MADRID COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

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Madrid Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2006 Election)	
Terry Ostendorf	President	2007
Molly Griswold	Vice President	2006
Lou Galetich	Board Member	2008
Darci Munford	Board Member	2007
Carolee DeSotel	Board Member (Resigned)	2008
Emily Schieltz	Board Member (Appointed)	2006
	Board of Education (After September 2006 Election)	
Terry Ostendorf	President	2007
Linda Ahrens	Board Member	2009
Lou Galetich	Board Member	2008
Emily Schieltz	Board Member	2008
Darci Munford	Board Member (Resigned)	2007
Jeff Fisher	Board Member (Appointed)	2007
	School Officials	
Brian Horn	Superintendent	2007
Sandy Johnson	Business Manager	2007
Drew Bracken	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Madrid Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 26, 2008 on our consideration of Madrid Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 32 through 33 are not required parts of the basic financial statements, but are supplementary

information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $4,404,299 in fiscal 2006 to $4,681,354 in fiscal 2007, while General Fund expenditures increased from $4,375,672 in fiscal 2006 to $4,504,843 in fiscal 2007. This resulted in an increase in the District's General Fund balance from $23,342 in fiscal 2006 to a balance of $128,012 in fiscal 2007, a 448.42% increase from the prior year.

- The increase in General Fund revenues was attributable to an increase in state grants and local tax in fiscal 2007. The increase in expenditures was due primarily to increases in regular instruction and facilities and acquisitions expenditures.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Madrid Community School District Annual Financial Report

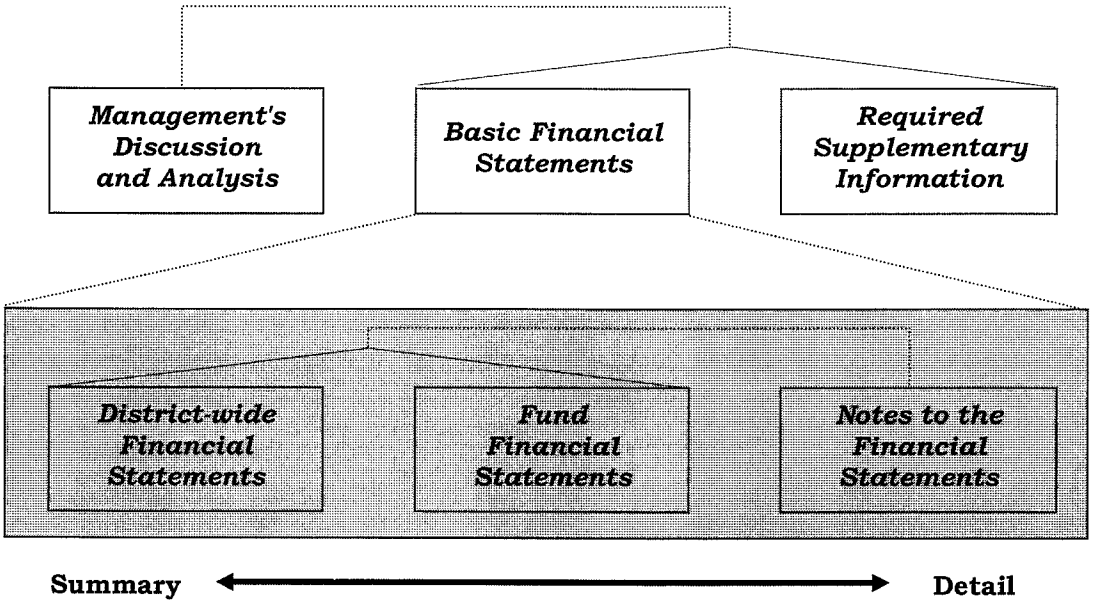

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	$ 3,210,608	3,379,422	30,256	23,828	3,240,864	3,403,250	-4.77%
Capital assets	3,587,092	3,669,046	20,420	22,697	3,607,512	3,691,743	-2.28%
Total assets	6,797,700	7,048,468	50,676	46,525	6,848,376	7,094,993	-3.48%
Long-term obligations	1,747,346	1,715,498	0	0	1,747,346	1,715,498	1.86%
Other liabilities	2,468,887	2,855,707	1,479	3,086	2,470,366	2,858,793	-13.59%
Total liabilities	4,216,233	4,571,205	1,479	3,086	4,217,712	4,574,291	-7.80%
Net assets:							
Invested in capital assets, net of related debt	2,142,092	2,403,080	20,420	22,697	2,162,512	2,425,777	-10.85%
Restricted	458,147	82,906	0	0	458,147	82,906	452.61%
Unrestricted	(18,772)	(8,723)	28,777	20,742	10,005	12,019	-16.76%
Total net assets	$ 2,581,467	2,477,263	49,197	43,439	2,630,664	2,520,702	4.36%

The District's combined net assets increased by 4.36%, or $109,962, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased $375,241, or 452.61% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased $2,014, or 16.76%.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	$ 355,431	345,393	187,909	169,205	543,340	514,598	5.59%
Operating grants and contributions and restricted interest	557,671	525,602	71,425	65,717	629,096	591,319	6.39%
General revenues:							
Local tax	1,605,816	1,398,257	0	0	1,605,816	1,398,257	14.84%
Local option sales and services tax	368,276	300,009	0	0	368,276	300,009	22.75%
Unrestricted state grants	2,468,709	2,357,628	0	0	2,468,709	2,357,628	4.71%
Other	132,712	63,959	128	3,213	132,840	67,172	97.76%
Transfers	(71,841)	(72,680)	71,841	72,680	0	0	0.00%
Total revenues	5,416,774	4,918,168	331,303	310,815	5,748,077	5,228,983	9.93%
Program expenses:							
Governmental activities:							
Instructional	3,334,228	3,150,913	0	0	3,334,228	3,150,913	5.82%
Support services	1,417,773	1,513,138	0	0	1,417,773	1,513,138	-6.30%
Non-instructional programs	5,432	4,177	325,545	309,195	330,977	313,372	5.62%
Other expenses	555,137	446,792	0	0	555,137	446,792	24.25%
Total expenses	5,312,570	5,115,020	325,545	309,195	5,638,115	5,424,215	3.94%
Changes in net assets	104,204	(196,852)	5,758	1,620	109,962	(195,232)	-156.32%
Beginning net assets	2,477,263	2,674,115	43,439	41,819	2,520,702	2,715,934	-7.19%
Ending net assets	$ 2,581,467	2,477,263	49,197	43,439	2,630,664	2,520,702	4.36%

In fiscal 2007, local tax and unrestricted state grants account for 75.22% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 78.28% of the revenue from business type activities.

The District's total revenues were approximately $5.75 million of which $5.42 million was for governmental activities and less than $0.33 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 9.93% increase in revenues and a 3.94% increase in expenses. Unrestricted state grants increased $111,081 to fund increases in expenditures. The increase in expenses related to increases in regular instruction and facilities and acquisitions.

Governmental Activities

Revenues for governmental activities were $5,416,774 and expenses were $5,312,570. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	$ 3,334,228	3,150,913	5.82%	2,599,140	2,445,737	6.27%
Support services	1,417,773	1,513,138	-6.30%	1,416,792	1,510,510	-6.20%
Non-instructional programs	5,432	4,177	30.05%	5,432	4,177	30.05%
Other expenses	555,137	446,792	24.25%	378,104	283,601	33.32%
Totals	$ 5,312,570	5,115,020	3.86%	4,399,468	4,244,025	3.66%

- The cost financed by users of the District's programs was $355,431.
- Federal and state governments subsidized certain programs with grants and contributions totaling $557,671.
- The net cost of governmental activities was financed with $1,605,816 in local tax, $368,276 in local option sales and services tax, $2,468,709 in unrestricted state grants and $93,207 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $331,303 and expenses were $325,545. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of $590,989, above last year's ending fund balances of a $394,796. The primary reason for the increase in combined fund balances in fiscal 2007 is due to increases in the General Fund and Capital Projects fund balances.

Governmental Fund Highlights

- The District's improving General Fund financial position from is the product of many factors. The District's General Fund increased $104,670. Increases in state aid grants and local tax during the year resulted in an increase in revenues.
- The Capital Projects Fund balance increased from $265,998 in fiscal 2006 to $343,281 in fiscal 2007.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from $43,439 at June 30, 2006 to $49,197 at June 30, 2007, representing an increase of 13.26%.

BUDGETARY HIGHLIGHTS

The District's revenues were $963,536 less than budgeted revenues, a variance of 14.4%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, 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 ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested $3,607,512, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 2.28% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was $157,636.

The original cost of the District's capital assets was $7,721,155. Governmental funds account for $7,611,004 with the remainder of $110,151 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled $54,562 at June 30, 2006, compared to $42,162 reported at June 30, 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	$ 112,126	112,126	0	0	112,126	112,126	0.00%
Buildings	3,346,100	3,428,374	0	0	3,346,100	3,428,374	-2.40%
Land improvements	42,162	54,562	0	0	42,162	54,562	-22.73%
Machinery and equipment	86,704	73,984	20,420	22,697	107,124	96,681	10.80%
Total	$ 3,587,092	3,669,046	20,420	22,697	3,607,512	3,691,743	-2.28%

Long-Term Debt

At June 30, 2007, the District had $1,747,346 in long-term debt outstanding. This represents an increase of 1.9% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds payable of $1,445,000 at June 30, 2007.

The District had outstanding early retirement payable of $291,584 at June 30, 2007.

The District had outstanding compensated absences at June 30, 2007 of $10,762.

Figure A-7
Outstanding Long-Term Obligations

	Total School District June 30, 2007	Total School District June 30, 2006	Total Change June 30, 2006-07
General obligation bonds	$ 1,445,000	1,535,000	-5.9%
Compensated absences	10,762	8,025	34.1%
Early Retirement	291,584	172,473	69.1%
Totals	$ 1,747,346	1,715,498	1.9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District experienced a 6.8 student increase in enrollment. This is a positive sign to the District. If this trend can continue, this would greatly benefit the District.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.
- The District is collecting local option sales tax in Boone, Dallas & Polk counties within the District's boundaries. One-half of Boone County sales taxes are used to reduce the tax asking in the Debt Service Fund.

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 Sandra R. Johnson, Business Manager, Madrid Community School District, 201 North Main St., Madrid, Iowa, 50156.

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	$ 1,016,958	0	1,016,958
Other	449,508	13,448	462,956
Receivables:			
Property tax:			
Delinquent	27,824	0	27,824
Succeeding year	1,407,606	0	1,407,606
Income surtax	162,043	0	162,043
Accounts	25,997	0	25,997
Accrued interest - ISCAP (Note 4)	10,189	0	10,189
Due from other governments	110,483	0	110,483
Inventories	0	16,808	16,808
Capital assets, net of accumulated depreciation(Note 5)	3,587,092	20,420	3,607,512
TOTAL ASSETS	6,797,700	50,676	6,848,376
LIABILITIES			
Accounts payable	16,616	0	16,616
ISCAP warrants payable (Note 4)	1,019,000	0	1,019,000
ISCAP accrued interest payable (Note 4)	8,660	0	8,660
ISCAP unamortized premium	5,694	0	5,694
Accrued interest payable	11,311	0	11,311
Deferred revenue:			
Succeeding year property tax	1,407,606	0	1,407,606
Other	0	1,479	1,479
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	95,000	0	95,000
Compensated absences	10,762	0	10,762
Early retirement payable	104,726	0	104,726
Portion due after one year:			
General obligation bonds payable	1,350,000	0	1,350,000
Early retirement payable	186,858	0	186,858
TOTAL LIABILITIES	4,216,233	1,479	4,217,712
NET ASSETS			
Invested in capital assets, net of related debt	2,142,092	20,420	2,162,512
Restricted for:			
Mentoring	1,494	0	1,494
Salary improvement program	11,488	0	11,488
Professional development	1,463	0	1,463
Additional professional development	746	0	746
Market factor	4,208	0	4,208
Beginning administrator mentoring	1,500	0	1,500
Model core curriculum	4,000	0	4,000
Debt service	15,277	0	15,277
Capital projects	343,281	0	343,281
Physical plant and equipment levy	35,619	0	35,619
Other special revenue purposes	39,071	0	39,071
Unrestricted	(18,772)	28,777	10,005
TOTAL NET ASSETS	$ 2,581,467	49,197	2,630,664

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities:						
Instruction:						
Regular instruction	$ 2,294,303	355,431	365,542	(1,573,330)	0	(1,573,330)
Special instruction	524,670	0	14,115	(510,555)	0	(510,555)
Other instruction	515,255	0	0	(515,255)	0	(515,255)
	3,334,228	355,431	379,657	(2,599,140)	0	(2,599,140)
Support services:						
Student services	128,272	0	0	(128,272)	0	(128,272)
Instructional staff services	143,674	0	0	(143,674)	0	(143,674)
Administration services	548,976	0	0	(548,976)	0	(548,976)
Operation and maintenance of plant services	452,303	0	0	(452,303)	0	(452,303)
Transportation services	144,548	0	981	(143,567)	0	(143,567)
	1,417,773	0	981	(1,416,792)	0	(1,416,792)
Non-instructional programs:						
Food service operations	5,432	0	0	(5,432)	0	(5,432)
Other expenditures:						
Facilities and acquisitions	187,234	0	0	(187,234)	0	(187,234)
Long-term debt interest	71,718	0	0	(71,718)	0	(71,718)
AEA flowthrough	177,033	0	177,033	0	0	0
Depreciation(unallocated)*	119,152	0	0	(119,152)	0	(119,152)
	555,137	0	177,033	(378,104)	0	(378,104)
Total governmental activities	5,312,570	355,431	557,671	(4,399,468)	0	(4,399,468)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	325,545	187,909	71,425	0	(66,211)	(66,211)
Total business-type activities	325,545	187,909	71,425	0	(66,211)	(66,211)
Total	$ 5,638,115	543,340	629,096	(4,399,468)	(66,211)	(4,465,679)
General Revenues and Transfers:						
General revenue:						
Local tax for:						
General purposes				$ 1,530,722	0	1,530,722
Debt Service				47,530	0	47,530
Capital outlay				27,564	0	27,564
Local option sales and services tax				368,276	0	368,276
Unrestricted state grants				2,468,709	0	2,468,709
Unrestricted investment earnings				93,207	128	93,335
Other general revenues				39,505	0	39,505
Transfers				(71,841)	71,841	0
Total general revenues and transfers				4,503,672	71,969	4,575,641
Changes in net assets				104,204	5,758	109,962
Net assets beginning of year				2,477,263	43,439	2,520,702
Net assets end of year				$ 2,581,467	49,197	2,630,664

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

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit C

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP (Note 4)	$ 1,016,958	0	0	1,016,958
Other	82,047	252,536	114,925	449,508
Receivables:				
Property tax:				
Delinquent	23,129	0	4,695	27,824
Succeeding year	1,141,397	0	266,209	1,407,606
Income surtax	162,043	0	0	162,043
Accounts	25,997	0	0	25,997
Accrued interest - ISCAP (Note 4)	10,189	0	0	10,189
Due from other governments	19,662	90,745	76	110,483
TOTAL ASSETS	$ 2,481,422	343,281	385,905	3,210,608
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 16,616	0	0	16,616
ISCAP warrants payable (Note 4)	1,019,000	0	0	1,019,000
ISCAP accrued interest payable (Note 4)	8,660	0	0	8,660
ISCAP unamortized premium	5,694	0	0	5,694
Deferred revenue:				
Succeeding year property tax	1,141,397	0	266,209	1,407,606
Income surtax	162,043	0	0	162,043
Total liabilities	2,353,410	0	266,209	2,619,619
Fund balances:				
Reserved for:				
Mentoring	1,494	0	0	1,494
Salary improvement program	11,488	0	0	11,488
Professional development	1,463	0	0	1,463
Additional professional development	746	0	0	746
Market factor	4,208	0	0	4,208
Beginning administrator mentoring	1,500	0	0	1,500
Model core curriculum	4,000	0	0	4,000
Debt service	0	0	15,277	15,277
Unreserved:				
General	103,113	0	0	103,113
Management levy	0	0	29,729	29,729
Capital Projects	0	343,281	0	343,281
Physical plant and equipment levy	0	0	35,619	35,619
Other special revenue purposes	0	0	39,071	39,071
Total fund balances	128,012	343,281	119,696	590,989
TOTAL LIABILITIES AND FUND BALANCES	$ 2,481,422	343,281	385,905	3,210,608

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

MADRID COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	$	590,989
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 in the governmental funds.		3,587,092
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		162,043
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.		(11,311)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(1,747,346)
Net assets of governmental activites (page 13)	$	2,581,467

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 1,346,240	368,276	238,453	1,952,969
Tuition	173,929	0	0	173,929
Other	135,619	35,719	142,876	314,214
State sources	2,883,022	0	255	2,883,277
Federal sources	142,544	0	559	143,103
Total revenues	4,681,354	403,995	382,143	5,467,492
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,071,074	0	94,443	2,165,517
Special instruction	524,670	0	0	524,670
Other instruction	378,448	0	136,807	515,255
	2,974,192	0	231,250	3,205,442
Support services:				
Student services	128,272	0	0	128,272
Instructional staff services	143,674	0	0	143,674
Administration services	548,187	0	0	548,187
Operation and maintenance of plant services	413,702	0	39,700	453,402
Transportation services	119,783	0	44,113	163,896
	1,353,618	0	83,813	1,437,431
Non-instructional programs:				
Food service operations	0	0	5,432	5,432
Other expenditures:				
Facilities acquisitions	0	211,712	0	211,712
Long-term debt:				
Principal	0	0	90,000	90,000
Interest and fiscal charges	0	0	72,408	72,408
AEA flowthrough	177,033	0	0	177,033
	177,033	211,712	162,408	551,153
Total expenditures	4,504,843	211,712	482,903	5,199,458
Excess(deficiency) of revenues over(under) expenditures	176,511	192,283	(100,760)	268,034
Other financing sources(uses):				
Transfers in	0	0	115,000	115,000
Transfers out	(71,841)	(115,000)	0	(186,841)
Total other financing sources(uses)	(71,841)	(115,000)	115,000	(71,841)
Net change in fund balances	104,670	77,283	14,240	196,193
Fund balance beginning of year	23,342	265,998	105,456	394,796
Fund balance end of year	$ 128,012	343,281	119,696	590,989

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

MADRID COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17)		$ 196,193
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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 74,605	
Depreciation expense	(155,359)	
Loss on disposal of capital assets	(1,200)	(81,954)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		21,123
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		90,000
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.		690
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement	$ (119,111)	
Compensated absences	(2,737)	(121,848)
Changes in net assets of governmental activities (page 14)		$ 104,204

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and pooled investments	$ 13,448
Inventories	16,808
Capital assets, net of accumulated depreciation (Note 5)	20,420
TOTAL ASSETS	50,676
LIABILITIES	
Unearned revenue	1,479
NET ASSETS	
Invested in capital assets	20,420
Unrestricted	28,777
TOTAL NET ASSETS	$ 49,197

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	$ 187,909
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	125,614
Benefits	43,592
Services	5,676
Supplies	148,386
Depreciation	2,277
TOTAL OPERATING EXPENSES	325,545
OPERATING LOSS	(137,636)
NON-OPERATING REVENUES:	
State sources	3,491
Federal sources	67,934
Interest on investments	128
TOTAL NON-OPERATING REVENUES	71,553
Net loss before other financing sources	(66,083)
OTHER FINANCING SOURCES	
Transfer from General Fund	71,841
Net income	5,758
Net assets beginning of year	43,439
Net assets end of year	$ 49,197

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 177,927
Cash received from miscellaneous	8,375
Cash payments to employees for services	(169,206)
Cash payments to suppliers for goods or services	(147,359)
Net cash used in operating activities	(130,263)
Cash flows from non-capital financing activities:	
Transfer from General Fund	71,841
State grants received	3,491
Federal grants received	57,995
Net cash provided by non-capital financing activities	133,327
Cash flows from investing and other activities:	
Interest on investments	128
Net increase in cash and cash equivalents	3,192
Cash and cash equivalents at beginning of year	10,256
Cash and cash equivalents at end of year	$ 13,448
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (137,636)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,939
Depreciation	2,277
Increase in inventories	(3,236)
Decrease in unearned revenue	(1,607)
Net cash used in operating activities	$ (130,263)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 13,448

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at $9,939.

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Madrid Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Madrid, Iowa, and the predominate agricultural territory in Boone, Dallas and Polk 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, Madrid Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Madrid Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Boone, Dallas and Polk Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

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

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

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

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

Capital Assets - Capital assets, which include property, 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.

Asset Class	Amount
Land	$ 1,200
Buildings	1,200
Land improvements	1,200
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,200

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

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

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

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

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or

for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007 expenditures did not exceed budgeted amounts.

(2) Cash and Pooled Investments

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

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

The District had no investments as of June 30, 2007.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 115,000
Nutrition	General	71,841
Total		$ 186,841

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07B	1/26/2007	1/25/2008	$ 443,865	10,018	445,000	8,514
2007-08A	6/28/2007	6/27/2008	573,093	171	574,000	146
Total			$ 1,016,958	10,189	1,019,000	8,660

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2006-07A	$ 0	300,000	300,000	0

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500 %	5.676 %
2006-07B	4.250 %	5.315 %
2007-08A	4.500 %	5.455 %

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 112,126	0	0	112,126
Total capital assets not being depreciated	112,126	0	0	112,126
Capital assets being depreciated:				
Buildings	6,301,441	24,478	0	6,325,919
Land improvements	501,000	0	0	501,000
Machinery and equipment	633,872	50,127	12,040	671,959
Total capital assets being depreciated	7,436,313	74,605	12,040	7,498,878
Less accumulated depreciation for:				
Buildings	2,873,067	106,752	0	2,979,819
Land improvements	446,438	12,400	0	458,838
Machinery and equipment	559,888	36,207	10,840	585,255
Total accumulated depreciation	3,879,393	155,359	10,840	4,023,912
Total capital assets being depreciated, net	3,556,920	(80,754)	1,200	3,474,966
Governmental activities capital assets, net	$ 3,669,046	(80,754)	1,200	3,587,092

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 110,151	0	0	110,151
Less accumulated depreciation	87,454	2,277	0	89,731
Business-type activities capital assets, net	$ 22,697	(2,277)	0	20,420

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 17,667
Support services:	
Administration	3,348
Operation and maintenance of plant	2,646
Transportation	12,546
	36,207
Unallocated depreciation	119,152
Total governmental activities depreciation expense	$ 155,359
Business-type activities:	
Food services	$ 2,277

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	$ 1,535,000	0	90,000	1,445,000	95,000
Compensated absences	8,025	10,762	8,025	10,762	10,762
Early Retirement	172,473	198,251	79,140	291,584	104,726
Total	$ 1,715,498	209,013	177,165	1,747,346	210,488

General Obligation Bonds Payable

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

Year	Bond Issue of May 1, 1999			Bond Issue of May 1, 1999			Total		
Ending June 30,	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2008	4.60 %	$ 95,000	21,288	5.30 %	$ 46,580		$ 95,000	67,868	162,868
2009	4.60	95,000	16,917	4.35	46,580		95,000	63,497	158,497
2010	4.55	100,000	12,548	4.45	46,580		100,000	59,128	159,128
2011	4.55	105,000	7,997	4.50	46,580		105,000	54,577	159,577
2012	4.60	70,000	3,220	4.60	40,000	46,580	110,000	49,800	159,800
2013				4.60	115,000	44,740	115,000	44,740	159,740
2014				4.65	120,000	39,450	120,000	39,450	159,450
2015				4.70	130,000	33,870	130,000	33,870	163,870
2016				4.75	135,000	27,760	135,000	27,760	162,760
2017				4.80	140,000	21,348	140,000	21,348	161,348
2018				4.85	145,000	14,628	145,000	14,628	159,628
2019				4.90	155,000	7,595	155,000	7,595	162,595
Total		$ 465,000	61,970		$ 980,000	422,291	$ 1,445,000	484,261	1,929,261

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 35% of the employee's regular contractual salary from the salary schedule in effect during the employees last year of employment. Early retirement benefits paid during the year totaled $79,140.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were $168,995, $161,884, and $153,880 respectively, equal to the required contributions for each year.

(8) Risk Management

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $177,033 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
Revenues:						
Local sources	$ 2,441,112	188,037	2,629,149	3,628,493	3,628,493	(999,344)
State sources	2,883,277	3,491	2,886,768	2,791,190	2,791,190	95,578
Federal sources	143,103	67,934	211,037	270,807	270,807	(59,770)
Total revenues	5,467,492	259,462	5,726,954	6,690,490	6,690,490	(963,536)
Expenditures:						
Instruction	3,205,442	0	3,205,442	3,630,000	3,630,000	424,558
Support services	1,437,431	0	1,437,431	1,745,000	1,745,000	307,569
Non-instructional programs	5,432	325,545	330,977	490,000	490,000	159,023
Other expenditures	551,153	0	551,153	699,144	699,144	147,991
Total expenditures	5,199,458	325,545	5,525,003	6,564,144	6,564,144	1,039,141
Excess(deficiency) of revenues over(under) expenditures	268,034	(66,083)	201,951	126,346	126,346	75,605
Other financing sources, net	(71,841)	71,841	0	0	0	0
Excess of revenues and other financing sources over expenditures and other financing uses	196,193	5,758	201,951	126,346	126,346	75,605
Balance beginning of year	394,796	43,439	438,235	426,726	426,726	11,509
Balance end of year	$ 590,989	49,197	640,186	553,072	553,072	87,114

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

MADRID COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

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

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

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

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

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

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	$ 26,461	39,071	35,067	100,599	14,326	114,925
Receivables:						
Property tax:						
Current year delinquent	3,216	0	543	3,759	936	4,695
Succeeding year	200,000	0	27,341	227,341	38,868	266,209
Due from other governments	52	0	9	61	15	76
TOTAL ASSETS	$ 229,729	39,071	62,960	331,760	54,145	385,905
LIABILITIES AND FUND BALANCES						
Liabilities						
Deferred revenue:						
Succeeding year property tax	$ 200,000	0	27,341	227,341	38,868	266,209
Total liabilities	200,000	0	27,341	227,341	38,868	266,209
Fund balances:						
Reserved for debt service	0	0	0	0	15,277	15,277
Unreserved fund balances	29,729	39,071	35,619	104,419	0	104,419
Total fund balances	29,729	39,071	35,619	104,419	15,277	119,696
TOTAL LIABILITIES AND FUND BALANCES	$ 229,729	39,071	62,960	331,760	54,145	385,905

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

MADRID COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	$ 163,359	0	27,564	190,923	47,530	238,453
Other	7,175	135,392	242	142,809	67	142,876
State sources	175	0	29	204	51	255
Federal sources	0	0	559	559	0	559
TOTAL REVENUES	170,709	135,392	28,394	334,495	47,648	382,143
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	94,443	0	0	94,443	0	94,443
Other instruction	0	136,807	0	136,807	0	136,807
Support services:						
Operation and maintenance of plant services	36,941	0	2,759	39,700	0	39,700
Student transportation	12,094	0	32,019	44,113	0	44,113
Non-instructional programs:						
Food service operations	5,432	0	0	5,432	0	5,432
Other expenditures:						
Long-term debt:						
Principal	0	0	0	0	90,000	90,000
Interest and fiscal charges	0	0	0	0	72,408	72,408
TOTAL EXPENDITURES	148,910	136,807	34,778	320,495	162,408	482,903
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	21,799	(1,415)	(6,384)	14,000	(114,760)	(100,760)
OTHER FINANCING SOURCES:						
Transfers in	0	0	0	0	115,000	115,000
Net change in fund balances	21,799	(1,415)	(6,384)	14,000	240	14,240
FUND BALANCE BEGINNING OF YEAR	7,930	40,486	42,003	90,419	15,037	105,456
FUND BALANCE END OF YEAR	$ 29,729	39,071	35,619	104,419	15,277	119,696

