

**MASON CITY COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007**

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Introductory Section

Board of Education and School District Officials

At June 30, 2007

Name	Title	Term Expires
(Before September, 2006 Election)		
Board of Education		
Dr. Samuel Hunt	President	September, 2007
Richard Hudson	Vice-President	September, 2006
Mark Young	Member	September, 2008
Janet Isaacson	Member	September, 2007
James Spicer	Member	September, 2008
Timothy Becker	Member	September, 2006
Gary Hoffman	Member	September, 2006
(After September, 2006 Election)		
Board of Education		
Dr. Samuel Hunt	President	September, 2007
James Spicer	Vice-President	September, 2008
Mark Young	Member	September, 2008
Janet Isaacson, resigned 6-1-07	Member	September, 2007
Michele Appelgate	Member	September, 2009
Timothy Becker	Member	September, 2009
Gary Hoffman	Member	September, 2009
Darshini Jayawardena, appointed 6-11-07	Member	September, 2007
Officials		
Keith Sersland	Superintendent	Indefinite
Ramona Jeffrey	District Secretary/Treasurer	Indefinite

Financial Section

Independent Auditor's Report

Board of Education
Mason City Community School District
Mason City, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Mason City Community School District, Mason City, 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 the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions 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, business-type activities, each major fund and the aggregate remaining fund information of the Mason City 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 accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 17, 2007 on our consideration of the Mason City Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports 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. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on Page 4 through 13 and 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 supplementary information. However, 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 the Mason City 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 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information on Pages 37 through 42, including the Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 17, 2007

MASON CITY COMMUNITY SCHOOL DISTRICT
1515 South Pennsylvania Avenue
Mason City, Iowa 50401

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Mason City Community School District provides this discussion and analysis of the District's financial performance and provides an overall review of the School District's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$33,196,570 in fiscal 2006 to \$34,943,792 in fiscal 2007, while General Fund expenditures increased from \$32,791,989 in fiscal 2006 to \$34,651,039 in fiscal 2007. This resulted in an increase of \$292,753 in General Fund balance from \$4,365,491 in fiscal 2006 to \$4,658,244 in fiscal 2007. Two grants that totaled \$91,550 were recorded as receivables in the prior year were not funded in 2006-2007 as budgeted, resulting in a decrease in prior year General Fund balance and District-wide net assets.
- The increase in General Fund revenues of \$1,747,222 was attributable to an increase in property taxes, state foundation aid, and Title I received. There was also an increase in tuition-in students for both special education and open enrollment. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and the increased fuel costs.

Students from Roosevelt Elementary and Madison Elementary Schools started classes on August 22, 2007 in the new Roosevelt Elementary School. Construction was finished during the summer of 2007. The students appear to love their new building.

Students and staff are both enjoying the geo-thermal heating and cooling systems in both buildings, Roosevelt Middle School and Roosevelt Elementary School.

OVERVIEW OF THE FINANCIAL STATEMENTS

This 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 School District:

- The first two statements are *District-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 School District, reporting the School District’s operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the School District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the School District acts solely as a trustee or agent for the benefit of others.

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 School District’s budget for the year.

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

FIGURE A-1

MASON CITY COMMUNITY SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

Sample GASB 34 Community School District Annual Financial Report

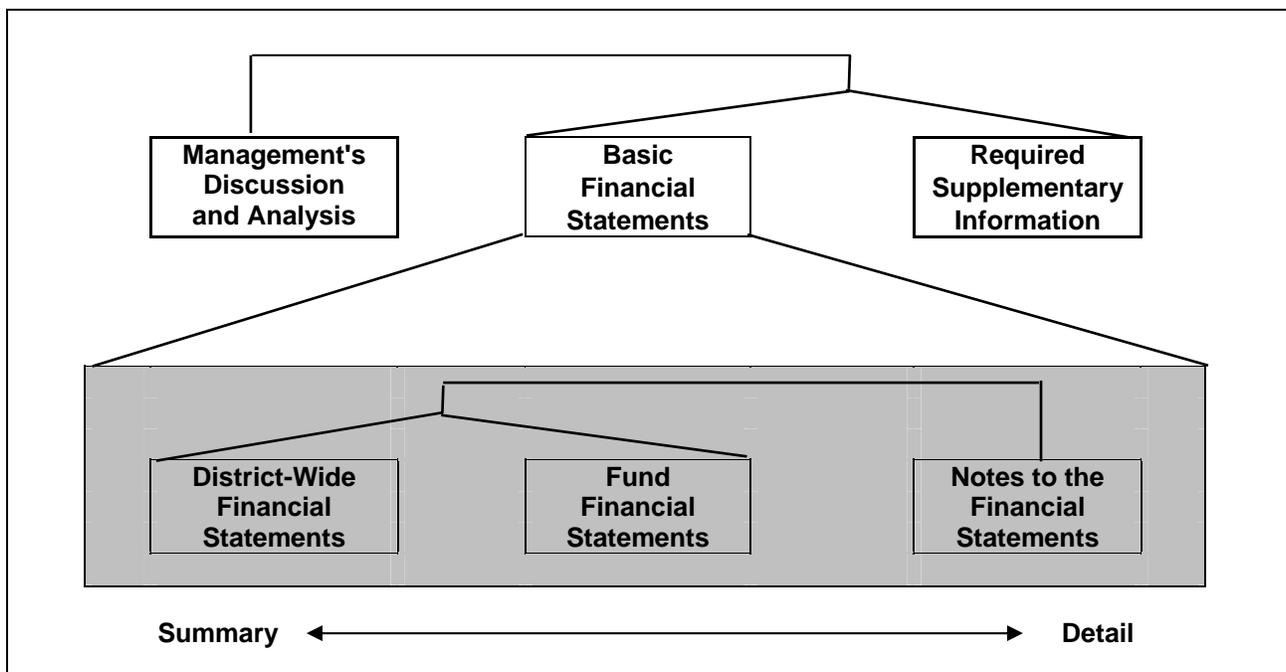


Figure A-2 summarizes the major features of the School District's financial statements, including the portion of the School District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure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

FIGURE A-2				
MAJOR FEATURES OF THE DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS				
	District-Wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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"> * Balance sheet * Statement of revenues, expenses and changes in net assets * Statement of cash flows 	<ul style="list-style-type: none"> * Statement of fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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 during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

DISTRICT-WIDE STATEMENTS

The District-wide statements report information about the School District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the School 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 District-wide statements report the School District's *net assets* and how they have changed. Net assets equal the difference between the District's assets and liabilities and, are one way to measure the District's financial health or position.

- Over time, increases or decreases in the School District's net assets are an indicator of whether 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 District-wide financial statements, the School District's activities are divided into two categories:

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

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School District's funds, focusing on its most significant or "major" funds – not the School District as a whole. Funds are accounting devices the School 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 School 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 School District has three 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 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 School District's programs.

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

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

Proprietary funds: Services for which the School District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.

- The School 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 School District currently has one enterprise fund, the School Nutrition Fund.

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

Fiduciary Funds: The School District is the trustee, or fiduciary, for assets that belong to others. These funds include one Agency Fund.

- Agency Fund - These are funds for which the School District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT AS A WHOLE

Net Assets - Figure A-3 below provides a summary of the School District's net assets for the year ended June 30, 2007.

FIGURE A-3

MASON CITY COMMUNITY SCHOOL DISTRICT CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities June 30,		Business-Type Activities June 30,		Total School District June 30,	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 41,891,380	\$ 42,604,593	\$ 611,875	\$ 746,468	\$ 42,503,255	\$ 43,351,061
Capital assets	<u>37,859,001</u>	<u>35,140,878</u>	<u>302,587</u>	<u>246,817</u>	<u>38,161,588</u>	<u>35,387,695</u>
TOTAL ASSETS	<u>\$ 79,750,381</u>	<u>\$ 77,745,471</u>	<u>\$ 914,462</u>	<u>\$ 993,285</u>	<u>\$ 80,664,843</u>	<u>\$ 78,738,756</u>
Long-term obligations	\$ 20,511,051	\$ 22,031,428	\$ 0	\$ 0	\$ 20,511,051	\$ 22,031,428
Other liabilities	<u>21,578,139</u>	<u>22,238,955</u>	<u>112,629</u>	<u>165,339</u>	<u>21,690,768</u>	<u>22,404,294</u>
TOTAL LIABILITIES	<u>\$ 42,089,190</u>	<u>\$ 44,270,383</u>	<u>\$ 112,629</u>	<u>\$ 165,339</u>	<u>\$ 42,201,819</u>	<u>\$ 44,435,722</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 17,904,001	\$ 13,775,878	\$ 302,587	\$ 246,817	\$ 18,206,588	\$ 14,022,695
Restricted	13,887,715	15,067,985	0	0	13,887,715	15,067,985
Unrestricted	<u>5,869,475</u>	<u>4,631,225</u>	<u>499,246</u>	<u>581,129</u>	<u>6,368,721</u>	<u>5,212,354</u>
TOTAL NET ASSETS	<u>\$ 37,661,191</u>	<u>\$ 33,475,088</u>	<u>\$ 801,833</u>	<u>\$ 827,946</u>	<u>\$ 38,463,024</u>	<u>\$ 34,303,034</u>

Changes in Net Assets - Figure 4-A shows the changes in net assets for the year ended June 30, 2007.

