
Net assets, beginning of year, as restated	2,652,540			47,499	162,836
Net assets, end of year	<u>\$ 4,129,648</u>			<u>\$ 37,123</u>	<u>\$ 185,051</u>

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

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2007

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Assets					
Cash and pooled investments					
Other	\$1,186,746	\$2,705,821	\$ 4,016	\$ 960,562	\$4,857,145
Receivables					
Property tax					
Delinquent	29,679	-	2,904	2,738	35,321
Succeeding year	2,812,590	-	657,803	310,886	3,781,279
Accounts receivable	2,136	-	-	-	2,136
Income surtaxes	227,781	-	-	97,620	325,401
Due from other governments	163,101	219,860	9	8	382,978
Total assets and other debits	<u>\$4,422,033</u>	<u>\$2,925,681</u>	<u>\$664,732</u>	<u>\$ 1,371,814</u>	<u>\$9,384,260</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 159,027	\$1,553,736	\$ -	\$ 1,731	\$1,714,494
Deferred revenue					
Succeeding year property tax	2,812,590	-	657,803	310,886	3,781,279
Income surtaxes	227,781	-	-	97,620	325,401
Total liabilities	<u>3,199,398</u>	<u>1,553,736</u>	<u>657,803</u>	<u>410,237</u>	<u>5,821,174</u>
Fund balances					
Reserved for					
Talented and Gifted program	61,386	-	-	-	61,386
Market Factor program	7,003	-	-	-	7,003
Iowa Early Intervention grant	4,441	-	-	-	4,441
Iowa Technology Learning grant	32,145	-	-	-	32,145
Debt service	-	-	6,929	-	6,929
Unreserved, governmental funds	1,117,660	1,371,945	-	-	2,489,605
Unreserved, special revenue funds	-	-	-	961,577	961,577
Total fund balances	<u>1,222,635</u>	<u>1,371,945</u>	<u>6,929</u>	<u>961,577</u>	<u>3,563,086</u>
Total liabilities and fund balances	<u>\$4,422,033</u>	<u>\$2,925,681</u>	<u>\$664,732</u>	<u>\$ 1,371,814</u>	<u>\$9,384,260</u>

See notes to financial statements.

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

Exhibit D

Total fund balances of governmental funds	\$ 3,563,086
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,515,347
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	325,401
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(28,533)
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	245,750
Long-term liabilities, including bonds and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(8,491,403)</u>
Net assets of governmental activities	<u>\$ 4,129,648</u>

See notes to financial statements.

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

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$2,618,249	\$ 695,229	\$ 259,807	\$569,914	\$ 4,143,199
Tuition	316,302	-	-	-	316,302
Other	147,074	258,040	13	217,703	622,830
State sources	4,470,751	-	-	-	4,470,751
Federal sources	202,397	-	-	-	202,397
Total revenues	<u>7,754,773</u>	<u>953,269</u>	<u>259,820</u>	<u>787,617</u>	<u>9,755,479</u>
Expenditures					
Current					
Instruction					
Regular	3,383,988	-	-	45,680	3,429,668
Special	1,181,217	-	-	-	1,181,217
Other	694,432	-	-	145,171	839,603
	<u>5,259,637</u>	<u>-</u>	<u>-</u>	<u>190,851</u>	<u>5,450,488</u>
Support services					
Student	141,787	-	-	-	141,787
Instructional staff	84,487	-	-	-	84,487
Administration	813,318	-	-	1,388	814,706
Operation & maintenance of plant	596,018	-	-	126,200	722,218
Transportation	296,197	-	-	79,972	376,169
	<u>1,931,807</u>	<u>-</u>	<u>-</u>	<u>207,560</u>	<u>2,139,367</u>
Other expenditures					
Facilities acquisition	-	8,028,112	-	30,688	8,058,800
Long-term debt					
Principal	-	-	305,000	-	305,000
Interest and fiscal charges	-	-	355,003	-	355,003
AEA flowthrough	310,823	-	-	-	310,823
	<u>310,823</u>	<u>8,028,112</u>	<u>660,003</u>	<u>30,688</u>	<u>9,029,626</u>
Total expenditures	<u>7,502,267</u>	<u>8,028,112</u>	<u>660,003</u>	<u>429,099</u>	<u>16,619,481</u>

See notes to financial statements.

