

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL
DISTRICT

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

June 30, 2007

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		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
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Notes to Financial Statements		26-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		35
Notes to Required Supplementary Information - Budgetary Reporting		36
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	2	39
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	40-41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	42
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>		43-44
Schedule of Findings and Responses		45-48

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Independent Auditor's Report

To the Board of Education of
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District, Marcus, 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 Marcus-Meriden-Cleghorn Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated February 4, 2008, on our consideration of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract 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 14 and 35 through 36 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 Marcus-Meriden-Cleghorn 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.

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

February 4, 2008

Management Discussion and Analysis

The Marcus-Meriden-Cleghorn Community School District provides this Management 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 this section.

Financial Highlights

- The District spent \$182,486 more than it received; therefore the General Fund ending fund balance went from \$677,454 to \$492,044.
- Declining enrollment and low allowable growth contributed to a downturn in the District's financial position. The District's solvency ratio remains healthy at 11.3% and while the cash balance of \$809,775 for the general fund remains adequate, the district will need to take steps to balance its budget in order to remain able to meet its obligations without borrowing money.
- The district voted on, and passed a bond referendum to fund a building project that includes an on-site kitchen facility, classrooms and a community weight room and will connect the two buildings at the Marcus campus. The bonds were sold in December of 2006 and work on the project began in the spring of 2007. Work is projected to be done by summer of 2008 with occupancy anticipated for the 2008-2009 school year.

Overview of the Financial Statements

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

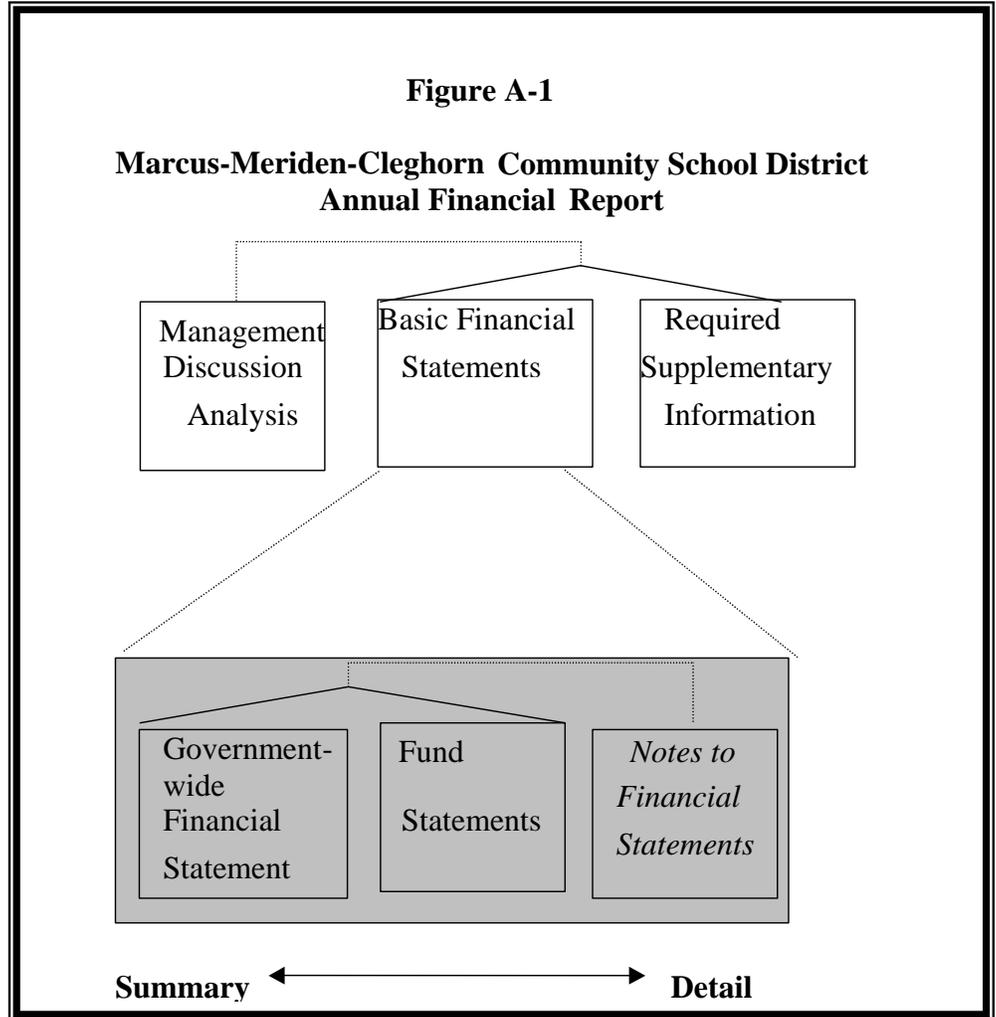


Figure A-2 below summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

	Government-wide Statements	Fund Financial 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 is included here	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 cash flows • Statement of revenues, expenses and changes in net assets 	<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 focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	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

Government-wide Financial Statements

The Government-wide 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 statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

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

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 taxes and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help it cover the costs of certain services it provides. The District's food service program would be 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 repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *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 funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not

encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District uses an internal service fund to account for its employee flexible benefit plan.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the years ended June 30, 2006 and June 30, 2007.