FIGURE A-4

**MASON CITY COMMUNITY SCHOOL DISTRICT
CHANGES IN NET ASSETS**

	Governmental Activities	Business-Type Activities	Total School District
REVENUES:			
Program Revenues:			
Charges for service	\$ 1,922,926	\$ 975,425	\$ 2,898,351
Operating grants and contributions	4,501,062	779,531	5,280,593
Capital gains and contributions	0	62,069	62,069
General Revenues:			
Property tax	13,247,534	0	13,247,534
Local option sales and services tax	4,696,716	0	4,696,716
Unrestricted state grants	17,472,358	0	17,472,358
Unrestricted investment earnings	1,039,712	22,561	1,062,273
Gain on disposal of assets	0	0	0
TOTAL REVENUES	<u>42,880,308</u>	<u>1,839,586</u>	<u>44,719,894</u>
PROGRAM EXPENSES:			
Governmental activities:			
Instruction	25,740,457	0	25,740,457
Support services	9,722,965	0	9,722,965
Non-instructional programs	47,893	1,851,290	1,899,183
Other expenses	2,950,415	0	2,950,415
Loss on disposal of assets	140,925	14,409	155,334
TOTAL EXPENSES	<u>38,602,655</u>	<u>1,865,699</u>	<u>40,468,354</u>
CHANGE IN NET ASSETS	<u>\$ 4,277,653</u>	<u>\$ (26,113)</u>	<u>\$ 4,251,540</u>

Property tax, Local Option Sales and Services Tax, and unrestricted state grants account for approximately 83% of the total revenue. The School District's expenses primarily relate to instruction and support services which account for approximately 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$42,880,308 and expenses were \$38,602,655, which amounted to an increase in net assets of \$4,277,653. The following table presents the total and net cost of the School District's major governmental activities: instruction, support services, non-instructional programs, and other expenses.

FIGURE A-5

**MASON CITY COMMUNITY SCHOOL DISTRICT
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	\$ 25,740,457	\$ 23,918,882	7.6%	\$ 20,918,735	\$ 19,916,943	5.0%
Support services	9,722,965	9,418,021	3.2%	9,562,142	9,227,850	3.6%
Non-instructional programs	47,893	39,145	22.3%	47,893	39,145	22.3%
Other expense	<u>2,950,415</u>	<u>2,798,511</u>	<u>5.4%</u>	<u>1,508,972</u>	<u>1,413,862</u>	<u>6.7%</u>
TOTALS	<u>\$ 38,461,730</u>	<u>\$ 36,174,559</u>	<u>6.3%</u>	<u>\$ 32,037,742</u>	<u>\$ 30,597,800</u>	<u>4.7%</u>

- The cost financed by users of the School District's programs was \$1,922,926.
- Federal and state governments subsidized certain programs with operating grants and contributions totaling \$4,501,062.
- The net cost of governmental activities was financed with \$17,944,250 in property and other taxes and \$17,472,358 in state foundation aid and \$1,039,712 in interest income.

Business-Type Activities

Revenues of the School District's business-type activities were \$1,839,586 and expenses were \$1,865,699. The School 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.

The School District uses the School Dining Services, which is a web-based software program to facilitate the School's hot lunch program. Parents are able to deposit money into their child's hot lunch account through Payschools, which is also a web-based program. Parents may also print out exactly what their child eats everyday. The price of meals was last increased in school year 2000-2001.

FINANCIAL ANALYSIS OF THE SCHOOL DISTRICT'S FUNDS

Individual Fund Analysis

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

The financial performance of the School District as a whole is reflected in its governmental funds. As the School District completed the year, its governmental funds reported combined fund balances of \$18,919,727, well below last year's ending fund balances of \$19,134,580. The main reason for the decrease in combined fund balances in 2007 was the completion of the renovation and new construction at Roosevelt Elementary School which was paid for from the Capital Projects Fund.

Governmental Fund Highlights

The General Fund expenditures for negotiated salaries increased by \$669,790 from 2006 to 2007; whereas, the benefits increased by \$149,909 from 2006 to 2007. Salaries and benefits make up approximately 79% of the General Fund budget.

On March 4, 2003, the taxpayers of Cerro Gordo County passed a one-cent local option sales tax to be used for school infrastructure. The first priority of the Mason City Community School's Board of Education was to reduce the bonded indebtedness. In order to do this, the interest and principal payments on the Harding/Hoover Construction Project are funded with transfers from the Capital Projects Fund where the one-cent local option sales tax monies are deposited.

The new construction on Roosevelt Middle School started in the spring of 2005 with the completion date set for August 1, 2006. The renovation and new addition to Roosevelt Elementary School was started in the summer of 2005 with a final completion date of August 15, 2007. The interest and principal payments on the Roosevelt complex, which includes the newly constructed Roosevelt Middle School and the new construction and renovation of Roosevelt Elementary School, are also paid by the Local Option Sales and Services Tax.

The Board of Education's decision to save \$300,000 a year from the PPEL Fund for long-term investments and major projects has resulted in a certificate of deposit totaling \$1,954,025 as of June 30, 2007.

The School District received \$1,000,000 in Qualified Zone Academy Bonds (QZAB) to remodel ten academic classrooms at Roosevelt Elementary School. The Local Option Sales and Services Tax will also be used to repay the principal on the QZAB. The Federal Taxpayer Relief Act of 1997 created the Qualified Zone Academy Bond Program (QZAB) to provide low or no interest financing for renovating school buildings and purchasing equipment. New construction does not apply under this program.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$827,946 in 2006 to \$801,833 in 2007, a decrease of \$26,113, or approximately 3%. Total revenues in 2007 were \$1,839,586 which is an increase of \$117,013 from \$1,722,573 in 2006. Total expenses for 2007 were \$1,851,290 and in 2006 they were \$1,733,931 for an increase of \$117,359, or approximately 7%. The increase in expenditures was mainly due to the increase in negotiated salaries and benefits and the increase in the cost of food and supplies. In addition, most vendors added a surcharge to cover the increased cost of transportation.

BUDGETARY HIGHLIGHTS

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 its private-purpose trust and agency funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The School District's budget is prepared on the modified accrual basis. A schedule showing the original and final budget amounts compared to the School District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

The School District's total actual receipts were \$2,600,798 more than the total budgeted receipts; a variance of 6%. The most significant change resulted in the School District receiving more in various components of state aid, property taxes, Title I, and collections from the one-cent local option sales tax than originally anticipated.

Total expenditures were less than budgeted due primarily to the School District's budget for the General Fund. It is the School District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The School District then manages or controls General Fund spending through its line-item budget. As a result, the School District's certified budget should always exceed the actual expenditures during the year. The School District's total actual expenditures were \$45,949,899 compared to the budget amount of \$49,852,020 or a difference of \$3,902,121, which is an 8% variance. The majority of the variance in expenditures is due to the construction projects at Roosevelt Elementary School and Roosevelt Middle School. More of the construction expenses for the Roosevelt Complex were paid in school year 2007 than 2006, where it was originally budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the School District had invested \$38,161,588, 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). Depreciation expense was \$1,293,069 for Governmental Activities and \$42,054 for Business-Type Activities.

Governmental Activities account for \$37,859,001 of the School District's capital assets with the remainder of \$302,587 in the Business-Type Activities.

Construction in progress of \$312,113 was for the renovation and new addition at Roosevelt Elementary School. Students first day of classes in the new Roosevelt Elementary School was August 22, 2007.

FIGURE A-6

MASON CITY COMMUNITY SCHOOL DISTRICT CAPITAL ASSETS, NET OF DEPRECIATION

	Governmental Activities June 30,		Business-Type Activities June 30,		Total School District June 30,	
	2007	2006	2007	2006	2007	2006
Land	\$ 408,722	\$ 408,722	\$ 0	\$ 0	\$ 408,722	\$ 408,722
Construction in progress	312,113	17,941,101	0	0	312,113	17,941,101
Buildings and improvements	36,292,878	16,044,262	0	0	36,292,878	16,044,262
Furniture and equipment	845,288	746,793	302,587	246,817	1,147,875	993,610
TOTALS	<u>\$ 37,859,001</u>	<u>\$ 35,140,878</u>	<u>\$ 302,587</u>	<u>\$ 246,817</u>	<u>\$ 38,161,588</u>	<u>\$ 35,387,695</u>

Long-Term Debt

At June 30, 2007, the School District had \$4,550,000 in general obligation bonds outstanding and \$15,405,000 in revenue bonds outstanding. The School District retired debt in the amount of \$2,410,000 during the year ended June 30, 2007. The School District received \$1,000,000 in Qualified Zone Academy Bonds which were interest free.