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

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 252,506	\$(7,074,843)	\$(400,183)	\$358,518	\$(6,864,002)
Other financing sources (uses)					
Interfund operating transfers in	-	-	400,000	-	400,000
Interfund operating transfers (out)	-	(400,000)	-	-	(400,000)
Total other financing sources (uses)	-	(400,000)	400,000	-	-
Net change in fund balances	252,506	(7,474,843)	(183)	358,518	(6,864,002)
Fund balance, beginning of year, as restated	<u>970,129</u>	<u>8,846,788</u>	<u>7,112</u>	<u>603,059</u>	<u>10,427,088</u>
Fund balance, end of year	<u>\$1,222,635</u>	<u>\$ 1,371,945</u>	<u>\$ 6,929</u>	<u>\$961,577</u>	<u>\$ 3,563,086</u>

See notes to financial statements.

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

Exhibit F

Net change in fund balances - total governmental funds \$(6,864,002)

**Amounts reported for governmental activities in the Statement of Activities
 are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$7,900,945	
Depreciation expense	<u>(188,970)</u>	7,711,975

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 325,401

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 30,714

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 305,000

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 governmental funds, as follows:

Early retirement	(32,997)
------------------	----------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,017

Change in net assets of governmental activities \$ 1,477,108

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

Exhibit G

	<u>Business Type Activity</u>	<u>Governmental Activity</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Nonmajor School Nutrition</u>	<u>Internal Service Fund</u>
Assets		
Cash and pooled investments	\$ 15,655	\$245,750
Inventories	3,862	-
Capital assets, net of accumulated depreciation	<u>21,396</u>	<u>-</u>
Total assets	<u>40,913</u>	<u>245,750</u>
Liabilities		
Deferred revenues	<u>3,790</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	21,396	-
Unrestricted	<u>15,727</u>	<u>245,750</u>
Total net assets	<u>\$ 37,123</u>	<u>\$245,750</u>

See notes to financial statements.

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

Exhibit H

	Business Type Activity Enterprise Fund	Governmental Activity Internal Service Fund
Operating revenue		
Local sources		
Charges for service	\$255,899	\$ -
Employee contributions	-	722,711
Total operating revenue	255,899	722,711
Operating expenses		
Support services		
Business administration		
Salaries	6,518	-
Benefits	873	-
Purchased services	3,140	53,734
Operation and maintenance of plant		
Purchased services	4,136	-
Total support services	14,667	53,734
Non-instructional programs		
Food service operations		
Salaries and benefits	148,086	-
Benefits	53,216	-
Purchased services	7	-
Supplies	186,834	-
Depreciation	7,301	-
Other enterprise		
Benefits	-	526,258
Miscellaneous	-	112,005
Total non-instructional programs	395,444	638,263
Total operating expenses	410,111	691,997
Operating income (loss)	(154,212)	30,714
Non-operating revenues		
Interest income	991	-
State sources	5,152	-
Federal sources	137,693	-
Total non-operating revenues	143,836	-
Change in net assets	(10,376)	30,714
Net assets, beginning of year	47,499	215,036
Net assets, end of year	\$ 37,123	\$ 245,750

See notes to financial statements.