	Governmental Activities		Business-type Activities		District Total	
	2006	2007	2006	2007	2006	2007
Current and other assets	\$ 4,148,790	\$ 7,343,797	\$ (5,181)	\$ 45	\$ 4,143,609	\$ 7,343,842
Capital Assets	940,508	1,266,123	29,465	28,429	969,973	1,294,552
Total assets	5,089,298	8,609,920	24,284	28,474	5,113,582	8,638,394
Long-term debt outstanding	66,103	2,988,637	-	-	66,103	2,988,637
Other liabilities	2,457,149	2,765,122	3,041	3,777	2,460,190	2,768,899
Total liabilities	2,523,252	5,753,759	3,041	3,777	2,526,293	5,757,536
Net Assets:						
Invested in capital assets, net of related debt	940,508	1,056,086	29,465	28,429	969,973	1,084,515
Restricted	836,764	1,209,446	-	-	836,764	1,209,446
Unrestricted	788,774	590,629	(8,222)	(3,732)	780,552	586,897
Total net assets	2,566,046	2,856,161	21,243	24,697	2,587,289	2,880,858

The District's total net assets increased by 11.35%, or approximately \$293,000, from the prior year. The large increase is mainly due to the issuance of the construction bonds and the beginning of the construction project.

The portion of the District's net assets identifies as invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt increased by \$324,579. Most of this increase is again attributable to the new construction that began in the spring.

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 approximately \$373,000 or 44.5% over the prior year. The increase remains primarily a result of sales taxes revenue collected, but not spent. These monies began to be used for capital improvements-the kitchen project- in the last few months of the fiscal 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 approximately \$193,000, or 24.8%. This reduction was a result of using carryover fund balance to meet financial obligations during the year.

Long Term Debt increased because of the bond and construction project as well as early retirement being offered during the 2007 fiscal year.

The net asset increase in the business-type activities can be attributed to the increase in meal prices as well as the continued success of the ala carte program. Additionally the General Fund lent, and ultimately transferred (\$15,000 and \$17,000 respectively), money to cover shortfalls in the food service account.

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

Figure A-4

Changes in Net Assets from Operating Results for the years ending June 30, 2006 and 2007

	Governmental Activities		Business-type Activities		School District Total	
	2006	2007	2006	2007	2006	2007
Revenues						
Program revenues						
Charges for services	\$ 283,169	\$ 268,590	\$ 104,932	\$ 108,933	\$ 388,101	\$ 377,523
Operating Grants & Contributions	559,762	604,740	71,232	72,602	630,994	677,342
Capital Grants & Contributions	-	81,090	-	-	-	81,090
General revenues						
Property and Other Local taxes	2,459,410	2,477,277	-	-	2,459,410	2,477,277
Unrestricted state grants	1,649,346	1,823,982	-	-	1,649,346	1,823,982
Other	55,567	96,753	187	156	55,754	96,909
Transfers	(16,031)	(19,105)	16,031	19,105	-	-
Total revenues	4,991,223	5,333,327	192,382	200,796	5,183,605	5,534,123
Expenses						
Instruction	3,260,650	3,342,692	-	-	3,260,650	3,342,692
Support Services:						
Administrative & Business	544,325	526,691	-	-	544,325	526,691
Maintenance & Operations	373,176	368,219	-	-	373,176	368,219
Other Support Services	409,161	442,017	-	-	409,161	442,017
Non-Instructional Programs	-	-	202,284	197,342	202,284	197,342
Other Expenditures	285,036	363,593	-	-	285,036	363,593
Total expenses	4,872,348	5,043,212	202,284	197,342	5,074,632	5,240,554
Increase (decrease) in net assets	\$ 118,875	\$ 290,115	\$ (9,902)	\$ 3,454	\$ 108,973	\$ 293,569

Figure A-5

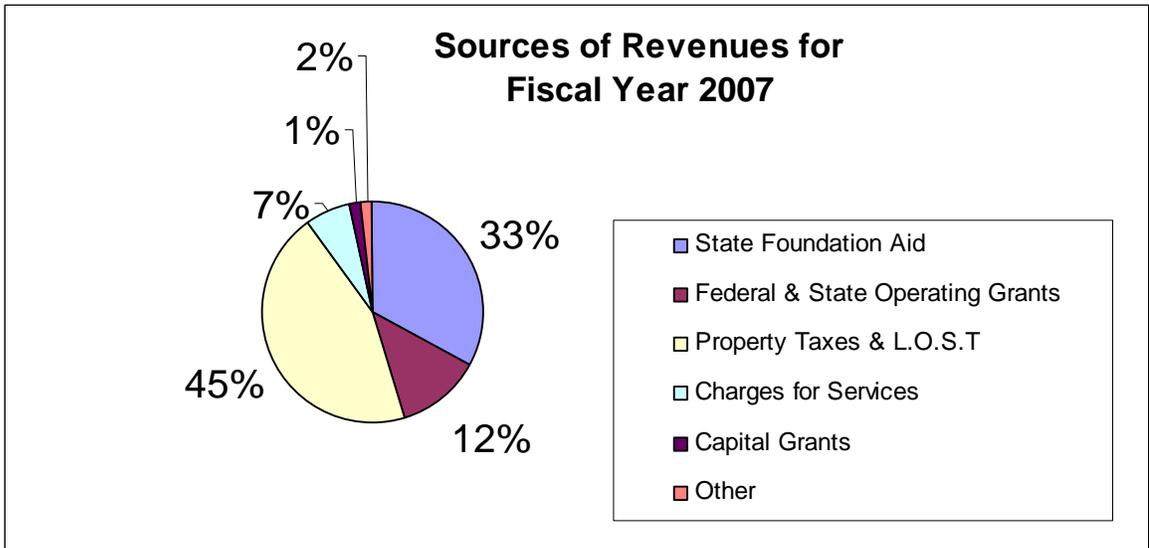
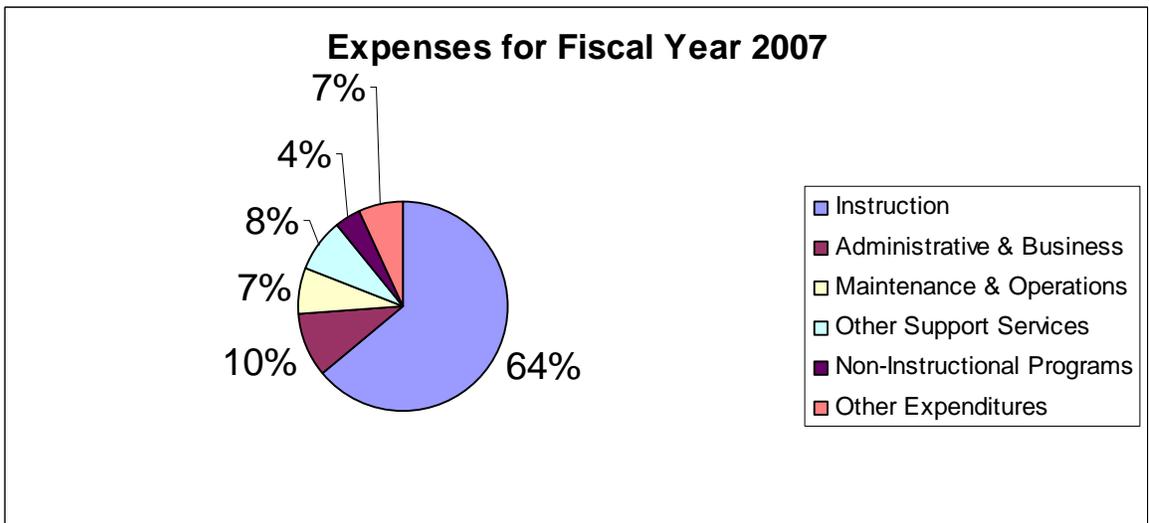


Figure A-6



Figures A-5 and A-6 provide a visual breakdown of the sources of revenues and areas of expenditures for the data from Figure A-4.

Governmental Activities

Figure A-7 presents the cost of three major district activities: instruction; support services: administrative and business, maintenance and operations, other; and other expenditures. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Governmental Activities
Figure A-7
Net Cost of Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2007	2006	2007
Instruction	\$ 3,260,650	\$ 3,342,692	\$ 2,591,123	\$ 2,654,564
Support Services:				
Administration & Business	544,325	526,691	544,325	526,691
Maintenance & Operations	373,176	368,219	373,101	366,969
Other Support Services	409,161	442,017	408,829	441,659
Other Expenditures	285,036	363,593	112,039	98,909
Total	\$ 4,872,348	\$ 5,043,212	\$ 4,029,417	\$ 4,088,792

- The cost of all governmental activities this year was \$5,043,212.
- \$268,590 of the cost was financed by the users of the District's programs (see Figure A-4)
- The federal and state governments subsidized certain programs with grants and contributions of \$604,740.
- Most of the District's \$4,088,792 of net costs, however were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,477,277 in property and other local taxes, \$1,823,982 of unrestricted state grants based on the statewide finance formula, and investment earnings.

Business-Type Activities

Revenues of the District's business-type activities (school food and nutrition services) totaled \$200,796 and expenses totaled \$197,342. (Refer to Figure A-4.) Factors contributing to these results are as follows: Business-type activity revenues exceeded expenses by \$3,454. This surplus was created primarily by the general fund loaning and ultimately transferring nearly \$20,000 to the food service fund. This year's results were significantly improved over last year's due to the continuation of the ala carte menu, charging for second entrees, an increase in meal prices, as well as careful monitoring of expenditures for salaries and supplies. The District continues to look at ways to generate more revenue in this area to finance the rising costs of operation.

Financial Analysis of the District's Funds

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

Governmental Funds

The District's General Fund cash position decreased significantly due to 4% allowable growth from the state combined with declining enrollment and budget cuts that do not cover the change in revenues. As mentioned previously, deeper cuts are necessary for the District to remain financially sound.

The Management Levy increased its cash position after another increase in the levy. The increase was necessary in order to cover the increased property/liability costs for the District as well as the early retirement liabilities for the year. The increased levy exceeded the expenditures in this fund for the fiscal year 2007 which saw the early retirement incentive being offered. The fund had an ending cash balance of \$161,055.

The Capital Projects Fund was new in 2005 and continues to be used to account for the proceeds from and expenditures of sales tax revenues. There were no expenditures in 2005 or 2006; the monies were being accumulated for capital improvements-namely the construction of a kitchen between the primary and high school buildings in Marcus. The sale of the bonds for that project occurred in Dec. of 2006 with work on the project beginning in the spring of 2007. As of June 30, 2007 \$375,765 worth of work had been completed on the \$3.2 million project.

Proprietary Funds

The School Nutrition Fund managed a \$3,454 operating gain due mainly to money coming from the general fund to support the continued high supply and labor costs. Increased revenues and steady federal funding combined with decreased spending on supplies and the general fund donation were the reasons for the better results than 2006's net decrease in assets of a \$9,902.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutorily prescribed procedures. The District's budget is prepared on a cash basis. Over the course of the year, the District DID amend its budget as expenditures were expected to exceed the certified amounts, due to the issuance of the bonds and the beginning of the building project. Even after amending however, expenditures in the other expenditures function did go over budget.

There was some variance in the District's budget in comparison to actual results. Total actual revenue was 7.15% more than budgeted, while total actual expenditures were 1.18% more than budgeted. The largest areas of revenues being more than budgeted were the Local Option Sales Tax money at \$50,000 over budget, Income Surtax at \$21,000 over budget in the General Fund and Interest \$12,000 more than budgeted in the General Fund. Additionally there was \$70,000 of bond interest generated that was not budgeted for at all. The expenditures were more than budgeted in the Other Expenditures area due to construction progressing faster than was anticipated. Actual expenditures came in VERY close to budgeted numbers and the District will try to continue to get budgeted

expenditures to be so close to actual results. Detail can be found in the supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

By the end of 2007, the District had invested \$1,294,552, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, transportation equipment and administrative offices. (See Figure A-8) (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for the year was \$105,911.

Figure A-8

Capital Assets, Net of Accumulated Depreciation

	Governmental		Business-type		Total	
	Activities		Activities		School District	
	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>
Land	\$ 11,900	\$ 11,900	\$ -	\$ -	\$ 11,900	\$ 11,900
Construction in progress	-	366,161	-	-	-	366,161
Buildings & Improvements	806,540	778,791	-	-	806,540	778,791
Equipment & Furniture	122,068	109,271	29,465	28,429	151,533	137,700
	\$ 940,508	\$ 1,266,123	\$ 29,465	\$ 28,429	\$ 969,973	\$ 1,294,552

Long-Term Debt

At year-end, the District had \$2,820,000 in general obligation bonds and \$117,173 in other long-term debt outstanding in Figure A-9 below.

Figure A-9

Outstanding Long-Term Debt

	Total	
	School District	
	<u>2006</u>	<u>2007</u>
General Obligation Bonds	-	\$ 2,820,000
Early Retirement Benefits Payable	\$ 66,103	\$ 117,173
Total	\$ 66,103	\$ 2,937,173

Factors Bearing on the District's Future

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national and state economy. State funding growth for public schools for fiscal year 2008, has been set at 4%.
- District budget enrollment decreased for the 2006 count and will see another decrease of 30 students on the 2007 count which will negatively impact the fiscal year 2009 budget. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Jodi B. Mongan, Business Manager, Marcus-Meriden-Cleghorn Community School District, 400 E Fenton St, PO Box 667, Marcus, IA 51035.

BASIC FINANCIAL STATEMENTS

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities \$	Business Type Activities \$	Total \$
Assets			
Cash and cash equivalents	4,778,520	7,743	4,786,263
Receivables:			
Property tax:			
Delinquent	26,688	-	26,688
Succeeding year	2,135,626	-	2,135,626
Accounts	1,483	-	1,483
Accrued interest	4,723	-	4,723
Due from other governments	288,049	-	288,049
Interfund receivable/payable	12,000	(12,000)	-
Inventories	-	4,223	4,223
Prepaid expenses	27,619	79	27,698
Unamortized bond issue costs	69,089	-	69,089
Capital assets, net of accumulated depreciation	1,266,123	28,429	1,294,552
Total assets	8,609,920	28,474	8,638,394
Liabilities			
Accounts payable	182,990	306	183,296
Salaries and benefits payable	366,560	521	367,081
Accrued interest payable	69,913	-	69,913
Deferred revenue:			
Succeeding year property tax	2,135,626	-	2,135,626
Other	10,033	2,950	12,983
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	55,000	-	55,000
Termination benefits	24,285	-	24,285
Portion due after one year:			
General obligation bonds payable	2,765,000	-	2,765,000
Bond premium	51,464	-	51,464
Termination benefits	92,888	-	92,888
Total liabilities	5,753,759	3,777	5,757,536
Net assets			
Invested in capital assets, net of related debt	1,056,086	28,429	1,084,515
Restricted for:			
State categorical aid	2,924	-	2,924
Management levy	47,204	-	47,204
Physical plant and equipment levy	291,952	-	291,952
Other special revenue purposes	75,277	-	75,277
Local option sales tax capital projects	792,089	-	792,089
Unrestricted	590,629	(3,732)	586,897
Total net assets	2,856,161	24,697	2,880,858

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	2,254,407	129,952	305,260	-
Special	558,010	21,595	69,954	-
Other	530,275	115,793	45,574	-
	<u>3,342,692</u>	<u>267,340</u>	<u>420,788</u>	<u>-</u>
Support services:				
Student	135,050	-	-	-
Instructional staff	93,390	-	-	-
Administration	526,691	-	-	-
Operation and maintenance of plant	368,219	1,250	-	-
Transportation	213,577	-	358	-
	<u>1,336,927</u>	<u>1,250</u>	<u>358</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	53,883	-	-	81,090
Long-term debt interest	68,367	-	3,995	-
AEA flowthrough	179,599	-	179,599	-
Depreciation (unallocated)*	61,744	-	-	-
	<u>363,593</u>	<u>-</u>	<u>183,594</u>	<u>81,090</u>
Total governmental activities	5,043,212	268,590	604,740	81,090
Business type activities:				
Non-instructional programs:				
Food service operations	197,342	108,933	72,602	-
Total	197,342	108,933	72,602	-
	<u>5,240,554</u>	<u>377,523</u>	<u>677,342</u>	<u>81,090</u>

General Revenues:

Property taxes levied for:
General purposes
Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other
Total general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,819,195)	-	(1,819,195)
(466,461)	-	(466,461)
(368,908)	-	(368,908)
<u>(2,654,564)</u>	<u>-</u>	<u>(2,654,564)</u>
(135,050)	-	(135,050)
(93,390)	-	(93,390)
(526,691)	-	(526,691)
(366,969)	-	(366,969)
(213,219)	-	(213,219)
<u>(1,335,319)</u>	<u>-</u>	<u>(1,335,319)</u>
27,207	-	27,207
(64,372)	-	(64,372)
-	-	-
(61,744)	-	(61,744)
<u>(98,909)</u>	<u>-</u>	<u>(98,909)</u>
(4,088,792)	-	(4,088,792)
-	(15,807)	(15,807)
<u>(4,088,792)</u>	<u>(15,807)</u>	<u>(4,104,599)</u>
1,770,046	-	1,770,046
194,393	-	194,393
191,985	-	191,985
320,853	-	320,853
1,823,982	-	1,823,982
70,810	156	70,966
25,943	-	25,943
4,398,012	156	4,398,168
(19,105)	19,105	-
<u>4,378,907</u>	<u>19,261</u>	<u>4,398,168</u>
290,115	3,454	293,569
<u>2,566,046</u>	<u>21,243</u>	<u>2,587,289</u>
<u>2,856,161</u>	<u>24,697</u>	<u>2,880,858</u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	809,775	3,446,816	521,797	4,778,388
Receivables:				
Property tax:				
Delinquent	21,578	-	5,110	26,688
Succeeding year	1,859,650	-	275,976	2,135,626
Accounts	94	-	1,389	1,483
Accrued interest	-	4,723	-	4,723
Interfund receivable	12,000	-	-	12,000
Prepaid expenses	27,046	-	573	27,619
Due from other governments	206,841	64,903	16,305	288,049
Total assets	<u>2,936,984</u>	<u>3,516,442</u>	<u>821,150</u>	<u>7,274,576</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	59,027	114,390	9,573	182,990
Salaries and benefits payable	366,560	-	-	366,560
Deferred revenue:				
Succeeding year property tax	1,859,650	-	275,976	2,135,626
Other	156,779	-	16,305	173,084
Total liabilities	<u>2,442,016</u>	<u>114,390</u>	<u>301,854</u>	<u>2,858,260</u>
Fund balances:				
Reserved for:				
State categorical aid	2,924	-	-	2,924
Debt service	-	-	3,995	3,995
Unreserved reported in:				
General fund	492,044	-	-	492,044
Special revenue funds	-	-	515,301	515,301
Capital projects funds	-	3,402,052	-	3,402,052
Total fund balances	<u>494,968</u>	<u>3,402,052</u>	<u>519,296</u>	<u>4,416,316</u>
Total liabilities and fund balances	<u>2,936,984</u>	<u>3,516,442</u>	<u>821,150</u>	<u>7,274,576</u>

MARCUS-MERIDEN-CLEGHORN 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 (Exhibit C)	4,416,316
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,266,123
Unamortized bond issue costs are not financial resources and, therefore, are not reported as assets in the governmental funds.	69,089
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	163,051
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.	(69,913)
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	132
Long-term liabilities, including bonds payable, bond premiums and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(2,988,637)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,856,161</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Capital Projects	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,737,935	308,936	394,438	2,441,309
Tuition	118,182	-	-	118,182
Other	75,440	106,147	130,222	311,809
State sources	2,240,090	11,917	256	2,252,263
Federal sources	184,381	-	-	184,381
Total revenues	<u>4,356,028</u>	<u>427,000</u>	<u>524,916</u>	<u>5,307,944</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,184,734	-	18,603	2,203,337
Special	558,010	-	-	558,010
Other	397,125	-	140,675	537,800
	<u>3,139,869</u>	<u>-</u>	<u>159,278</u>	<u>3,299,147</u>
Support services:				
Student	135,050	-	-	135,050
Instructional staff	93,390	-	-	93,390
Administration	493,825	61,560	34,801	590,186
Operation and maintenance of plant	310,424	-	50,820	361,244
Transportation	185,799	-	11,649	197,448
	<u>1,218,488</u>	<u>61,560</u>	<u>97,270</u>	<u>1,377,318</u>
Other expenditures:				
Facilities acquisition	-	375,765	88,755	464,520
AEA flowthrough	179,599	-	-	179,599
	<u>179,599</u>	<u>375,765</u>	<u>88,755</u>	<u>644,119</u>
Total expenditures	<u>4,537,956</u>	<u>437,325</u>	<u>345,303</u>	<u>5,320,584</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(181,928)</u>	<u>(10,325)</u>	<u>179,613</u>	<u>(12,640)</u>
Other financing sources (uses):				
Compensation for loss of fixed assets	13,961	-	-	13,961
Bonds issued	-	2,820,000	-	2,820,000
Accrued interest on bonds issued	-	3,995	-	3,995
Bond premium	-	53,010	-	53,010
Sales of equipment and real property	2,481	-	-	2,481
Operating transfers in	-	-	3,995	3,995
Operating transfers out	(17,000)	(3,995)	-	(20,995)
Total other financing sources (uses)	<u>(558)</u>	<u>2,873,010</u>	<u>3,995</u>	<u>2,876,447</u>
Net change in fund balances	(182,486)	2,862,685	183,608	2,863,807
Fund balances beginning of year	<u>677,454</u>	<u>539,367</u>	<u>335,688</u>	<u>1,552,509</u>
Fund balances end of year	<u>494,968</u>	<u>3,402,052</u>	<u>519,296</u>	<u>4,416,316</u>

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		2,863,807
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	427,093	
Depreciation expense	<u>(101,478)</u>	325,615
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		24,051
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.		(69,913)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		(51,070)
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		(2,873,010)
The premium on bonds issued is amortized over the life of the bonds for the Statement of Activities.		1,546
Bond issue costs are recorded as an expense for the governmental funds, but are capitalized and amortized over the life of the bonds for the Statement of Activities.		<u>69,089</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>290,115</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund \$
Assets		
Cash and cash equivalents	7,743	132
Inventories	4,223	-
Prepaid expenses	79	-
Capital assets, net of accumulated depreciation	<u>28,429</u>	<u>-</u>
Total assets	<u>40,474</u>	<u>132</u>
Liabilities		
Accounts payable	306	-
Salaries and benefits payable	521	-
Deferred revenue	2,950	-
Interfund payable	<u>12,000</u>	<u>-</u>
Total liabilities	<u>15,777</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	28,429	-
Unrestricted	<u>(3,732)</u>	<u>132</u>
Total net assets	<u><u>24,697</u></u>	<u><u>132</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	108,933	-
Operating expenses:		
Non-instructional programs:		
Salaries	77,539	-
Benefits	14,801	-
Purchased services	4,201	-
Supplies	96,254	-
Depreciation	4,433	-
Other	114	-
	<u>197,342</u>	<u>-</u>
Operating gain (loss)	<u>(88,409)</u>	<u>-</u>
Non-operating revenues:		
State sources	2,617	-
Federal sources	69,985	-
Interest income	156	-
Total non-operating revenues	<u>72,758</u>	<u>-</u>
Gain (loss) before contributions	(15,651)	-
Capital contributions	2,105	-
Transfers in	<u>17,000</u>	<u>-</u>
Change in net assets	3,454	-
Net assets beginning of year	<u>21,243</u>	<u>132</u>
Net assets end of year	<u><u>24,697</u></u>	<u><u>132</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	109,070	-
Cash payments to employees for services	(91,819)	-
Cash payments to suppliers for goods or services	(87,804)	-
Net cash used by operating activities	<u>(70,553)</u>	<u>-</u>
Cash flows from non-capital financing activities:		
Loan from General Fund	(5,000)	-
Transfer from General Fund	17,000	-
State grants received	2,617	-
Federal grants received	57,343	-
Net cash provided by non-capital financing activities	<u>71,960</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(1,292)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>156</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	271	-
Cash and cash equivalents at beginning of year	<u>7,472</u>	<u>132</u>
Cash and cash equivalents at end of year	<u><u>7,743</u></u>	<u><u>132</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(88,409)	-
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	12,642	-
Depreciation	4,433	-
Decrease (increase) in inventories	100	-
Decrease (increase) in prepaid expenses	(55)	-
(Decrease) increase in accounts payable	78	-
(Decrease) increase in salaries and benefits payable	521	-
(Decrease) increase in deferred revenue	<u>137</u>	<u>-</u>
Net cash used in operating activities	<u><u>(70,553)</u></u>	<u><u>-</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$12,642 of federal commodities.

During the year ended June 30, 2007, the School Nutrition Fund received \$2,105 of equipment that was purchased by other funds.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

1. Summary of Significant Accounting Policies

Marcus-Meriden-Cleghorn 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 Marcus, Meriden and Cleghorn Iowa and the predominately agricultural territory in a portion of Cherokee and Plymouth 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, Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund was used to account for the District's employee flexible benefit plan.

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgements, and compensated

absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from 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 financial statements:

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	3,500
Improvements other than buildings	3,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	5-20 years
Furniture and equipment	5-12 years

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

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be

used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

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

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

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

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

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

E. Budgeting and Budgetary Control

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

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:

	Amortized Cost
	\$
Diversified Portfolio	<u>2,098,812</u>

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

Credit risk: The investment in the Iowa Schools Joint Investment Trust was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Enterprise – School Nutrition Fund	12,000

The General Fund loaned the Nutrition Fund money for cash flow.

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental: Debt Service Fund	Capital Projects Fund	3,995
Nonmajor Enterprise: School Nutrition Fund	General Fund	17,000

The transfer from the Capital Projects Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

The General Fund transferred money to the School Nutrition Fund to cover operating expenses.

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	366,161	-	366,161
Land	11,900	-	-	11,900
	<u>11,900</u>	<u>366,161</u>	<u>-</u>	<u>378,061</u>
Capital assets being depreciated:				
Buildings	2,069,883	33,995	-	2,103,878
Improvements other than buildings	337,726	-	-	337,726
Furniture and equipment	808,160	26,937	20,309	814,788
Total capital assets being deprec.	<u>3,215,769</u>	<u>60,932</u>	<u>20,309</u>	<u>3,256,392</u>
Less accumulated depreciation for:				
Buildings	1,364,089	53,300	-	1,417,389
Improvements other than buildings	236,980	8,444	-	245,424
Furniture and equipment	686,092	39,734	20,309	705,517
Total accumulated depreciation	<u>2,287,161</u>	<u>101,478</u>	<u>20,309</u>	<u>2,368,330</u>
Total capital assets being depreciated, net	<u>928,608</u>	<u>(40,546)</u>	<u>-</u>	<u>888,062</u>
Governmental activities capital assets, net	<u>940,508</u>	<u>325,615</u>	<u>-</u>	<u>1,266,123</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	79,768	3,397	-	83,165
Less accumulated depreciation	<u>50,303</u>	<u>4,433</u>	-	<u>54,736</u>
Business type activities capital assets, net	<u>29,465</u>	<u>(1,036)</u>	-	<u>28,429</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Other	5,952
Support services:	
Administration services	5,594
Operation and maintenance of plant services	6,975
Transportation	<u>21,213</u>
	39,734
Unallocated depreciation	<u>61,744</u>
Total depreciation expense – governmental activities	<u>101,478</u>
Business type activities:	
Food services	<u>4,433</u>

6. 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	-	2,820,000	-	2,820,000	55,000
Termination benefits	66,103	64,590	13,520	117,173	24,285
	<u>66,103</u>	<u>2,884,590</u>	<u>13,520</u>	<u>2,937,173</u>	<u>79,285</u>

Termination Benefits

The District offered a voluntary early retirement plan to its employees in prior years. Eligible employees must have completed at least fifteen years of consecutive service to the District and must have reached the age of fifty-seven on or before June 30 in the calendar year in which early retirement started.

Current early retirement benefits consist of six annual \$5,000 cash payments.

At June 30, 2007, the District has obligations to five participants with a total liability of \$117,173. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$13,520.

General Obligation Bonds Payable

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

<u>Year Ending</u> <u>June 30,</u>	<u>Bond Issue of December 2006</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2008	4.25	55,000	169,788	224,788
2009	4.25	105,000	117,512	222,512
2010	4.25	110,000	113,050	223,050
2011	4.25	115,000	108,375	223,375
2012	4.25	120,000	103,488	223,488
2013-2017	4.25	680,000	436,687	1,116,687
2018-2022	4.25	835,000	279,225	1,114,225
2023-2026	4.25	800,000	86,488	886,488
		<u>2,820,000</u>	<u>1,414,613</u>	<u>4,234,613</u>

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 contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$157,157, \$160,920, and \$160,442 respectively, equal to the required contributions for each year.

8. Risk Management

Marcus-Meriden-Cleghorn 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 \$179,599 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.

10. Construction Commitment

The District has entered into a contract totaling \$2,706,834 for construction. As of June 30, 2007 costs of \$198,114 had been incurred against the contract. The balance remaining at June 30, 2007 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,871,300	109,089	2,980,389	2,671,951	2,671,951	308,438
State sources	2,252,263	2,617	2,254,880	2,179,945	2,179,945	74,935
Federal sources	184,381	69,985	254,366	271,419	271,419	(17,053)
Total revenues	<u>5,307,944</u>	<u>181,691</u>	<u>5,489,635</u>	<u>5,123,315</u>	<u>5,123,315</u>	<u>366,320</u>
Expenditures:						
Instruction	3,299,147	-	3,299,147	3,330,000	3,330,000	30,853
Support services	1,377,318	-	1,377,318	1,383,000	1,383,000	5,682
Non-instructional programs	-	197,342	197,342	225,000	237,500	40,158
Other expenditures	644,119	-	644,119	309,510	503,000	(141,119)
Total expenditures	<u>5,320,584</u>	<u>197,342</u>	<u>5,517,926</u>	<u>5,247,510</u>	<u>5,453,500</u>	<u>(64,426)</u>
Excess (deficiency) of revenues over (under) expenditures	(12,640)	(15,651)	(28,291)	(124,195)	(330,185)	301,894
Other financing sources (uses) net	<u>2,876,447</u>	<u>19,105</u>	<u>2,895,552</u>	<u>1,000</u>	<u>1,000</u>	<u>2,894,552</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	2,863,807	3,454	2,867,261	(123,195)	(329,185)	3,196,446
Balance beginning of year	<u>1,552,509</u>	<u>21,243</u>	<u>1,573,752</u>	<u>1,537,676</u>	<u>1,537,676</u>	<u>36,076</u>
Balance end of year	<u><u>4,416,316</u></u>	<u><u>24,697</u></u>	<u><u>4,441,013</u></u>	<u><u>1,414,481</u></u>	<u><u>1,208,491</u></u>	<u><u>3,232,522</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by the fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year the District adopted one budget amendment increasing budgeted expenditures by \$205,990.

During the year ended June 30, 2007, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds					Total
	Management	Student	Physical	District	Debt	
	Levy	Activity	Plant and	Support	Service	
		Equipment	Trust			
	\$	\$	Levy	\$	\$	\$
Cash and pooled investments	161,055	76,006	277,568	3,173	3,995	521,797
Receivables:						
Property tax:						
Delinquent	2,749	-	2,361	-	-	5,110
Succeeding year	100,000	-	175,976	-	-	275,976
Accounts	-	1,389	-	-	-	1,389
Due from other governments	-	-	16,305	-	-	16,305
Prepaid expenses	573	-	-	-	-	573
Total assets	264,377	77,395	472,210	3,173	3,995	821,150
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	5,291	4,282	-	-	9,573
Deferred revenue:						
Succeeding year property tax	100,000	-	175,976	-	-	275,976
Other	-	-	16,305	-	-	16,305
Total liabilities	100,000	5,291	196,563	-	-	301,854
Fund balances:						
Reserved for debt service	-	-	-	-	3,995	3,995
Unreserved reported in:						
Special revenue funds	164,377	72,104	275,647	3,173	-	515,301
Total fund balances	164,377	72,104	275,647	3,173	3,995	519,296
Total liabilities and fund balances	264,377	77,395	472,210	3,173	3,995	821,150

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds					Total
	Management	Student	Physical	District	Debt	
	Levy	Activity	Plant and	Support	Service	
		Equipment	Trust			
	\$	Fund	Levy		\$	\$
Revenues:						
Local sources:						
Local tax	200,045	-	194,393	-	-	394,438
Other	10,949	113,271	6,002	-	-	130,222
State sources	137	-	119	-	-	256
Total revenues	<u>211,131</u>	<u>113,271</u>	<u>200,514</u>	<u>-</u>	<u>-</u>	<u>524,916</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	13,519	-	5,084	-	-	18,603
Other instruction	-	140,675	-	-	-	140,675
Support services:						
Administration services	34,801	-	-	-	-	34,801
Operation and maintenance of plant	39,076	-	11,744	-	-	50,820
Transportation services	11,649	-	-	-	-	11,649
Other expenditures:						
Facilities acquisition	-	-	88,755	-	-	88,755
Total expenditures	<u>99,045</u>	<u>140,675</u>	<u>105,583</u>	<u>-</u>	<u>-</u>	<u>345,303</u>
Net change in fund balances	112,086	(27,404)	94,931	-	-	179,613
Other financing sources (uses):						
Operating transfers in	-	-	-	-	3,995	3,995
Net change in fund balances	112,086	(27,404)	94,931	-	3,995	183,608
Fund balances beginning of year	<u>52,291</u>	<u>99,508</u>	<u>180,716</u>	<u>3,173</u>	<u>-</u>	<u>335,688</u>
Fund balances end of year	<u><u>164,377</u></u>	<u><u>72,104</u></u>	<u><u>275,647</u></u>	<u><u>3,173</u></u>	<u><u>3,995</u></u>	<u><u>519,296</u></u>

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End
	Beginning of Year				of Year
	\$	\$	\$	\$	\$
Business club	868	1,680	649	-	1,899
Boys basketball	9,427	6,649	9,638	(790)	5,648
Football	4,518	6,833	16,248	3,390	(1,507)
Girls basketball	9,338	5,963	6,241	(840)	8,220
Baseball	(510)	8,425	8,515	190	(410)
Golf	695	560	995	165	425
Boys track	1,100	2,774	3,399	209	684
Girls track	1,621	3,601	1,546	194	3,870
Wrestling	673	2,276	4,644	420	(1,275)
Softball	11,644	9,359	14,745	90	6,348
Volleyball	5,647	3,313	7,177	430	2,213
Weight room	90	-	89	-	1
Yearbook	1,130	4,150	6,195	500	(415)
Pep/Jazz band	597	-	125	240	712
Vocal	116	63	264	372	287
Student council	3,614	7,405	9,746	-	1,273
Leadership club	(289)	259	913	-	(943)
PTSA	369	-	26	-	343
TSA	1,759	396	-	-	2,155
Speech	2,257	784	661	125	2,505
Cheerleaders	1,211	2,444	2,889	70	836
Art club	1,135	763	1,648	-	250
Drama club	840	-	-	-	840
Drill team	4,555	1,409	96	-	5,868
Spanish club	2,262	1	-	-	2,263
Library club	561	533	-	-	1,094
Video club	263	166	49	-	380
National Honor Society	349	931	922	-	358
Home economics	606	567	329	-	844
MMC marketing club	2,898	2,065	1,471	-	3,492
Lettermans club	3,931	10,644	5,339	(8,065)	1,171
Class of 2006	637	-	524	-	113
Class of 2008	2,025	1,120	2,047	-	1,098
Class of 2007	1,370	462	1,499	-	333
Class of 2009	670	660	26	-	1,304
Class of 2010	-	680	-	-	680
Character counts club	1,710	339	1,390	-	659
Home economics	244	598	594	-	248
Annual	1,112	95	162	-	1,045
MS vocal	584	-	40	-	544
MS athletics	1,343	240	4,644	3,300	239

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
MS plays	359	-	-	-	359
MS student council	10,266	16,517	12,884	-	13,899
Family communication	38	-	-	-	38
TSA	582	10	-	-	592
MS lettermans	-	2,585	-	-	2,585
Elementary library club	1,032	17	-	-	1,049
Elementary activities	122	-	441	-	(319)
Kathy's Kids	4,634	4,357	5,917	-	3,074
Co-Curricular music	116	189	1,268	-	(963)
June 30, 2006 accruals	(611)	-	(611)	-	-
June 30, 2007 accruals	-	1,389	5,291	-	(3,902)
Totals	99,508	113,271	140,675	-	72,104

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,441,309	2,456,381	2,453,453	2,440,231
Tuition	118,182	119,589	151,067	126,867
Other	311,809	211,633	205,012	222,319
State sources	2,252,263	2,025,513	2,225,828	1,841,556
Federal sources	184,381	186,720	221,771	98,990
	<u>5,307,944</u>	<u>4,999,836</u>	<u>5,257,131</u>	<u>4,729,963</u>
Expenditures:				
Instruction:				
Regular	2,203,337	2,211,222	2,101,243	2,171,633
Special	558,010	542,040	469,336	642,272
Other	537,800	536,757	537,082	393,645
Support services:				
Student	135,050	122,808	118,025	118,156
Instructional staff	93,390	80,638	128,593	85,520
Administration	590,186	538,965	493,963	479,096
Operation and maintenance of plant	361,244	367,876	355,548	367,319
Transportation	197,448	211,876	247,936	184,288
Non-instructional programs	-	16,031	-	-
Other expenditures:				
Facilities acquisition	464,520	119,032	219,509	315,644
AEA flowthrough	179,599	172,997	174,587	171,131
	<u>5,320,584</u>	<u>4,920,242</u>	<u>4,845,822</u>	<u>4,928,704</u>

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
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 4, 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 Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Marcus-Meriden-Cleghorn Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District's financial statements that is more than inconsequential will not be prevented or detected by Marcus-Meriden-Cleghorn Community School District's internal control. We consider the deficiencies in internal control described in Part I of the

accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

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

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

February 4, 2008

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

07-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The board secretary, who is the other cosigner of the checks, has access to the stamp. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a stamp is used persons writing or cosigning checks should not have access.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

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

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

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to Financial Statements (continued):

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, exceeded the amount budgeted in the other expenditures function.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: We did amend our budget, but year end construction costs were more than anticipated.

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Steve Little, employee, owner of S & R Farms	spraying	3,376
Steve Permin, employee, owner of Steve's Auto	vehicle repairs	3,336

The transactions with employees do not appear to be conflicts of interest.

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

07-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

07-II-G Certified Enrollment: No variances in the basic enrollment data certified to the Department of Education were noted.

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

07-II-I Certified Annual Report (CAR): The Certified Annual Report was filed timely with the Iowa Department of Education.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

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

07-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We are reviewing the accounts and making the necessary adjustments.

Conclusion: Response accepted.