FIGURE A-7

MASON CITY COMMUNITY SCHOOL DISTRICT OUTSTANDING LONG-TERM OBLIGATIONS

	Total School District June 30, 2007	Total School District June 30, 2006	Debt Retired June 30, 2007
General obligation bonds	\$ 4,550,000	\$ 5,175,000	\$ 625,000
Revenue bonds	14,405,000	16,190,000	1,785,000
Qualified Zone Academy Bonds	<u>1,000,000</u>	<u>0</u>	<u>0</u>
TOTAL BONDS	<u>\$ 19,955,000</u>	<u>\$ 21,365,000</u>	<u>\$ 2,410,000</u>

FACTORS BEARING ON THE SCHOOL DISTRICT'S FUTURE

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

The School District has experienced declining enrollment for the past ten years. We are averaging a decline in student enrollment of 70 students per school year. For the first time in school year 2003-2004 the School District levied for the budget guarantee. The School District was not on the budget guarantee in school year 2005-2006 but was on it in school year 2006-2007 and anticipates being on it in future years.

In school year 2006-2007, the School District received new money of \$169,298 plus \$42,864 in budget guarantee for a total of \$212,162. In the future, Labor Contract Settlements will have to be funded by cash reserves and this will have an adverse effect on the School District's General Fund budget and related fund balance.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors, and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ramona Jeffrey, Board Secretary/Treasurer, Mason City Community School District, 1515 South Pennsylvania Avenue, Mason City, Iowa 50401.

Basic Financial Statements

Statement of Net Assets

At June 30, 2007

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and investments	\$ 26,754,505	\$ 498,260	\$ 27,252,765
Receivables			
Property Taxes, Net of Allowance			
Current year delinquent.....	141,146	—	141,146
Succeeding year	13,426,977	—	13,426,977
Accrued interest	52,815	—	52,815
Due from other governments	1,444,624	12,260	1,456,884
Due from other funds	—	28,319	28,319
Other	32,554	11,220	43,774
Inventories and prepaid expenses.....	38,759	61,816	100,575
Capital assets, net of accumulated depreciation	37,859,001	302,587	38,161,588
Total Assets	<u>\$ 79,750,381</u>	<u>\$ 914,462</u>	<u>\$ 80,664,843</u>
Liabilities			
Accounts payable	\$ 880,414	\$ 3,227	\$ 883,641
Salaries and benefits payable	5,549,860	109,402	5,659,262
Due to other funds	19,057	—	19,057
Accrued interest payable	357,779	—	357,779
Early retirement payable.....	263,680	—	263,680
Deferred Revenue			
Succeeding year property taxes	13,426,977	—	13,426,977
Other	34,143	—	34,143
Provision for self-insurance claims.....	599,554	—	599,554
Construction and retainage payable.....	446,675	—	446,675
Long-Term Liabilities			
Portion Due Within One Year			
General obligation bonds payable.....	675,000	—	675,000
Revenue bonds payable	1,835,000	—	1,835,000
Unamortized premium on revenue bonds	95,957	—	95,957
Compensated absences	170,399	—	170,399
Portion Due After One Year			
General obligation bonds payable.....	3,875,000	—	3,875,000
Revenue bonds payable	12,570,000	—	12,570,000
Qualified zone academy bonds.....	1,000,000	—	1,000,000
Unamortized premium on revenue bonds	289,695	—	289,695
Total Liabilities	<u>42,089,190</u>	<u>112,629</u>	<u>42,201,819</u>
Net Assets			
Invested in capital assets, net of related debt .	17,904,001	302,587	18,206,588
Restricted For			
Phase II.....	2,927	—	2,927
Medicaid.....	25,436	—	25,436
Adopt-a-School	57,016	—	57,016
Debt service sinking.....	3,405,118	—	3,405,118
Management levy.....	919,234	—	919,234
Property, plant and equipment levy	4,599,512	—	4,599,512
Student activities.....	287,802	—	287,802
Capital projects	4,162,098	—	4,162,098
Other purposes	200,393	—	200,393
Other special revenue purposes	228,179	—	228,179
Unrestricted	5,869,475	499,246	6,368,721
Total Net Assets	<u>37,661,191</u>	<u>801,833</u>	<u>38,463,024</u>
Total Liabilities and Net Assets	<u>\$ 79,750,381</u>	<u>\$ 914,462</u>	<u>\$ 80,664,843</u>

See accompanying notes to the financial statements.

Statement of Activities

Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenue Charges for Services	Program Revenue		Net (Expenses), Revenue and Changes in Net Assets		
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
Instruction							
Regular instruction	\$ 14,770,097	\$ 856,843	\$ 2,689,368	\$ —	\$ (11,223,886)	\$ —	\$ (11,223,886)
Special instruction	7,901,598	41,280	271,416	—	(7,588,902)	—	(7,588,902)
Vocational instruction	720,643	—	—	—	(720,643)	—	(720,643)
Co-curricular instruction	2,348,119	962,815	—	—	(1,385,304)	—	(1,385,304)
Total Instruction	<u>25,740,457</u>	<u>1,860,938</u>	<u>2,960,784</u>	<u>—</u>	<u>(20,918,735)</u>	<u>—</u>	<u>(20,918,735)</u>
Support Services							
Student services	940,539	—	—	—	(940,539)	—	(940,539)
Instructional staff services	854,983	—	—	—	(854,983)	—	(854,983)
Administration services	3,521,860	—	—	—	(3,521,860)	—	(3,521,860)
Operation and maintenance of plant services	2,862,641	—	—	—	(2,862,641)	—	(2,862,641)
Transportation services	1,086,210	61,988	98,835	—	(925,387)	—	(925,387)
Central services	3,946	—	—	—	(3,946)	—	(3,946)
Community services	27,186	—	—	—	(27,186)	—	(27,186)
Other support services	425,600	—	—	—	(425,600)	—	(425,600)
Total Support Services	<u>9,722,965</u>	<u>61,988</u>	<u>98,835</u>	<u>—</u>	<u>(9,562,142)</u>	<u>—</u>	<u>(9,562,142)</u>
Noninstructional Programs							
Scholarships	36,592	—	—	—	(36,592)	—	(36,592)
Other	11,301	—	—	—	(11,301)	—	(11,301)
Total Noninstructional Programs	<u>47,893</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(47,893)</u>	<u>—</u>	<u>(47,893)</u>
Other Expenditures							
Facilities acquisition	620,123	—	—	—	(620,123)	—	(620,123)
Long-term debt interest	825,041	—	—	—	(825,041)	—	(825,041)
AEA flow through	1,441,443	—	1,441,443	—	—	—	—
Depreciation - unallocated	63,808	—	—	—	(63,808)	—	(63,808)
Total Other Expenditures	<u>2,950,415</u>	<u>—</u>	<u>1,441,443</u>	<u>—</u>	<u>(1,508,972)</u>	<u>—</u>	<u>(1,508,972)</u>
Total Governmental Activities	38,461,730	1,922,926	4,501,062	—	(32,037,742)	—	(32,037,742)
Business-Type Activities							
Noninstructional Programs							
Nutrition services	<u>1,851,290</u>	<u>975,425</u>	<u>779,531</u>	<u>62,069</u>	<u>—</u>	<u>(34,265)</u>	<u>(34,265)</u>
Total	\$ 40,313,020	\$ 2,898,351	\$ 5,280,593	\$ 62,069	(32,037,742)	(34,265)	(32,072,007)
General Revenue							
Property Taxes Levied For							
General purposes					11,822,225	—	11,822,225
Management					1,099,438	—	1,099,438
PPEL					325,871	—	325,871
Capital projects					4,696,716	—	4,696,716
Unrestricted State Grants							
General					17,345,534	—	17,345,534
Other					126,824	—	126,824
Interest and investment earnings					1,039,712	22,561	1,062,273
Total General Revenue					36,456,320	22,561	36,478,881
Other Financing Uses							
Loss on disposal of assets					(140,925)	(14,409)	(155,334)
Change in Net Assets					4,277,653	(26,113)	4,251,540
Net Assets - Beginning of Year, as previously reported					33,475,088	827,946	34,303,034
Prior period adjustment - Note 14					(91,550)	—	(91,550)
Net Assets - Beginning of Year, as restated					<u>33,383,538</u>	<u>827,946</u>	<u>34,211,484</u>
Net Assets - End of Year					\$ 37,661,191	\$ 801,833	\$ 38,463,024

See accompanying notes to the financial statements.