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

Exhibit I

	Business Type Activity	Governmental Activity
	Enterprise Fund	
	Nonmajor School Nutrition	Internal Service Fund
Cash flows from operating activities		
Cash received from sale of services	\$ 254,332	\$ -
Cash received from other operations	-	722,711
Cash payments to employees for services	(208,693)	-
Cash payments to suppliers for goods and services	(175,157)	(691,997)
Net cash provided by (used in) operating activities	(129,518)	30,714
Cash flows from non-capital financing activities		
State grants received	5,152	-
Federal grants received	119,977	-
Net cash provided by non-capital financing activities	125,129	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(12,146)	-
Cash flows from investing activities		
Interest on investments	991	-
Net increase (decrease) in cash and cash equivalents	(15,544)	30,714
Cash and cash equivalents, beginning of year	31,199	215,036
Cash and cash equivalents, end of year	\$ 15,655	\$ 245,750
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities		
Operating income (loss)	\$(154,212)	\$ 30,714
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	7,301	-
Commodities used	17,716	-
Decrease in inventory	1,243	-
(Decrease) in deferred revenues	(1,566)	-
Net cash provided by (used in) operating activities	\$(129,518)	\$ 30,714
Non-cash investing, capital and financing activities		

During the year ended June 30, 2007, the District received \$17,716 of federal commodities.

See notes to financial statements.

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

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 102,845
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$ 102,845</u>

See notes to financial statements.

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

Exhibit K

	<u>Private Purpose Trust Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 9,004
Deductions	
Instruction, regular	
Scholarships	<u>500</u>
Change in net assets	8,504
Net assets, beginning of year	<u>94,341</u>
Net assets, end of year	<u><u>\$102,845</u></u>

See notes to financial statements.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

The North Cedar 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 Mechanicsville, Stanwood, Clarence and Lowden, Iowa, and the agricultural territory in Cedar and Jones 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, North Cedar 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. North Cedar Community School District has one component unit which meets the Governmental Accounting Standards Board criteria.

These financial statements present the North Cedar Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The North Cedar Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's opinion, the Foundation financial statements have not been audited.

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 other nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following nonmajor funds:

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 Internal Service Fund is utilized to account for employee flexible benefits and medical insurance plans.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt and claims and judgments and early retirement 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 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 Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

Early Retirement Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2007. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax receivables and income surtaxes not collected within sixty days after year end. Deferred revenue in the enterprise funds consists of monies collected for lunches that have not yet been served as of June 30, 2007.

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 and the unearned revenue for monies collected for lunches that have not yet been served.

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

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

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

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$17,571 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

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

Note 2. Cash and Pooled Investments

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

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

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

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 2,938,462
Flex Certificate of Deposit	<u>1,385,668</u>
	<u>\$ 4,324,130</u>

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

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

Component Unit Investments - The Foundation had investments in mutual funds as follows:

Mutual funds \$87,236

Note 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	Capital Projects	\$ 400,000

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

Note 4. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 63,072	\$ -	\$ -	\$ 63,072
Construction in progress	<u>-</u>	<u>6,719,663</u>	<u>-</u>	<u>6,719,663</u>
Total capital assets, not being depreciated	<u>63,072</u>	<u>6,719,663</u>	<u>-</u>	<u>6,782,735</u>
Capital assets being depreciated:				
Buildings and improvements	2,963,771	982,900	-	3,946,671
Improvements other than buildings	377,214	-	-	377,214
Furniture and equipment	<u>1,474,448</u>	<u>198,382</u>	<u>(38,360)</u>	<u>1,634,470</u>
Total capital assets being depreciated	<u>4,815,433</u>	<u>1,181,282</u>	<u>(38,360)</u>	<u>5,958,355</u>
Less accumulated depreciation for:				
Buildings and improvements	2,696,319	38,540	-	2,734,859
Improvements other than buildings	321,946	12,102	-	334,048
Furniture and equipment	<u>1,056,868</u>	<u>138,328</u>	<u>(38,360)</u>	<u>1,156,836</u>
Total accumulated depreciation	<u>4,075,133</u>	<u>188,970</u>	<u>(38,360)</u>	<u>4,225,743</u>
Total capital assets being depreciated, net	<u>740,300</u>	<u>992,312</u>	<u>-</u>	<u>1,732,612</u>
Governmental activities capital assets, net	<u>\$ 803,372</u>	<u>\$ 7,711,975</u>	<u>\$ -</u>	<u>\$ 8,515,347</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 127,058	\$ 12,146	\$(3,895)	\$ 135,309
Less accumulated depreciation	<u>110,507</u>	<u>7,301</u>	<u>(3,895)</u>	<u>113,913</u>
Business type activities capital assets, net	<u>\$ 16,551</u>	<u>\$ 4,845</u>	<u>\$ -</u>	<u>\$ 21,396</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular	\$	12,609
Special		2,141
Other		877
Support services		
Instruction staff		16,654
Administration		6,463
Operation and maintenance of plant		12,921
Transportation		86,042
Non-instructional programs		347
Unallocated		50,916
Total governmental activities depreciation expense		<u>\$188,970</u>