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Drama	$ 1,589	676	200	2,065
7-12 Vocal Music	111	175	0	286
7-12 Music Trip	7,596	17,926	19,818	5,704
Elementary Music	2,124	576	400	2,300
Scholarships	0	2,150	0	2,150
7-12 Activities	1,968	14,903	15,750	1,121
Yearbook	0	1,109	1,109	0
HS Student Council	2,187	1,675	976	2,886
JH Student Council	182	0	0	182
K-6 Student Council	1,777	0	0	1,777
K-6 Building	1,388	4,733	5,079	1,042
Boys Basketball	343	11,002	11,345	0
Boys Basketball Camp	0	2,372	474	1,898
Football	2,292	19,271	20,361	1,202
Baseball	629	7,534	7,804	359
Boys Track	0	5,818	5,818	0
Golf	0	1,371	1,371	0
Football Camp	109	1,391	1,500	0
Girls Basketball	308	3,481	2,827	962
Volleyball	738	7,731	7,995	474
Softball	0	8,871	7,831	1,040
Girls Track	0	2,197	2,197	0
District FCCLA	868	847	1,715	0
FCCLA	367	2,010	1,923	454
Spanish Club	1,009	0	5	1,004
HS Cheerleaders	3,323	8,895	11,632	586
JH Cheerleaders	0	1,064	1,064	0
7-12 Activity Awards	0	1,635	1,635	0
6th Grade Activities	4	0	0	4
Class of 2006	1,722	0	0	1,722
Class of 2007	2,302	0	2,253	49
Class of 2008	3,000	2,598	3,424	2,174
Class of 2009	1,469	385	0	1,854
Class of 2010	1,670	320	0	1,990
Class of 2011	1,411	1,439	301	2,549
Class of 2012	0	1,237	0	1,237
Total	$ 40,486	135,392	136,807	39,071

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	$ 1,952,969	1,698,266	1,688,295	1,551,156
Tuition	173,929	177,624	155,947	111,578
Other	314,214	231,728	226,984	185,179
State sources	2,883,277	2,700,463	2,523,577	2,346,334
Federal sources	143,103	182,767	179,664	183,383
Total	$ 5,467,492	4,990,848	4,774,467	4,377,630
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 2,165,517	2,044,434	1,914,044	1,812,725
Special instruction	524,670	506,964	587,167	559,072
Other instruction	515,255	527,272	498,422	466,306
Support services:				
Student services	128,272	117,223	109,305	107,408
Instructional staff services	143,674	202,236	194,616	196,845
Administration services	548,187	494,642	459,971	440,807
Operation and maintenance of plant services	453,402	440,722	396,592	387,372
Transportation services	163,896	176,373	125,109	113,078
Non-instructional programs	5,432	4,177	68,190	62,506
Other expenditures:				
Facilities acquisitions	211,712	182,030	50,376	121,788
Long-term debt:				
Principal	90,000	85,000	80,000	80,989
Interest	72,408	76,233	79,833	83,108
AEA flow-through	177,033	163,191	154,800	155,671
Total	$ 5,199,458	5,020,497	4,718,425	4,587,675

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Madrid Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Madrid Community School District of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 26, 2008 We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Madrid 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 Madrid Community School District's financial statements that is more than inconsequential will not be prevented or detected by Madrid Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

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

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

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

March 26, 2008

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

MADRID COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting

II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.

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

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

II-D-07 Business Transactions - No business transactions between the District and District officials or employees were noted.

II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

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

II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.