Balance Sheet - Governmental Funds

At June 30, 2007

	General	PPEL	Capital Projects	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Assets					
Cash and pooled investments.....	\$ 10,150,990	\$ 4,719,843	\$ 3,837,184	\$ 5,703,643	\$ 24,411,660
Receivables					
Property Taxes, Net					
Current year delinquent	149,923	4,036	—	13,942	167,901
Succeeding year	11,996,609	330,368	—	1,100,000	13,426,977
Accrued interest.....	14,652	829	37,334	—	52,815
Interfund receivable.....	9,288	—	11,146	65,349	85,783
Due from other governments.....	668,697	—	775,927	—	1,444,624
Other.....	7,772	—	—	16,780	24,552
Inventories and prepaid items.....	38,759	—	—	—	38,759
Total Assets	\$ 23,036,690	\$ 5,055,076	\$ 4,661,591	\$ 6,899,714	\$ 39,653,071
Liabilities and Fund Balances					
Liabilities					
Accounts payable.....	\$ 682,638	\$ 108,335	\$ 57,903	\$ 31,538	\$ 880,414
Salaries and benefits payable.....	5,547,617	—	—	2,243	5,549,860
Interfund payable	93,537	11,146	—	157	104,840
Early retirement payable	—	—	—	263,680	263,680
Construction and retainage payable	—	5,085	441,590	—	446,675
Deferred Revenue					
Succeeding year property taxes.....	11,996,609	330,368	—	1,100,000	13,426,977
Other.....	58,045	630	—	2,223	60,898
Total Liabilities	18,378,446	455,564	499,493	1,399,841	20,733,344
Fund Balances					
Reserved For					
Inventories and prepaid items	38,759	—	—	—	38,759
Teacher compensation.....	3,531	—	—	—	3,531
Administration mentoring.....	2,250	—	—	—	2,250
Phase II	2,927	—	—	—	2,927
Marketing factor.....	28,283	—	—	—	28,283
Adopt-a-School.....	57,016	—	—	—	57,016
Nonpublic textbooks	24,665	—	—	—	24,665
Medicaid	25,436	—	—	—	25,436
Extra day	4,072	—	—	—	4,072
Juvenile Home reduction.....	126,619	—	—	—	126,619
Debt service sinking	—	—	—	4,148,549	4,148,549
Unreserved					
Designated for subsequent year's expenditures over revenue	1,100,000	—	—	—	1,100,000
Designated for student activities	88,622	—	—	—	88,622
Undesignated	3,156,064	4,599,512	4,162,098	1,351,324	13,268,998
Total Fund Balances	4,658,244	4,599,512	4,162,098	5,499,873	18,919,727
Total Liabilities and Fund Balances	\$ 23,036,690	\$ 5,055,076	\$ 4,661,591	\$ 6,899,714	\$ 39,653,071

See accompanying notes to the financial statements.

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

At June 30, 2007

Total Fund Balances for Governmental Funds (Page 16)..... **\$ 18,919,727**

***Amounts reported for governmental activities in the
statement of net assets are different because:***

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. 37,859,001

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 1,751,293

Long-term liabilities, including bonds payable, accrued interest and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.

Accrued interest payable.....	\$ 357,779	
Bonds payable	19,955,000	
Unamortized premium on bonds payable	385,652	
Compensated absences	170,399	(20,868,830)

Net Assets of Governmental Activities (Page 14) **\$ 37,661,191**

Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2007

	General	PPEL	Capital Projects	Nonmajor Govern- mental Funds	Total Govern- mental Funds
Revenue					
Local Sources					
Local tax	\$ 11,822,225	\$ 325,871	\$ 4,696,716	\$ 1,099,438	\$ 17,944,250
Tuition	688,651	—	—	—	688,651
Other	680,839	239,720	409,298	1,067,551	2,397,408
Intermediate sources	3,070	—	—	—	3,070
State sources	20,493,437	100,304	—	1,066	20,594,807
Federal sources	1,252,122	—	—	—	1,252,122
Total Revenue	<u>34,940,344</u>	<u>665,895</u>	<u>5,106,014</u>	<u>2,168,055</u>	<u>42,880,308</u>
Expenditures					
Current					
Instruction					
Regular instruction	13,830,876	—	—	263,680	14,094,556
Special instruction	7,961,424	—	—	—	7,961,424
Vocational instruction	725,538	—	—	—	725,538
Co-curricular instruction	1,361,720	—	—	913,000	2,274,720
Total Instruction	<u>23,879,558</u>	<u>—</u>	<u>—</u>	<u>1,176,680</u>	<u>25,056,238</u>
Support Services					
Student services	946,822	—	—	—	946,822
Instructional staff services	859,849	—	—	—	859,849
Administration services	3,496,479	—	—	—	3,496,479
Operation and maintenance of plant services	2,924,864	—	—	—	2,924,864
Transportation services	1,070,857	—	—	—	1,070,857
Central services	3,947	—	—	—	3,947
Community service	27,220	—	—	—	27,220
Other support services	—	—	—	432,686	432,686
Total Support Services	<u>9,330,038</u>	<u>—</u>	<u>—</u>	<u>432,686</u>	<u>9,762,724</u>
Noninstructional Programs					
Scholarships	—	—	—	36,592	36,592
Other	—	—	—	11,301	11,301
Total Noninstructional Programs	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,893</u>	<u>47,893</u>
Other Expenditures					
Facilities acquisition	—	1,116,605	3,282,031	—	4,398,636
Long-Term Debt					
Principal	—	—	40,000	2,410,000	2,450,000
Interest and fiscal charges	—	—	—	941,675	941,675
AEA flowthrough	1,441,443	—	—	—	1,441,443
Total Other Expenditures	<u>1,441,443</u>	<u>1,116,605</u>	<u>3,322,031</u>	<u>3,351,675</u>	<u>9,231,754</u>
Total Expenditures	<u>34,651,039</u>	<u>1,116,605</u>	<u>3,322,031</u>	<u>5,008,934</u>	<u>44,098,609</u>
Revenue Over (Under) Expenditures	<u>289,305</u>	<u>(450,710)</u>	<u>1,783,983</u>	<u>(2,840,879)</u>	<u>(1,218,301)</u>
Other Financing Sources (Uses)					
Sale of assets	3,448	—	—	—	3,448
Operating transfers in	—	—	—	5,553,437	5,553,437
Operating transfers out	—	—	(3,391,262)	(2,162,175)	(5,553,437)
Qualified zone academy bonds	—	—	1,000,000	—	1,000,000
Total Other Financing Sources (Uses)	<u>3,448</u>	<u>—</u>	<u>(2,391,262)</u>	<u>3,391,262</u>	<u>1,003,448</u>
Net Change in Fund Balance	<u>292,753</u>	<u>(450,710)</u>	<u>(607,279)</u>	<u>550,383</u>	<u>(214,853)</u>
Fund Balance - Beginning of Year,					
as previously reported	4,457,041	5,050,222	4,769,377	4,949,490	19,226,130
Prior period adjustment - Note 14	(91,550)	—	—	—	(91,550)
Fund Balance - Beginning of Year, as restated	<u>4,365,491</u>	<u>5,050,222</u>	<u>4,769,377</u>	<u>4,949,490</u>	<u>19,134,580</u>
Fund Balance - End of Year	<u>\$ 4,658,244</u>	<u>\$ 4,599,512</u>	<u>\$ 4,162,098</u>	<u>\$ 5,499,873</u>	<u>\$ 18,919,727</u>

See accompanying notes to the financial statements.

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

Year Ended June 30, 2007

Change in Fund Balances - Total Governmental Funds (Page 18) \$ (214,853)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in the 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 for the year are as follows:

Capital outlays.....	\$ 4,155,564	
Depreciation expense	(1,293,069)	
Net book value of assets sold	<u>(144,372)</u>	2,718,123

Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The net revenue of the internal service funds is reported with governmental activities. 216,066

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but it increases long-term liabilities in the statement of net assets. 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.

Issued.....	\$ (1,000,000)	
Repaid.....	<u>2,410,000</u>	1,410,000

Premium on bonds amortized during the year did not provide current financial resources to governmental funds but it decreases liabilities in the statement of net assets 118,694

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. 37,940

Compensated absences are not paid from current financial resources and, therefore, were not accrued in the governmental funds. However, compensated absences are a liability on the statement of net assets and have been expensed in the statement of activities. (8,317)

Change in Net Assets of Governmental Activities (Page 15) \$ 4,277,653

Balance Sheet - Proprietary Funds

At June 30, 2007

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	Governmental Activities <u>Internal Service Fund</u>
Assets		
Cash and cash equivalents	\$ 498,260	\$ 2,342,844
Receivables		
Accounts	11,220	8,003
Interfund	28,319	—
Intergovernmental	12,260	—
Inventories and prepaid expenses.....	61,816	—
Furniture and equipment	766,512	—
Less accumulated depreciation	<u>(463,925)</u>	<u>—</u>
Total Assets	<u>\$ 914,462</u>	<u>\$ 2,350,847</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 3,227	\$ 599,554
Salaries and benefits payable	<u>109,402</u>	<u>—</u>
Total Liabilities	<u>112,629</u>	<u>599,554</u>
Net Assets		
Invested in capital assets, net of related debt	302,587	—
Unrestricted	<u>499,246</u>	<u>1,751,293</u>
Total Net Assets	<u>801,833</u>	<u>1,751,293</u>
Total Liabilities and Net Assets	<u>\$ 914,462</u>	<u>\$ 2,350,847</u>

See accompanying notes to the financial statements.

Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds

Year Ended June 30, 2007

	Business-Type Activities - <u>Enterprise Fund</u> School Nutrition	<u>Governmental Activities</u> Internal Service Fund
Operating Revenue		
Local Sources		
Charges for service	\$ 968,049	\$ —
Other receipts	7,376	—
Self-insurance contributions	—	4,488,947
Total Operating Revenue	<u>975,425</u>	<u>4,488,947</u>
Operating Expenses		
Noninstructional Programs		
Food Service Operations		
Salaries and benefits	967,509	—
Purchased services	751,971	—
Other	89,756	—
Depreciation	42,054	—
Self-insurance claims and fees	—	4,272,881
Total Operating Expenses	<u>1,851,290</u>	<u>4,272,881</u>
Income (Loss) From Operations	<u>(875,865)</u>	<u>216,066</u>
Nonoperating Revenue		
State sources	31,667	—
Federal sources	747,864	—
Capital contributions	62,069	—
Interest on investments	22,561	—
Total Nonoperating Revenue	<u>864,161</u>	<u>—</u>
Other Financing Uses		
Loss on disposal of capital assets	<u>(14,409)</u>	<u>—</u>
Change in Net Assets	<u>(26,113)</u>	<u>216,066</u>
Net Assets - Beginning of Year	<u>827,946</u>	<u>1,535,227</u>
Net Assets - End of Year	<u>\$ 801,833</u>	<u>\$ 1,751,293</u>

See accompanying notes to the financial statements.

Statement of Cash Flows - Proprietary Funds

Year Ended June 30, 2007

	Business-Type Activities - Enterprise Fund School Nutrition	Governmental Activities Internal Service Fund
Cash Flows From Operating Activities		
Cash received from sale of lunches and breakfasts.....	\$ 944,268	\$ —
Cash received from assessments made to other funds	—	4,492,412
Cash payments to employees for services.....	(984,359)	—
Cash payments for insurance claims.....	—	(4,247,546)
Cash payments to suppliers for goods and services.....	<u>(782,006)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>(822,097)</u>	<u>244,866</u>
Cash Flows Provided by Noncapital Financing Activities		
State grants received.....	31,667	—
Federal grants received.....	<u>633,546</u>	<u>—</u>
Net Cash Provided by Noncapital Financing Activities	<u>665,213</u>	<u>—</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of capital assets	<u>(50,163)</u>	<u>—</u>
Cash Flows From Investing Activities		
Interest on investments	<u>22,561</u>	<u>—</u>
Net Increase in Cash and Cash Equivalents	(184,486)	244,866
Cash and Cash Equivalents, at Beginning of Year.....	<u>682,746</u>	<u>2,097,978</u>
Cash and Cash Equivalents at End of Year	<u>\$ 498,260</u>	<u>\$ 2,342,844</u>
Reconciliation of Income (Loss) From Operations to Net Cash Used in Operating Activities		
Income (loss) from operations	\$ (875,865)	\$ 216,066
Adjustments to Reconcile Income (Loss) From Operations to Net Cash Used in Operating Activities		
Commodities used.....	101,276	—
Depreciation.....	42,054	—
Changes in Assets and Liabilities		
(Increase) decrease in accounts receivable.....	(31,157)	3,465
Decrease in inventories and prepaid items	4,369	—
Increase (decrease) in accounts payable and provision for self-insurance claims	(45,924)	25,335
Decrease in salaries and benefits payable.....	<u>(16,850)</u>	<u>—</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (822,097)</u>	<u>\$ 244,866</u>

Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2007, the District received \$114,318 of federal commodities.

During the year ended June 30, 2007, the District had a loss of \$14,409 on the sale of assets.

The District purchased \$112,232 of equipment, of which \$62,069 was paid from PPEL funds and transferred to the School Nutrition Fund as a capital contribution, resulting in cash paid for equipment of \$50,163 for the year ended June 30, 2007.

Statement of Fiduciary Net Assets - Fiduciary Fund ---

At June 30, 2007

	Agency
Assets	
Cash and investments	\$ 43,307
Due from other funds.....	—
Due from other governments.....	<u>12,798</u>
Total Assets	<u>\$ 56,105</u>
 Liabilities	
Accounts payable	\$ 9,142
Due to others	37,700
Due to other funds	<u>9,263</u>
Total Liabilities	<u>\$ 56,105</u>

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

The Mason City 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. The geographic area served includes the City of Mason City, Iowa, and the surrounding predominate agricultural territory in Cerro Gordo County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Government Accounting Standards Board.

Reporting Entity

For financial reporting purposes, the Mason City 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 Mason City Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

District-Wide Financial Statements

The statement of net assets and the statement of activities report information on all 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 revenue, 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 that are imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (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 revenue are reported instead as general revenue.

(1) Summary of Significant Accounting Policies

Fund Financial Statements

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the District-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 had the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenue 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 PPEL Fund (Physical Plant and Equipment Levy) is used to account for all revenue derived from a specific levy which is required by law to be accounted for in a separate fund.

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 Enterprise - School Nutrition Fund and the Internal Service Fund. The Internal Service Fund is used to account for the self-funded health insurance plan operated by the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the Agency Fund used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property tax, intergovernmental revenue (shared revenue, 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 revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue 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.

Assets, Liabilities and Fund Equity

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

Cash, Investments and Cash Equivalents

The cash balances of most District funds are invested. The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of one year or less from the date of acquisition.

Investments are stated at fair value which approximates 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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Property Taxes Receivable

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are 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 taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes 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 taxes receivable have been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

Food and Supplies Inventories

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2007, government commodities valued at \$40,680 were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

Capital Assets

Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset useful 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.

Land	\$2,000
Buildings.....	2,000
Improvements other than buildings	2,000
Furniture and Equipment	
School Nutrition Fund equipment.....	500
Other furniture and equipment	2,000
Vehicles.....	2,000

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Depreciation is computed using the straight-line method over the following estimated useful lives:

Buildings.....	50 Years
Improvements other than buildings	25 Years
Technology equipment.....	5 Years
Other furniture and equipment	10 Years
Vehicles.....	8 Years

Salaries and Benefits Payable

Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, August and September have been accrued as liabilities.

Deferred Revenue

Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of asset 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 taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property taxes 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 for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. 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 Obligations

In the District-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 District-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.

Notes to the Financial Statements

(1) Summary of Significant Accounting Policies

Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements in the support services program functional area exceeded the amounts budgeted.

Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and 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 improvements certificates of a drainage district.

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

The District's investments at June 30, 2007 were as follows:

Type	Amortized Cost
Iowa Schools Joint Investment Trust - Diversified Portfolio.....	<u>\$ 2,899,210</u>

The District's investment in the Iowa Schools Joint Investment Trust is valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The District did not participate in the Iowa Schools Cash Anticipation Program (ISCAP) during the year ended June 30, 2007.

Notes to the Financial Statements

(3) Interfund Receivables and Payables

Individual interfund receivable and payable balances at June 30, 2007 are as follows:

Receivable Fund	Payable Fund	Amount
General	Special Revenue	
	Student Activity	\$ 25
	Agency	<u>9,263</u>
		<u>9,288</u>
Enterprise	General	28,187
School Nutrition	Special Revenue	
	Student Activity	<u>132</u>
		<u>28,319</u>
Special Revenue	General	<u>65,349</u>
Student Activities		
Capital Projects	Special Revenue	
	PPEL	<u>11,146</u>
Total		<u>\$ 114,102</u>

(4) Interfund Transfers

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

Transfer to	Transfer From	Amount
Debt Service	Debt Service	
	Debt Service Sinking	\$ 2,162,175
	Capital Projects	<u>1,054,050</u>
		<u>\$ 3,216,225</u>
Debt Service	Capital Projects	
Debt Service Sinking		<u>\$ 2,337,212</u>

(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				
Land	\$ 408,722	\$ —	\$ —	\$ 408,722
Construction in progress	<u>17,941,101</u>	<u>3,604,414</u>	<u>21,233,402</u>	<u>312,113</u>
Total Capital Assets Not Being Depreciated.....	<u>18,349,823</u>	<u>3,604,414</u>	<u>21,233,402</u>	<u>720,835</u>

Notes to the Financial Statements

(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 Being Depreciated				
Buildings and improvements	\$ 30,438,343	\$ 21,407,502	\$ 1,417,891	\$ 50,427,954
Furniture and equipment	<u>2,763,550</u>	<u>439,119</u>	<u>212,459</u>	<u>2,990,210</u>
Total Capital Assets Being Depreciated	<u>33,201,893</u>	<u>21,846,621</u>	<u>1,630,350</u>	<u>53,418,164</u>
Less Accumulated Depreciation For				
Buildings and improvements	14,394,081	1,031,824	1,290,829	14,135,076
Furniture and equipment	<u>2,016,757</u>	<u>261,245</u>	<u>133,080</u>	<u>2,144,922</u>
Total Accumulated Depreciation	<u>16,410,838</u>	<u>1,293,069</u>	<u>1,423,909</u>	<u>16,279,998</u>
Net Total Capital Assets Being Depreciated	<u>16,791,055</u>	<u>20,553,552</u>	<u>206,441</u>	<u>37,138,166</u>
Net Governmental Activities				
Capital Assets	<u>\$ 35,140,878</u>	<u>\$ 24,157,966</u>	<u>\$ 21,439,843</u>	<u>\$ 37,859,001</u>
Business-Type Activities				
Furniture and equipment	\$ 733,440	\$ 112,232	\$ 79,160	\$ 766,512
Less accumulated depreciation	<u>486,623</u>	<u>42,054</u>	<u>64,752</u>	<u>463,925</u>
Net Business-Type Activities				
Capital Assets	<u>\$ 246,817</u>	<u>\$ 70,178</u>	<u>\$ 14,408</u>	<u>\$ 302,587</u>

Depreciation expense was charged as follows:

Governmental Activities		
Instruction		
Regular		\$ 1,016,329
Special		17,237
Other		81,823
Support Services		
Administration		49,491
Operation and maintenance of plant		48,570
Transportation		<u>15,811</u>
		1,229,261
Unallocated depreciation		<u>63,808</u>
Total Governmental Activities Depreciation Expense		<u>\$ 1,293,069</u>
Business-Type Activities		
School Nutrition		<u>\$ 42,054</u>

Notes to the Financial Statements

(6) Long-Term Liabilities

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

	General Obligation Bonds	Revenue Bonds
Balance - Beginning of Year.....	\$ 5,175,000	\$ 16,190,000
Additions.....	—	1,000,000
Amount retired.....	(625,000)	(1,785,000)
Balance - End of Year.....	<u>\$ 4,550,000</u>	<u>\$ 15,405,000</u>
Due Within One Year	<u>\$ 675,000</u>	<u>\$ 1,835,000</u>

General Obligation Bonds Payable

At June 30, 2007, the District's general obligation bond indebtedness was as follows:

Year Ending June 30,	<u>Bonds Issued February 1, 1998</u>			
	Interest Rates	Principal	Interest	Total
2008.....	4.30%	\$ 675,000	\$ 195,650	\$ 870,650
2009.....	4.30	700,000	166,625	866,625
2010.....	4.30	725,000	136,525	861,525
2011.....	4.30	775,000	105,350	880,350
2012.....	4.30	825,000	72,025	897,025
2013.....	4.30	850,000	36,550	886,550
Total.....		<u>\$ 4,550,000</u>	<u>\$ 712,725</u>	<u>\$ 5,262,725</u>

Revenue Bonds Payable

At June 30, 2007, the District's local option sales and service tax revenue bonded indebtedness was as follows:

	<u>Bonds Issued July 1, 2005</u>			<u>Bonds Issued Nov. 22, 2006</u>			<u>Total</u>		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest	Total
2008	4.00%	\$ 1,835,000	\$ 646,250	0%	\$ —	\$ —	\$ 1,835,000	\$ 646,250	\$ 2,481,250
2009	4.00	1,895,000	571,650	0	—	—	1,895,000	571,650	2,466,650
2010	5.00	1,965,000	484,625	0	—	—	1,965,000	484,625	2,449,625
2011	5.00	2,040,000	384,500	0	—	—	2,040,000	384,500	2,424,500
2012	5.00	2,125,000	280,375	0	—	—	2,125,000	280,375	2,405,375
2013-14	5.00	4,545,000	229,875	0	1,000,000	—	5,545,000	229,875	5,774,875
Total		<u>\$ 14,405,000</u>	<u>\$ 2,597,275</u>		<u>\$ 1,000,000</u>	<u>\$ —</u>	<u>\$ 15,405,000</u>	<u>\$ 2,597,275</u>	<u>\$ 18,002,275</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

Notes to the Financial Statements

(6) Long-Term Liabilities

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

1. All proceeds from the local option sales and services tax shall be placed in a revenue fund.
2. Monies in the revenue fund shall be disbursed to make deposits into a sinking fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.
3. Monies in the revenue fund shall next be disbursed to a reserve fund. The required amount is 25% of the amount required to be deposited in the sinking fund.
4. Any monies remaining in the revenue fund after the required transfers to the sinking fund and the reserve fund may be transferred to the project fund and expended for the purposes of issuance.

The District was in compliance with all of the provisions for the year ended June 30, 2007.

The qualified zone academy bonds (QZABs) were issued November 22, 2006 for the purpose of equipping, rehabilitation and repair of the school. The bonds were payable solely from the proceeds of the local option sales and services tax revenue received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

The QZABs were issued at 0% interest. A tax credit rate of 5.57% entitles an eligible taxpayer who owns the bond on each credit allowance date, a federal income tax credit.

The resolution providing for the issuance of the QZABs includes the following provisions:

1. All proceeds from the local option sales and services tax shall be placed in a special irrevocable trust fund (revenue fund).
2. Monies in the revenue fund shall be disbursed to make deposits into a separate and special fund to pay the principal requirements of the bonds for the fiscal year (sinking fund).
3. Deposits into the sinking fund shall include mandatory annual sinking fund deposits to an escrow fund. An escrow fund has been established to provide for the payment of the bonds at maturity and all annual sinking fund payments must be invested in qualified investments.
4. The QZABs are not subject to call prior to maturity.

(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.

Notes to the Financial Statements

(7) Pension and Retirement Benefits

Plan members are required to contribute 3.7% of their annual salary and the District is required to contribute 5.75% of annual payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$1,213,796, \$1,173,486 and \$1,152,705, respectively, equal to the required contributions for each year.

(8) Contingent Liability for Sick Leave Time

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and therefore are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2007 was approximately \$9,400,000.

(9) Risk Management

The Mason City 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.

(10) Area Education Agency Support

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 \$1,441,443 for the year ended June 30, 2007, and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Employee Health Care Plan

The District currently sponsors a self-funded health care plan. Under this plan, employees contribute a portion of their compensation, and COBRA participants and retirees contribute the total cost, towards the cost of maintaining the plan. The District contracts with an insurance company to administer the plan.

Claim costs are limited to \$50,000 per covered individual. Any amount in excess of \$50,000 is covered by a reinsurance policy. Additionally, the reinsurance policy covers claim costs in excess of 120% of the group aggregated total claims exposure, which was approximately \$3,900,000 for the year ended June 30, 2007.

The District has included \$599,554 in its June 30, 2007 liabilities for the estimated costs of incurred but unsubmitted claims at that date.

The District has established an Internal Service Fund to account for these activities to facilitate accountability and management control.

Notes to the Financial Statements

(11) Employee Health Care Plan

The following is a summary of the claims activity for the year ended June 30, 2007:

Estimated cost incurred but not claimed - June 30, 2006.....	\$ 574,219
Claims incurred and claimed and estimated costs incurred but Claimed for the year ended June 30, 2007	3,892,117
Claims paid during the year ended June 30, 2007	<u>(3,866,782)</u>
Estimated Costs Incurred But Not Claimed - June 30, 2007	<u>\$ 599,554</u>

(12) Early Retirement Plan

The District offers an additional early retirement incentive to its employees that are at least age 55 and have at least ten years of service with the District. The additional incentive has two parts. The first part for teachers offsets their IPERS' benefits and the remaining staff receive a benefit up to 25% of their base salary. The second part of the early retirement incentive for each eligible employee is equal to a fixed amount for each year of service with the District. The fixed amount per year of service at June 30, 2007 was as follows:

Administrators.....	\$ 900
Teachers/Nurse	325
Custodian	225
Secretary	200
Para-Professional/Food Service Workers	150

Early retirement benefits available from the combination of both parts of the incentive plan cannot exceed 50% of the employee's base salary using the current year regular salary schedule.

Early retirement benefits expense for the year ended June 30, 2007 totaled \$307,329. All costs of early retirement are expected to be liquidated currently and are recorded as liabilities in the General, Special Revenue and Nutrition Funds.

(13) Construction Commitments

The District has entered into various contracts, with approximately \$38,000 remaining at June 30, 2007, for construction on the Roosevelt Elementary School project. The District has also entered into contracts for a new fire alarm system and wheelchair lift for the high school. At June 30, 2007, the remaining commitment on these contracts was approximately \$119,000.

(14) Prior Period Adjustment

During the year ended June 30, 2007, management determined that two grants it had recorded as receivables in the prior year were not going to be funded by the granting agency. As a result, a prior period adjustment has been made to decrease the General Fund balance and the District-wide net assets as of June 30, 2006 by \$91,550. There was no effect on any other fund balances.

Required Supplementary Information

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

Year Ended June 30, 2007

	<u>Actual</u>		Total	Original and Final Budget	Over (Under) Budget
	Governmental Fund Types Actual	Proprietary Fund Type Actual			
Revenue					
Local sources	\$ 21,030,309	\$ 1,060,055	\$ 22,090,364	\$ 20,060,234	\$ 2,030,130
Intermediate sources	3,070	—	3,070	220,000	(216,930)
State sources.....	20,594,807	31,667	20,626,474	20,088,862	537,612
Federal sources.....	<u>1,252,122</u>	<u>747,864</u>	<u>1,999,986</u>	<u>1,750,000</u>	<u>249,986</u>
Total Revenue	<u>42,880,308</u>	<u>1,839,586</u>	<u>44,719,894</u>	<u>42,119,096</u>	<u>2,600,798</u>
Expenditures					
Instruction.....	25,056,238	—	25,056,238	26,585,744	1,529,506
Support services.....	9,762,724	—	9,762,724	9,152,764	(609,960)
Noninstructional programs	47,893	1,851,290	1,899,183	1,931,397	32,214
Other expenditures.....	<u>9,231,754</u>	<u>—</u>	<u>9,231,754</u>	<u>12,182,115</u>	<u>2,950,361</u>
Total Expenditures.....	<u>44,098,609</u>	<u>1,851,290</u>	<u>45,949,899</u>	<u>49,852,020</u>	<u>3,902,121</u>
Revenue Under Expenditures	(1,218,301)	(11,704)	(1,230,005)	(7,732,924)	6,502,919
Other Financing Uses (Net)	<u>1,003,448</u>	<u>(14,409)</u>	<u>989,039</u>	<u>5,000,000</u>	<u>(4,010,961)</u>
Revenue Under Expend- itures and Other Financing Uses	(214,853)	(26,113)	(240,966)	(2,732,924)	2,491,958
Balance - Beginning of Year, as restated - Note 14	<u>19,134,580</u>	<u>827,946</u>	<u>19,962,526</u>	<u>10,392,438</u>	<u>9,570,088</u>
Balance - End of Year.....	<u>\$ 18,919,727</u>	<u>\$ 801,833</u>	<u>\$ 19,721,560</u>	<u>\$ 7,659,514</u>	<u>\$ 12,062,046</u>

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 and statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Encumbrances pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting, and accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

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, noninstructional 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.

During the year ended June 30, 2007, disbursements in the support services program function exceeded the amounts budgeted.

Other Supplementary Information

Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2007

	Special Revenue Funds			Debt Service Funds		Total
	Management Account	Student Activities	Expendable Trust	Debt Service	Debt Service Sinking	
Assets						
Cash and investments	\$ 1,172,002	\$ 238,654	\$ 144,288	\$ 18,987	\$ 4,129,712	\$ 5,703,643
Receivables						
Property Taxes, Net						
Current year delinquent	13,942	—	—	—	—	13,942
Succeeding year	1,100,000	—	—	—	—	1,100,000
Due from other funds.....	—	65,349	—	—	—	65,349
Other.....	—	16,780	—	—	—	16,780
Total Assets.....	<u>\$ 2,285,944</u>	<u>\$ 320,783</u>	<u>\$ 144,288</u>	<u>\$ 18,987</u>	<u>\$ 4,129,712</u>	<u>\$ 6,899,714</u>
Liabilities and Equities						
Liabilities						
Accounts payable.....	\$ 807	\$ 30,581	\$ —	\$ 150	\$ —	\$ 31,538
Salaries and benefits payable.	—	2,243	—	—	—	2,243
Interfund payable	—	157	—	—	—	157
Early retirement payable	263,680	—	—	—	—	263,680
Deferred Revenue						
Succeeding year property taxes	1,100,000	—	—	—	—	1,100,000
Other.....	2,223	—	—	—	—	2,223
Total Liabilities.....	<u>1,366,710</u>	<u>32,981</u>	<u>—</u>	<u>150</u>	<u>—</u>	<u>1,399,841</u>
Equities						
Unreserved and undesignated fund balance.....	<u>919,234</u>	<u>287,802</u>	<u>144,288</u>	<u>18,837</u>	<u>4,129,712</u>	<u>5,499,873</u>
Total Liabilities and Equities	<u>\$ 2,285,944</u>	<u>\$ 320,783</u>	<u>\$ 144,288</u>	<u>\$ 18,987</u>	<u>\$ 4,129,712</u>	<u>\$ 6,899,714</u>

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

Year Ended June 30, 2007

	<u>Special Revenue Funds</u>			<u>Debt Service Funds</u>		Total
	Management Account	Student Activities	Expend- able Trust	Debt Service	Debt Service Sinking	
Revenue						
Local Sources						
Property taxes	\$ 1,098,480	\$ —	\$ —	\$ —	\$ —	\$ 1,098,480
Mobile home taxes	958	—	—	—	—	958
	<u>1,099,438</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,099,438</u>
Other Local Sources						
Interest on investments.....	34,228	9,369	6,025	10,993	—	60,615
Student activities.....	—	958,911	—	—	—	958,911
Other revenue.....	15,541	3,903	28,581	—	—	48,025
Total Other Local Sources	<u>49,769</u>	<u>972,183</u>	<u>34,606</u>	<u>10,993</u>	<u>—</u>	<u>1,067,551</u>
Total Local Sources	1,149,207	972,183	34,606	10,993	—	2,166,989
State Sources						
Revenue in lieu of taxes - military credit.....	1,066	—	—	—	—	1,066
Total Revenue.....	<u>1,150,273</u>	<u>972,183</u>	<u>34,606</u>	<u>10,993</u>	<u>—</u>	<u>2,168,055</u>
Expenditures						
Instruction						
Regular instruction	263,680	—	—	—	—	263,680
Co-curricular instruction	—	913,000	—	—	—	913,000
Total Instruction.....	<u>263,680</u>	<u>913,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,176,680</u>
Support Services						
Other support services	432,686	—	—	—	—	432,686
Noninstructional Programs						
Scholarships.....	—	—	36,592	—	—	36,592
Other.....	—	—	11,301	—	—	11,301
Total Noninstructional Programs.....	<u>—</u>	<u>—</u>	<u>47,893</u>	<u>—</u>	<u>—</u>	<u>47,893</u>
Other Expenditures						
Long-Term Debt						
Principal.....	—	—	—	2,410,000	—	2,410,000
Interest.....	—	—	—	941,675	—	941,675
Total Other Expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,351,675</u>	<u>—</u>	<u>3,351,675</u>
Total Expenditures.....	<u>696,366</u>	<u>913,000</u>	<u>47,893</u>	<u>3,351,675</u>	<u>—</u>	<u>5,008,934</u>
Revenue Over (Under) Expenditures.....	<u>453,907</u>	<u>59,183</u>	<u>(13,287)</u>	<u>(3,340,682)</u>	<u>—</u>	<u>(2,840,879)</u>
Other Financing Sources						
Operating transfers in	—	—	—	3,216,225	2,337,212	5,553,437
Operating transfers out	—	—	—	—	(2,162,175)	(2,162,175)
Total Other Financing Sources	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,216,225</u>	<u>175,037</u>	<u>3,391,262</u>
Net Change in Fund Balance	453,907	59,183	(13,287)	(124,457)	175,037	550,383
Fund Balance - Beginning of Year	465,327	228,619	157,575	143,294	3,954,675	4,949,490
Fund Balance - End of Year .	<u>\$ 919,234</u>	<u>\$ 287,802</u>	<u>\$ 144,288</u>	<u>\$ 18,837</u>	<u>\$ 4,129,712</u>	<u>\$ 5,499,873</u>

Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2007

Account	Balance - Beginning of Year	Revenue	Expenditures	Balance - End of Year
Administration.....	\$ 52,822	\$ 32,828	\$ 26,158	\$ 59,492
Special Olympics.....	209	1,256	881	584
Talent Development.....	100	7,776	—	7,876
High School Speech and Drama.....	8,944	4,995	5,129	8,810
High School Vocal Music.....	31,810	137,938	139,545	30,203
High School Instrumental Music.....	13,003	47,718	45,037	15,684
High School Athletics.....	18,850	382,929	378,924	22,855
Dance Team.....	2,166	8,135	9,754	547
Cheerleading.....	14,203	43,800	37,004	20,999
Concession Stand.....	2,847	57,562	55,008	5,401
Tournaments.....	4,172	30,358	28,708	5,822
National Art Honor Society.....	782	200	111	871
Foreign Language.....	2	—	2	—
AFS International Club.....	994	2,588	2,695	887
Model U.N.....	—	2,665	1,179	1,486
Literary Club.....	252	—	15	237
Math Club.....	1,431	1,125	632	1,924
Science Club.....	499	771	700	570
Home Economics.....	243	—	—	243
Adult Living.....	449	—	—	449
Industrial Tech - Special Project.....	563	—	—	563
Prom.....	447	5,047	5,260	234
Student Council.....	(498)	6,528	6,030	—
Mohawk Press.....	35	2,415	2,450	—
Yearbook.....	3,417	47,369	46,682	4,104
Ambassadors.....	1,078	—	25	1,053
National Honor Society.....	(684)	1,165	481	—
Alternative School.....	1,251	3,357	1,918	2,690
Middle School Athletics.....	—	22,791	22,791	—
John Adams Middle School.....	10,707	27,438	23,719	14,426
Roosevelt Middle School.....	44,531	45,744	37,366	52,909
Harding Elementary.....	10,143	6,542	10,666	6,019
Hoover Elementary.....	210	12,126	8,859	3,477
Jefferson Elementary.....	(4,578)	17,531	7,559	5,394
Madison Elementary.....	882	1,180	1,523	539
Roosevelt Elementary.....	1,128	5,182	5,198	1,112
Student Parking.....	1,836	653	—	2,489
MCHS JEL.....	5,401	100	281	5,220
MCHS Sod House.....	17	—	—	17
MCHS Trapshooting.....	(2,242)	2,918	676	—
MCHS Best Buddies.....	697	453	34	1,116
MCHC/ISU Prosper Grant.....	500	1,000	—	1,500
	<u>\$ 228,619</u>	<u>\$ 972,183</u>	<u>\$ 913,000</u>	<u>\$ 287,802</u>

Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund ▬

Year Ended June 30, 2007

	Balance - Beginning of Year	Additions	Deductions	Balance - End of Year
Assets				
Cash and investments	\$ 42,701	\$ 172,782	\$ 172,176	\$ 43,307
Due from other governments.....	13,526	12,798	13,526	12,798
Due from other funds.....	<u>3,915</u>	<u>—</u>	<u>3,915</u>	<u>—</u>
Total Assets	<u>\$ 60,142</u>	<u>\$ 185,580</u>	<u>\$ 189,617</u>	<u>\$ 56,105</u>
Liabilities				
Accounts payable	\$ 13,160	\$ 9,142	\$ 13,160	\$ 9,142
Due to others	37,068	167,175	166,543	37,700
Due to other funds	<u>9,914</u>	<u>9,263</u>	<u>9,914</u>	<u>9,263</u>
Total Liabilities	<u>\$ 60,142</u>	<u>\$ 185,580</u>	<u>\$ 189,617</u>	<u>\$ 56,105</u>

Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2007, 2006, 2005 and 2004

	2007	2006	2005	2004
Revenue				
Local Sources				
Property taxes	\$ 17,944,250	\$ 17,655,326	\$ 16,907,057	\$ 15,233,474
Tuition	688,651	559,101	673,039	587,095
Other	2,397,408	2,144,816	2,102,912	1,324,786
Intermediate sources	3,070	3,150	21,812	—
State sources.....	20,594,807	19,990,995	19,381,781	18,956,646
Federal sources.....	<u>1,252,122</u>	<u>1,139,746</u>	<u>1,193,538</u>	<u>1,250,640</u>
Total	<u>\$ 42,880,308</u>	<u>\$ 41,493,134</u>	<u>\$ 40,280,139</u>	<u>\$ 37,352,641</u>
Expenditures				
Instruction				
Regular instruction	\$ 14,094,556	\$ 12,851,648	\$ 12,499,642	\$ 12,867,538
Special instruction.....	7,961,424	7,930,603	8,343,099	8,948,307
Vocational instruction.....	725,538	623,236	583,875	419,619
Co-curricular instruction	2,274,720	2,104,340	1,374,316	1,386,706
Support Services				
Student services	946,822	914,875	945,606	893,804
Instructional staff services.....	859,849	826,137	1,906,887	1,037,506
Administration services.....	3,496,479	3,214,801	2,854,026	2,243,707
Operation and maintenance of plant services	2,924,864	2,743,789	2,531,780	2,474,640
Transportation services.....	1,070,857	1,118,067	729,202	544,964
Central support services	3,947	57,608	25,733	216,516
Community services.....	27,220	28,998	29,456	16,764
Other support services.....	432,686	418,981	427,280	362,371
Noninstructional programs.....	47,893	39,145	286,515	35,141
Other Expenditures				
Facilities acquisition	4,398,636	15,709,139	3,296,605	1,385,571
Long-Term Debt				
Principal.....	2,450,000	2,335,000	575,000	550,000
Interest and other charges	941,675	1,029,600	676,450	304,605
AEA flowthrough.....	<u>1,441,443</u>	<u>1,384,649</u>	<u>1,343,115</u>	<u>1,357,515</u>
Total	<u>\$ 44,098,609</u>	<u>\$ 53,330,616</u>	<u>\$ 38,428,587</u>	<u>\$ 35,045,274</u>

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through From Iowa Department of Education			
Food Donation (noncash)	10.550	FY 07	<u>\$ 114,318</u>
Child Nutrition Cluster			
School Breakfast Program	10.553	FY 07	103,495
National School Lunch Program.....	10.555	FY 07	<u>534,376</u>
Total Cash Expenditures.....			<u>637,871</u>
Total U.S. Department of Agriculture			<u>752,189</u>
Pass-Through From Iowa Department of Human Services			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	FY 07	<u>37,928</u>
U.S. Department of Education			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY 07	<u>660,204</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 07	<u>20,127</u>
State Grants for Innovative Programs.....	84.298	FY 07	<u>37,977</u>
Special Education - State Personnel Development	84.323	FY 07	<u>6,650</u>
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	FY 07	<u>100</u>
Teacher Quality Enhancement Grants.....	84.336	FY 07	<u>193,337</u>
Grants for State Assessments and Related Activities.....	84.369	FY 07	<u>11,103</u>
Total Pass-Through From Iowa Department of Education			<u>929,498</u>
Pass-Through From Area Education Agency 267			
Special Education - Grants to States	84.027	FY 07	<u>238,611</u>
Vocational Education - Basic Grants to States	84.048	FY 07	<u>25,780</u>
Total Pass-Through From Area Education Agency 267			<u>264,391</u>
Total U.S. Department of Education			<u>1,193,889</u>
Pass-Through From Cerro Gordo County			
Medical Assistance Program	93.778		<u>8,721</u>
Total			<u>\$ 1,992,727</u>

Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Mason City Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Subrecipients

The Mason City Community School District provided no federal awards to subrecipients.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Board of Education
Mason City Community School District
Mason City, Iowa

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 Mason City 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 December 17, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Mason City 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 the Mason City Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mason City Community School District's internal control over financial reporting.

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 the Mason City Community School District's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood a misstatement of the Mason City Community School District's financial statements that is more than inconsequential will not be prevented or detected by the Mason City Community School District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Mason City 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 or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mason City 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 grants, noncompliance 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 noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted the following matter of which we would like management to be aware.

07-IC-1 School Nutrition Meals Served

Finding - In August, 2006 when classes began in the new Roosevelt Middle School building, two lunch lines were served instead of one line as had always been done in the past. The second line was accounted for in the District's nutrition software under a separate title. The finance office was not aware of the second lunch line and did not print reports or submit claims for reimbursement for the months of August, September, October and November in a timely manner. The District's internal control procedures detected the unfilled claims and a corrected claim was submitted to the State of Iowa in June, 2007. We compared additional meals on the revised claim with the daily lunch reports for Roosevelt Middle School and verified the revised claim plus the original claim equals the allowable claim for each month in question.

District's Response - Our internal procedures detected this error, and we will continue to monitor for additional lunch lines.

Auditor's Conclusion - Response accepted.

The following 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 Mason City Community School 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.

The Mason City Community School District's responses to findings identified in our audit are described below. While we have expressed our conclusions on the District's responses, we did not audit the Mason City Community School District's responses and, accordingly, we express no opinion on them.

07-C-1 Certified Budget

Finding - Disbursements for the year ended June 30, 2007 exceeded the certified budget amounts in the support services program function.

Auditor's Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

District's Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Auditor's Conclusion - Response accepted.

07-C-2 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-C-3 Travel Expense - No disbursements 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-C-4 Business Transactions - No business transactions between the District and District officials or employees were noted.

07-C-5 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.

07-C-6 Board Minutes

Finding - No transactions were found that we believe should have been included in the Board minutes but were not. However, we noted certain minutes that were not published within 15 days as required by Chapter 279.35 of the Code of Iowa.

Auditor's Recommendation - We recommend that the District publish minutes within 15 days as required by Chapter 279.35 of the Code of Iowa.

District's Response - We will publish minutes as required by the Code of Iowa.

Auditor's Conclusion - Response accepted.

07-C-7 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.

07-C-8 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

07-C-9 Certified Annual Report

Finding - The certified annual report was filed with the Iowa Department of Education timely; however, we noted management did not include in the enterprise fund certain capital assets that were contributed from the governmental funds.

Auditor's Recommendation - The District should add the capital assets contributed from the governmental funds to the listing of enterprise assets and depreciate those assets accordingly in the enterprise fund.

District's Response - We will add the noted capital assets to the enterprise fund and begin depreciating those assets.

Auditor's Conclusion - Response accepted.

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

HOGAN - HANSEN

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Mason City, Iowa
December 17, 2007

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance

Board of Education
Mason City Community School District
Mason City, Iowa

Compliance

We have audited the compliance of the Mason City Community School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Mason City Community School District's major federal programs are identified in the summary of independent auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Mason City Community School District's management. Our responsibility is to express an opinion on the Mason City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mason City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Mason City Community School District's compliance with those requirements.

In our opinion, the Mason City Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Mason City Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Mason City Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purposed described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

The Mason City Community School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the District's response and, accordingly, we express no opinion on it.

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

HOGAN - HANSEN

HOGAN - HANSEN

Mason City, Iowa
December 17, 2007

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part I: Summary of the Independent Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

Federal Awards

Internal control over major programs:

Material weakness identified? yes no

Significant deficiency identified not considered to be material weakness? yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Numbers

84.010

Name of Federal Program or Cluster

Title I Grants to LEA's

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes no

Part II: Findings Related to the Financial Statements

Instances of Noncompliance - There were no current year reported instances of noncompliance.

Significant Deficiency - There were no matters reported.

Schedule of Findings and Questioned Costs

Year Ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards

Instances of Noncompliance

There were no reported instances of noncompliance.

Significant Deficiencies

There were no matters reported.