Business-type activities

Food services	\$	<u>7,301</u>
---------------	----	--------------

Note 5. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$8,705,000	\$ -	\$ 305,000	\$8,400,000	\$315,000
Early retirement	<u>58,406</u>	<u>69,300</u>	<u>36,303</u>	<u>91,403</u>	<u>23,703</u>
Totals	<u>\$8,763,406</u>	<u>\$ 69,300</u>	<u>\$ 341,303</u>	<u>\$8,491,403</u>	<u>\$338,703</u>

Interest costs incurred and charged to expense on all long-term debt was \$353,986 for the year ended June 30, 2007. During the year ended June 30, 2007, the District made principal payments on total long-term debt of \$305,000.

Early Retirement Termination Benefit

The District offers a voluntary early retirement plan to its certified employees. An employee is deemed to be eligible for this program when they have completed at least fifteen years of contract service as a full-time certificated employee with the North Cedar Community School District by June 30 of the current fiscal year and will have attained at least fifty-six years of age on or before June 30 of the current fiscal year. An employee will be deemed to be in their first year of eligibility during the fiscal year in which they meet both longevity and age criteria for the first time.

The early retirement pay for each eligible full-time certified staff member, as defined by the Master Contract or individual contract, shall be calculated based on the current salary schedule, excluding any extra-curricular, Phase II and Phase III monies. An eligible employee, upon early retirement, shall receive an early retirement benefit representing eighty-one days' pay subject to a pro-ration formula.

Additionally, an eligible employee may receive additional per diem pay for unused/accumulated sick leave based on a pro-ration formula. This separation pay shall be made in three equal payments made on July 15th of the three years following early retirement; one third in July of the retirement year, one third in July of the second year and one third in July of the third year.

At June 30, 2007 the District had obligations to five former employees for a total of \$91,403.

General Obligation Bonds

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of June 1, 2005			
	Interest Rates	Principal	Interest	Total
2008	4.00%	\$ 315,000	\$ 342,402	\$ 657,402
2009	4.00%	330,000	329,802	659,802
2010	4.00%	345,000	316,602	661,602
2011	4.00%	360,000	302,802	662,802
2012	4.00%	380,000	288,402	668,402
2013-2017	4.00%	2,150,000	1,201,210	3,351,210
2018-2022	4.00%-4.15%	2,640,000	732,736	3,372,736
2023-2025	4.2%-4.3 %	1,880,000	162,822	2,042,822
Totals		<u>\$8,400,000</u>	<u>\$3,676,778</u>	<u>\$12,076,778</u>

Note 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$257,609, \$240,657 and \$235,588 respectively, equal to the required contributions for each year.

Note 7. Risk Management

The District has a self-funded health insurance plan for its employees. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$15,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three calendar years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$49,304 at October 31, 2006, the last date for which information is available. There was no liability for incurred and unrecorded claims reported in the plan at June 30, 2007.

The change in the incurred but not reported and unpaid claims liability for the year ended June 30, 2007 is as follows:

Balance, beginning of year	\$ -
Incurred claims and claim adjustments	36,092
Payment of claims	<u>(36,092)</u>
Balance, end of year	<u>\$ -</u>

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

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$310,823 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 9. Contingencies

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

Note 10. Subsequent Events

The District sold \$1,710,000 of revenue anticipation bonds on July 1, 2007 for the construction of the elementary building to be completed during the fiscal year ending June 30, 2008.

Voters in Jones County passed the 1% local option sales and services tax. The levy will begin January 1, 2012 and be in effect for ten years. The District will begin receiving revenue from this during the fiscal year ending June 30, 2012.

Note 11. Commitments

The District is involved in two construction projects as of June 30, 2007. The District has entered into contracts totaling \$10,665,824 for these projects, of which \$7,699,962 had been incurred at June 30, 2007. The remaining balance will be paid as work on the projects progresses.

Note 12. Restatement of Beginning Balance

The beginning fund balance of the General Fund and the net assets of the governmental activities were both decreased by \$400 due to an overstatement of accounts receivable in the prior year.

Required Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

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

	Governmental Funds		Enterprise Fund	Total	Budgeted Amounts		Final to Actual
	Actual		Actual	Actual	Original	Final	Variance
Revenues							
Local sources	\$5,082,331		\$ 256,890	\$5,339,221	\$ 4,502,578	\$ 4,502,578	\$ 836,643
State sources	4,470,751		5,152	4,475,903	4,545,911	4,545,911	(70,008)
Federal sources	202,397		137,693	340,090	320,000	320,000	20,090
Total revenues	<u>9,755,479</u>		<u>399,735</u>	<u>10,155,214</u>	<u>9,368,489</u>	<u>9,368,489</u>	<u>786,725</u>
Expenditures							
Instruction	5,450,488		-	5,450,488	6,506,665	6,506,665	1,056,177
Support services	2,139,367		14,667	2,154,034	2,401,924	2,801,924	647,890
Non-instructional programs	-		395,444	395,444	462,909	562,909	167,465
Other expenditures	9,029,626		-	9,029,626	10,334,085	10,334,085	1,304,459
Total expenditures	<u>16,619,481</u>		<u>410,111</u>	<u>17,029,592</u>	<u>19,705,583</u>	<u>20,205,583</u>	<u>3,175,991</u>
Net change in fund balance	(6,864,002)		(10,376)	(6,874,378)	(10,337,094)	(10,837,094)	3,962,716
Balance, beginning of year, as restated	10,427,088		47,499	10,474,587	10,337,094	10,337,094	137,493
Balance, end of year	<u>\$3,563,086</u>		<u>\$ 37,123</u>	<u>\$3,600,209</u>	<u>\$ -</u>	<u>\$ (500,000)</u>	<u>\$4,100,209</u>

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

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$500,000.

Other Supplementary Information



NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

Schedule 1

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$109,225	\$119,166	\$732,171	\$ 960,562
Receivables				
Property tax				
Delinquent	1,134	-	1,604	2,738
Succeeding year	165,000	-	145,886	310,886
Income surtaxes	-	-	97,620	97,620
Due from other governments	3	-	5	8
Total assets	<u>\$275,362</u>	<u>\$119,166</u>	<u>\$977,286</u>	<u>\$1,371,814</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 1,388	\$ -	\$ 343	\$ 1,731
Deferred revenue				
Succeeding year property tax	165,000	-	145,886	310,886
Income surtaxes	-	-	97,620	97,620
Total liabilities	166,388	-	243,849	410,237
Fund balances				
Unreserved fund balances	<u>108,974</u>	<u>119,166</u>	<u>733,437</u>	<u>961,577</u>
Total liabilities and fund balances	<u>\$275,362</u>	<u>\$119,166</u>	<u>\$977,286</u>	<u>\$1,371,814</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2007

Schedule 2

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues				
Local sources				
Local taxes	\$100,079	\$ -	\$469,835	\$569,914
Other	10,272	142,855	64,576	217,703
Total revenues	<u>110,351</u>	<u>142,855</u>	<u>534,411</u>	<u>787,617</u>
Expenditures				
Current				
Instruction				
Regular	45,680	-	-	45,680
Other	-	145,171	-	145,171
Total instruction	<u>45,680</u>	<u>145,171</u>	<u>-</u>	<u>190,851</u>
Support services				
Administration	1,388	-	-	1,388
Operation and maintenance of plant	118,480	-	7,720	126,200
Transportation	-	-	79,972	79,972
Total support services	<u>119,868</u>	<u>-</u>	<u>87,692</u>	<u>207,560</u>
Other expenditures				
Facilities acquisition	-	-	30,688	30,688
Total expenditures	<u>165,548</u>	<u>145,171</u>	<u>118,380</u>	<u>429,099</u>
Excess (deficiency) of revenues over (under) expenditures	(55,197)	(2,316)	416,031	358,518
Fund balances, beginning of year	164,171	121,482	317,406	603,059
Fund balances, end of year	<u>\$108,974</u>	<u>\$119,166</u>	<u>\$733,437</u>	<u>\$961,577</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2007

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
District-wide				
Interest	\$ 1,679	\$ 2,346	\$ 574	\$ 3,451
Elementary				
Student productions	10,412	5,309	2,637	13,084
Pop sales	3,794	4,436	3,033	5,197
Middle school				
Publications	13,241	4,075	12,337	4,979
Pop sales	414	5,293	4,211	1,496
Student clubs	2,789	789	241	3,337
Cheerleading	644	-	181	463
Student council	2,215	10	-	2,225
Health education	150	-	-	150
Trail blazers	4,920	742	817	4,845
EPA grant	1,584	-	273	1,311
High school				
Student clubs	3,244	635	2,612	1,267
Drama/speech	2,634	2,200	3,966	868
Vocal	2,053	3,846	4,418	1,481
Instrumental	6,927	1,685	3,494	5,118
Cross country	882	1,091	50	1,923
Basketball	2,509	8,055	4,735	5,829
Rugby athletic fund	5,473	32,255	36,462	1,266
Volleyball	2,071	2,909	2,339	2,641
Football	5,888	9,107	8,354	6,641
Baseball/softball	3,252	3,662	1,842	5,072
Track	627	1,094	738	983
Golf	136	51	40	147
Wrestling	1,776	5,634	3,627	3,783
Cheerleading	3,150	830	862	3,118
FFA	1,296	74	168	1,202
National Honor Society	110	1,535	1,154	491
Peer counselors	88	-	-	88
Student council	3,081	6,219	7,846	1,454
Alumni	4,712	200	-	4,912

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2007

Schedule 3

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of Year
High school (continued)				
Publications	\$ 2,785	\$ 20,738	\$ 20,971	\$ 2,552
Canteen	2,875	800	607	3,068
Pop sales	2,861	2,179	1,467	3,573
Athletic pop	2,022	6,786	4,352	4,456
Math club	273	68	256	85
Class of				
2006	889	-	889	-
2007	3,318	145	3,463	-
2008	4,053	4,221	5,893	2,381
2009	3,231	400	-	3,631
2010	3,937	1,125	68	4,994
2011	1,703	569	-	2,272
2012	769	559	-	1,328
2013	-	834	-	834
Spanish club	<u>1,015</u>	<u>349</u>	<u>194</u>	<u>1,170</u>
Totals	<u>\$ 121,482</u>	<u>\$ 142,855</u>	<u>\$ 145,171</u>	<u>\$ 119,166</u>

See accompanying Independent Auditor's Report.

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

Schedule 4

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$ 4,143,199	\$ 3,401,906	\$ 3,106,785	\$ 2,730,841
Tuition	316,302	244,152	194,874	175,749
Other	622,830	567,369	184,044	193,447
State sources	4,470,751	4,325,048	3,946,757	3,673,241
Federal sources	202,397	203,813	187,672	301,235
Total revenues	<u>\$ 9,755,479</u>	<u>\$ 8,742,288</u>	<u>\$ 7,620,132</u>	<u>\$ 7,074,513</u>
Expenditures				
Current				
Instruction				
Regular	\$ 3,429,668	\$ 3,173,137	\$ 3,184,214	\$ 3,062,973
Special	1,181,217	1,089,512	962,134	1,238,792
Other	839,603	799,141	885,192	544,278
Support services				
Student	141,787	138,542	132,330	131,344
Instructional staff	84,487	94,777	58,408	48,312
Administration	814,706	804,765	734,989	607,643
Operation and maintenance of plant	722,218	657,080	601,210	717,959
Transportation	376,169	345,569	301,780	250,476
Non-instructional programs	-	-	5,471	96,916
Other expenditures				
Facilities acquisition	8,058,800	1,145,123	131,472	766
Long-term debt				
Principal	305,000	285,000	-	-
Interest and other charges	355,003	365,940	-	-
AEA flowthrough	310,823	294,949	279,970	276,820
Total expenditures	<u>\$16,619,481</u>	<u>\$ 9,193,535</u>	<u>\$ 7,277,170</u>	<u>\$ 6,976,279</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of North Cedar Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 15, 2008. I did not issue an opinion on the North Cedar Community School District Foundation, which is included in the District's financial statements as a discretely presented component unit, because I was not engaged to and did not audit the Foundation. Except as discussed in the preceding sentence, I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects North Cedar

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

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

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

Compliance and Other Matters

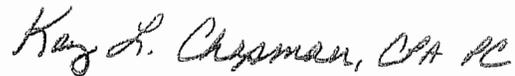
As part of obtaining reasonable assurance about whether North Cedar Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of North Cedar Community School District and other parties to whom North Cedar 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.

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

A handwritten signature in cursive script that reads "Kay L. Chapman, CPA PC".

Kay L. Chapman, CPA PC
February 15, 2008

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

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

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

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

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

Conclusion - Response accepted.

- B. Financial Reporting - Reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires the business manager or district management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. The business manager is able to perform the duties required in the normal course of business and to prepare the CAR in accordance with the Department of Education requirements. However, the business manager presently lacks the qualifications and training to appropriately prepare the annual financial statements and footnote disclosures in compliance with GAAP. This is a common situation in small entities where accounting personnel typically do not have four-year accounting degrees and do not receive annual training in order to stay current on new accounting and reporting standards and requirements.

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

Recommendation - The business manager should consider obtaining GAAP knowledge through reading relevant accounting literature and/or attending professional education courses to help her significantly improve in her ability to prepare reliable GAAP financial statements, including footnote disclosures.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We will investigate alternatives to our controls, but believe that it would not be an efficient use of District funds to get the necessary training for the business manager to comply with this recommendation.

Conclusion - Response accepted.

- C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The CAR contained incorrect amounts for succeeding year property taxes and omitted the retainage payable on construction contracts. These misstatements were subsequently corrected before the final CAR was filed with the Iowa Department of Education.

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and make appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide some oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the amounts budgeted.
2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval, which had not been approved by the Board. However, it was noted that on one occasion, the minutes were not made available to the newspaper within 14 days of the board meeting.

Recommendation - The District should ensure that the minutes are made available to the newspaper within 14 days of the board meeting as required by Chapter 279.35 of the Code of Iowa.

Response - This was an oversight. We will ensure that the minutes are made available to the newspaper for publication within the time limits established by the Code of Iowa.

Conclusion - Response accepted.

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
10. Images of Checks not Available - The District receives only images of the cancelled checks from the bank. However, only images of the check fronts are included in the bank statement. The District receives from the bank a CD-rom with images of fronts and backs of the checks. However, this CD-rom was only received at year-end. Therefore, images of the fronts as backs of the checks were not retained by the District throughout the year.

Recommendation - Chapter 554D.114 of the Code of Iowa requires that front and back of checks be retained by the District. The Code of Iowa allows for the proper images to be retained by an outside party, such as the financial institution. If the financial

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

institution retains the required images, the District should have a written agreement with the bank which indicates that the bank complies with all aspects of the record retention rules in the Code of Iowa. The District should either receive images of both front and back of all checks monthly from the financial institution or enact a written agreement with the bank to act as the District's service provider, as allowed by the Code of Iowa.

Response - We will request a CD-rom of the check images (front and back) from the bank each month.

Conclusion - Response accepted.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2007

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant