

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

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Independent Auditor's Report

To the Board of Education of  
Northeast Hamilton Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated March 14, 2008, on our consideration of Northeast Hamilton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Northeast Hamilton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

March 14, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2007 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$2,771,705 in fiscal 2006 to \$2,560,097 in fiscal 2007. General Fund expenditures also decreased from \$2,644,321 in fiscal 2006 to \$2,596,340 in fiscal 2007. The District's General Fund balance decreased from \$676,710 in fiscal 2006 to \$640,715 in fiscal 2007, a 5.32% decrease.
- The decrease in General Fund revenues was attributable in large part to a decrease in state revenue in fiscal 2007. The District's September 2005 certified enrollment decreased by 34.1 students and a special education surplus from fiscal 2006 affected state revenue sources for fiscal 2007. The decrease in expenditures was due primarily to a reduction in support services instructional staff and other instruction services. As noted above, expenditures exceeded revenues in the General Fund by \$35,995.

### USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Northeast Hamilton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Northeast Hamilton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Northeast Hamilton Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

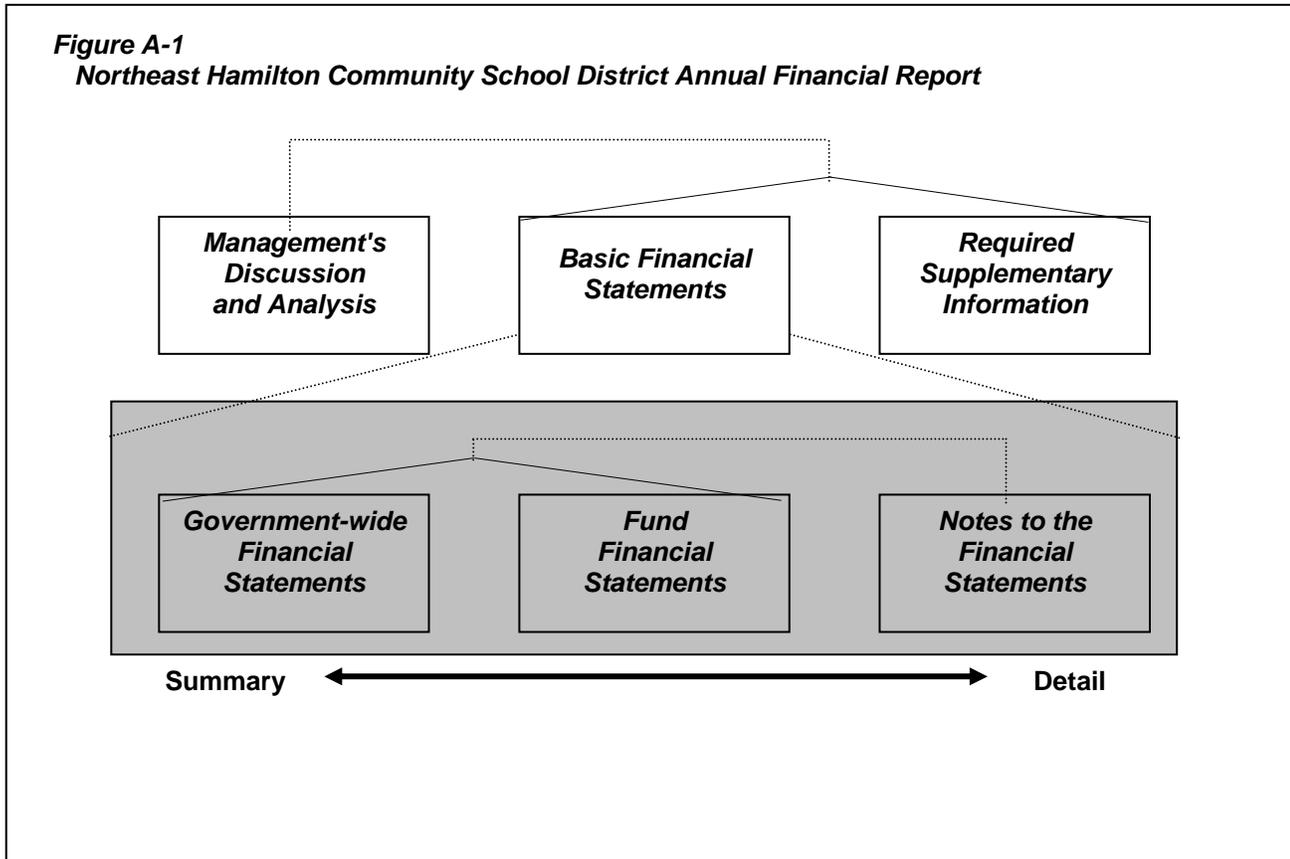


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District would account for outside donations for scholarships for individual students in this fund; there are none currently in the District. The Special Needs Fund is classified as a private purpose trust fund.

- Agency Funds – These are funds through which the 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 District does not have any agency funds at this time.

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

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

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

## Government-Wide Financial Analysis

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

Figure A-3

Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 3,029,211	2,645,423	14,858	2,951	3,044,069	2,648,374	14.94%
Capital assets	956,363	946,725	11,865	13,988	968,228	960,713	0.78%
<b>Total assets</b>	<b>3,985,574</b>	<b>3,592,148</b>	<b>26,723</b>	<b>16,939</b>	<b>4,012,297</b>	<b>3,609,087</b>	<b>11.17%</b>
Long-term liabilities	-	-	-	-	-	-	-
Other Liabilities	1,426,766	1,192,963	10,527	1,514	1,437,293	1,194,477	20.33%
<b>Total liabilities</b>	<b>1,426,766</b>	<b>1,192,963</b>	<b>10,527</b>	<b>1,514</b>	<b>1,437,293</b>	<b>1,194,477</b>	<b>20.33%</b>
Net Assets							
Invested in capital assets, net of related debt	956,363	946,725	11,865	13,988	968,228	960,713	0.78%
Restricted	864,332	677,937	-	-	864,332	677,937	27.49%
Unrestricted	738,113	774,523	4,331	1,437	742,444	775,960	-4.32%
<b>TOTAL NET ASSETS</b>	<b>\$ 2,558,808</b>	<b>2,399,185</b>	<b>16,196</b>	<b>15,425</b>	<b>2,575,004</b>	<b>2,414,610</b>	<b>6.64%</b>

The District's combined net assets increased by nearly 6.64%, or \$160,394, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$186,395 or 27.49% over the prior year. The increase was primarily a result of proceeds from the One-Cent Sales Tax collection, and the dollars that filtered through Hamilton and Wright Counties to the District.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$33,516, or -4.32%. The reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Current and other assets increased \$395,695 or 14.94% in fiscal 2007 due in large part to a change in the business procedure of accruing July and August payrolls for the first time. This change in procedure increased other liabilities by \$242,816 or 20.33% in fiscal 2007.

Figure A-4

**Changes in Net Assets from Operating Results**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>		<u>Percentage Change 2006-2007</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
<b>Revenues</b>							
Program Revenues							
Charges for services	\$ 402,928	\$ 374,760	\$ 81,661	\$ 74,795	\$ 484,589	\$ 449,555	7.79%
Operating Grants & Contributions	339,742	371,127	51,710	40,360	391,452	411,487	-4.87%
Capital Grants & Contributions	-	-	-	-	-	-	
General Revenues							
Property taxes & other taxes	1,159,586	1,141,628	-	-	1,159,586	1,141,628	1.57%
Income Surtax	162,477	233,255	-	-	162,477	233,255	-30.34%
Local Option Sales Tax	176,953	154,480	-	-	176,953	154,480	14.55%
Unrestricted State Grants	741,305	985,088	-	-	741,305	985,088	-24.75%
Unrestricted Investment							
Earnings	61,941	42,640	245	333	62,186	42,973	44.71%
Other Revenue	6,614	6,887	-	-	6,614	6,887	-3.96%
<b>Total Revenues</b>	<b>\$3,051,546</b>	<b>\$3,309,865</b>	<b>\$133,616</b>	<b>\$115,488</b>	<b>\$3,185,162</b>	<b>\$3,425,353</b>	<b>-7.01%</b>
<b>Expenses</b>							
Instruction	1,716,448	1,752,577	-	-	1,716,448	1,752,577	-2.06%
Support Services	1,020,703	1,059,119	-	-	1,020,703	1,059,119	-3.63%
Non-Instructional Programs	827	945	132,845	128,517	133,672	129,462	3.25%
Other Expenses	153,945	140,629	-	-	153,945	140,629	9.47%
<b>Total Expenses</b>	<b>\$2,891,923</b>	<b>\$2,953,270</b>	<b>\$132,845</b>	<b>\$128,517</b>	<b>\$3,024,768</b>	<b>\$3,081,787</b>	<b>-1.85%</b>
Transfers	0	0	0	0	0	0	
<b>Change in Net Assets</b>	<b>\$ 159,623</b>	<b>\$ 356,595</b>	<b>\$ 771</b>	<b>\$(13,029)</b>	<b>\$ 160,394</b>	<b>\$ 343,566</b>	
Net assets beginning of year	\$2,399,185	\$2,042,590	\$ 15,425	\$ 28,454	\$2,414,610	\$2,071,044	
Net assets end of year	<u>\$2,558,808</u>	<u>\$2,399,185</u>	<u>\$ 16,196</u>	<u>\$ 15,425</u>	<u>\$2,575,004</u>	<u>\$2,414,610</u>	6.64%

Property tax and unrestricted state grants accounted for 59.68% of the total revenue in FY07. The District's expenses primarily relate to instruction and support services, which accounted for 90.49% of the total expenses in FY07. Total expenses decreased by 1.85%, as total revenues decreased by 7.01%. Year-end net assets for FY07, when compared to FY06, increased by \$160,394, or 6.64%.

Governmental Activities

Referring to Figure A-4, revenues for the District's FY07 governmental activities, when compared to FY06, decreased \$258,319, or 7.80%. Total governmental expenditures also decreased from FY06 to FY07 by 2.08%, or \$61,347.

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

*Figure A-5*

**Net Cost of Governmental Activities**

	<b>Total Cost of Services 2007</b>	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2007</b>	<b>Net Cost of Services 2006</b>
Instruction	\$ 1,716,448	\$ 1,752,577	\$ 1,072,771	\$ 1,123,313
Support Services	1,020,703	1,059,119	1,020,153	1,058,515
Non-instructional Programs	827	945	827	945
Other Expenses	153,945	140,629	55,502	24,610
<b>TOTAL</b>	<b>\$ 2,891,923</b>	<b>\$ 2,953,270</b>	<b>\$ 2,149,253</b>	<b>\$ 2,207,383</b>

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$2,891,923, compared to \$2,953,270 in FY06.
- Some of the cost was financed by the users of the District's programs (\$402,928).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$339,742).
- Most of the District's costs (\$2,149,253), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,159,586 in property taxes, and \$741,305 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

## **Business Type Activities**

Revenues for business type activities were \$133,616 for FY07, compared to \$115,488 for FY06. Expenses were \$132,845, compared to \$128,517 for FY06. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. During the year ended June 30, 2007 the NEH Board of Directors increased meal prices for the first time in three years to cover the increase in food and labor costs.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental activities funds reported a combined fund balance of \$1,448,537, 10.62% above last year's ending fund balance of \$1,309,503. The primary reason for the increase in combined fund balances in fiscal 2007 is due to Local Option Sales Tax revenue of \$183,659.

### **Governmental Fund Highlights**

- The District's General Fund financial position declined slightly. Growth during the year in local tax revenue (\$21,440) and tuition (\$17,585) did not offset the decrease in state sources resulting in a \$211,608 decrease in revenues in the General Fund. The decrease in revenues was nearly offset by the District's decrease in General fund expenditures of \$27,380, which were largely incurred due to support services instructional staff leaving a total decrease in the General Fund of \$35,995. The Board of Directors prepared for the decrease in state aid by increasing the previous year's General Fund balance by \$128,095.
- The increase in the Local Option Sales Tax account (\$183,659) was due to third year collections from the voter-approved one-cent sales tax in Hamilton and Wright Counties. The money in this account is being saved for future construction options; a decision on facilities renovation or construction is slated for the Fall of 2007.
- The Nonmajor Governmental (Management, Activity, and Physical Plant & Equipment) Funds balance decreased slightly (\$-8,630) in FY07. A District goal is to utilize the yearly revenue in these accounts without having to access the yearly beginning balance; that goal was not achieved in FY07, due to summer contract work finishing before June 30, 2007.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets increased from \$15,425 on June 30, 2006, to \$16,196 by June 30, 2007, representing an increase of 5.00%. The increased cost of food forced the Board to increase breakfast prices by 10 cents apiece and lunch prices by 15 cents apiece in February of 2007; an additional increase is planned for August of 2007.

## BUDGETARY HIGHLIGHTS

The District's receipts were 193,196 less than budgeted receipts. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditure for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2007, the District had invested \$968,228 in a broad range of assets, including school buildings, athletic facilities, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$7,515 or 0.78% from FY06. (More detailed information about capital assets can be found in Note 4 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY07. Capital assets were purchased as revenue became available and included a new bus and mower with a drag brush. Facility improvements invested in included chimney tuck pointing, new classroom carpets, roof/drainage repairs, and a site survey for future construction projects.

*Figure A-6*

*Capital Assets (net of depreciation)*

	Governmental Activities		Business--type Activities		Total School District		Total Percentage Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	42,750	42,750	-	-	42,750	42,750	0.00%
Construction in progress	0	0	-	-	0	0	-
Buildings	665,045	674,201	-	-	665,045	674,201	-1.36%
Equipment & Furniture	<u>248,568</u>	<u>229,774</u>	<u>11,865</u>	<u>13,988</u>	<u>260,433</u>	<u>243,762</u>	6.84%
<b>TOTAL</b>	<b>956,363</b>	<b>946,725</b>	<b>11,865</b>	<b>13,988</b>	<b>968,228</b>	<b>960,713</b>	<b>0.78%</b>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's 2007 total taxable valuation will increase by 16.94% for property tax collected in fiscal 2009. A new wind energy "farm" will go on the tax roles beginning in FY09; even in consideration of incentives and abatements, the District's total taxable valuation is scheduled to increase 8% per year for the next 5 years due to the wind farms.
- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 20.6 students; certified enrollment in 2007 was reduced by another 10.0 students, however, 8 of those students open enrolled back into the District. The District's funding will decrease for fiscal year

2008, but the Board was insightful in preparing for the fiscal 2008 shortfall by making purchasing curriculum materials and supplies in advance, when funding was available. Depending on legislatively determined allowable growth, it is anticipated that regular program district cost will stabilize in FY10.

- Open enrolled “in” students are projected to decline over time. However, in FY08, the number of open enrolled “in” students increased by 5 while the open enrolled “out” students only increased by 2. It is unlikely the District will experience a negative ratio of open enrolled out to open enrolled in students for several years, but it is projected that the gap of “in” to “out” students will narrow.
- In November, 2007, a special election bond issue to build a new preschool through grade 5 elementary addition failed by a very narrow margin (57.82% voted yes). The Board is pursuing another special election for the preschool through grade 5 elementary addition by the fall of 2008.

### **CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Andrew Woiwood, Superintendent, Northeast Hamilton Community School District, 606 Illinois Street, Blairsburg, Iowa 50034.

## BASIC FINANCIAL STATEMENTS

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,674,601	12,217	1,686,818
Receivables:			
Property tax:			
Delinquent	12,591	-	12,591
Succeeding year	1,131,870	-	1,131,870
Accounts	1,015	852	1,867
Due from other governments	209,134	-	209,134
Inventories	-	1,789	1,789
Capital assets, net of accumulated depreciation	956,363	11,865	968,228
<b>Total assets</b>	<b>3,985,574</b>	<b>26,723</b>	<b>4,012,297</b>
<b>Liabilities</b>			
Accounts payable	82,348	-	82,348
Salaries and benefits payable	212,548	9,454	222,002
Deferred revenue:			
Succeeding year property tax	1,131,870	-	1,131,870
Other	-	1,073	1,073
<b>Total liabilities</b>	<b>1,426,766</b>	<b>10,527</b>	<b>1,437,293</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	956,363	11,865	968,228
Restricted for:			
State categorical aid	5,204	-	5,204
Management levy	128,499	-	128,499
Physical plant and equipment levy	204,279	-	204,279
Other special revenue purposes	49,269	-	49,269
Local option sales tax capital projects	477,081	-	477,081
Unrestricted	738,113	4,331	742,444
<b>Total net assets</b>	<b>2,558,808</b>	<b>16,196</b>	<b>2,575,004</b>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

<u>Functions/Programs</u>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,000,193	222,941	200,642	-
Special	283,106	19,462	14,042	-
Other	433,149	159,975	26,615	-
	<u>1,716,448</u>	<u>402,378</u>	<u>241,299</u>	<u>-</u>
Support services:				
Student	90,343	-	-	-
Instructional staff	105,076	-	-	-
Administration	343,135	-	-	-
Operation and maintenance of plant	302,119	-	-	-
Transportation	180,030	550	-	-
	<u>1,020,703</u>	<u>550</u>	<u>-</u>	<u>-</u>
Non-instructional programs	827	-	-	-
Other expenditures:				
Facilities acquisition	27,524	-	-	-
AEA flowthrough	98,443	-	98,443	-
Depreciation (unallocated)*	27,978	-	-	-
	<u>153,945</u>	<u>-</u>	<u>98,443</u>	<u>-</u>
Total governmental activities	2,891,923	402,928	339,742	-
Business type activities:				
Non-instructional programs:				
Food service operations	132,845	81,661	51,710	-
Total	<u>3,024,768</u>	<u>484,589</u>	<u>391,452</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(576,610)	-	(576,610)
(249,602)	-	(249,602)
(246,559)	-	(246,559)
<u>(1,072,771)</u>	<u>-</u>	<u>(1,072,771)</u>
(90,343)	-	(90,343)
(105,076)	-	(105,076)
(343,135)	-	(343,135)
(302,119)	-	(302,119)
(179,480)	-	(179,480)
<u>(1,020,153)</u>	<u>-</u>	<u>(1,020,153)</u>
(827)	-	(827)
(27,524)	-	(27,524)
-	-	-
<u>(27,978)</u>	<u>-</u>	<u>(27,978)</u>
<u>(55,502)</u>	<u>-</u>	<u>(55,502)</u>
(2,149,253)	-	(2,149,253)
<u>-</u>	<u>526</u>	<u>526</u>
<u>(2,149,253)</u>	<u>526</u>	<u>(2,148,727)</u>
1,108,735	-	1,108,735
50,851	-	50,851
162,477	-	162,477
176,953	-	176,953
741,305	-	741,305
61,941	245	62,186
6,614	-	6,614
<u>2,308,876</u>	<u>245</u>	<u>2,309,121</u>
159,623	771	160,394
<u>2,399,185</u>	<u>15,425</u>	<u>2,414,610</u>
<u>2,558,808</u>	<u>16,196</u>	<u>2,575,004</u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	893,525	440,460	340,616	1,674,601
Receivables:				
Property tax:				
Delinquent	11,767	-	824	12,591
Succeeding year	1,014,568	-	117,302	1,131,870
Accounts	208	-	807	1,015
Due from other governments	121,207	36,621	51,306	209,134
<b>Total assets</b>	<b>2,041,275</b>	<b>477,081</b>	<b>510,855</b>	<b>3,029,211</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	70,842	-	11,506	82,348
Salaries and benefits payable	212,548	-	-	212,548
Deferred revenue:				
Succeeding year property tax	1,014,568	-	117,302	1,131,870
Other	102,602	-	51,306	153,908
Total liabilities	1,400,560	-	180,114	1,580,674
Fund balances:				
Reserved for:				
State categorical aid	5,204	-	-	5,204
Unreserved reported in:				
General fund	635,511	-	-	635,511
Special revenue funds	-	-	330,741	330,741
Capital projects funds	-	477,081	-	477,081
Total fund balances	640,715	477,081	330,741	1,448,537
<b>Total liabilities and fund balances</b>	<b>2,041,275</b>	<b>477,081</b>	<b>510,855</b>	<b>3,029,211</b>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,448,537
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	956,363
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>153,908</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,558,808</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,194,174	166,002	127,889	1,488,065
Tuition	229,589	-	-	229,589
Other	55,327	17,657	168,662	241,646
Intermediate sources	5,000	-	-	5,000
State sources	991,242	-	40	991,282
Federal sources	84,765	-	-	84,765
Total revenues	<u>2,560,097</u>	<u>183,659</u>	<u>296,591</u>	<u>3,040,347</u>
Expenditures:				
Current:				
Instruction:				
Regular	979,526	-	13,077	992,603
Special	283,106	-	-	283,106
Other	283,790	-	149,359	433,149
	<u>1,546,422</u>	<u>-</u>	<u>162,436</u>	<u>1,708,858</u>
Support services:				
Student	90,343	-	-	90,343
Instructional staff	103,974	-	1,102	105,076
Administration	334,604	-	4,992	339,596
Operation and maintenance of plant	278,099	-	16,760	294,859
Transportation	144,455	-	68,608	213,063
	<u>951,475</u>	<u>-</u>	<u>91,462</u>	<u>1,042,937</u>
Non-instructional programs	-	-	827	827
Other expenditures:				
Facilities acquisition	-	-	50,496	50,496
AEA flowthrough	98,443	-	-	98,443
	<u>98,443</u>	<u>-</u>	<u>50,496</u>	<u>148,939</u>
Total expenditures	<u>2,596,340</u>	<u>-</u>	<u>305,221</u>	<u>2,901,561</u>
Excess (deficiency) of revenues over (under) expenditures	(36,243)	183,659	(8,630)	138,786
Other financing sources (uses):				
Compensation for loss of fixed assets	248	-	-	248
Net change in fund balances	(35,995)	183,659	(8,630)	139,034
Fund balances beginning of year	676,710	293,422	339,371	1,309,503
Fund balances end of year	<u>640,715</u>	<u>477,081</u>	<u>330,741</u>	<u>1,448,537</u>
See notes to financial statements.				

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		139,034

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

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

Expenditures for capital assets	84,204	
Depreciation expense	<u>(74,566)</u>	9,638

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.

<u>10,951</u>
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**Changes in net assets of governmental activities (Exhibit B)**

<u><u>159,623</u></u>
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## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	12,217
Accounts receivable	852
Inventories	1,789
Capital assets, net of accumulated depreciation	<u>11,865</u>
<b>Total assets</b>	<u>26,723</u>
<b>Liabilities</b>	
Salaries and benefits payable	9,454
Deferred revenue	<u>1,073</u>
<b>Total liabilities</b>	<u>10,527</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	11,865
Unrestricted	<u>4,331</u>
<b>Total net assets</b>	<u><u>16,196</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenues:	
Local sources:	
Charges for service	<u>81,661</u>
Operating expenses:	
Non-instructional programs:	
Salaries	38,692
Benefits	18,259
Purchased services	676
Supplies	73,095
Depreciation	<u>2,123</u>
	<u>132,845</u>
Operating gain (loss)	<u>(51,184)</u>
Non-operating revenues:	
State sources	1,614
Federal sources	50,096
Interest income	245
Total non-operating revenues	<u>51,955</u>
Change in net assets	771
Net assets beginning of year	<u>15,425</u>
Net assets end of year	<u><u>16,196</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2007

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	81,146
Cash payments to employees for services	(47,497)
Cash payments to suppliers for goods or services	<u>(67,006)</u>
Net cash used by operating activities	<u>(33,357)</u>
Cash flows from non-capital financing activities:	
State grants received	1,614
Federal grants received	43,296
Net cash provided by non-capital financing activities	<u>44,910</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>245</u>
Net increase (decrease) in cash and cash equivalents	11,798
Cash and cash equivalents at beginning of year	<u>419</u>
Cash and cash equivalents at end of year	<u><u>12,217</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(51,184)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	7,256
Depreciation	2,123
Decrease (increase) in inventories	(35)
Decrease (increase) in accounts receivable	(530)
(Decrease) increase in accounts payable	(456)
(Decrease) increase in salaries and benefits payable	9,454
(Decrease) increase in deferred revenue	<u>15</u>
Net cash used in operating activities	<u><u>(33,357)</u></u>

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

During the year ended June 30, 2007, the District received \$7,256 of federal commodities.

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2007

	Private Purpose Trust	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	<u>937</u>	<u>9,194</u>
<b>Liabilities</b>		
Accounts payable	-	6
Other payables	<u>-</u>	<u>9,188</u>
Total liabilities	<u>-</u>	<u>9,194</u>
<b>Net Assets</b>		
Reserved for student special needs	<u><u>937</u></u>	<u><u>-</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trust
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	652
Deductions:	
Support services:	
Supplies	<u>241</u>
Change in net assets	411
Net assets beginning of year	<u>526</u>
Net assets end of year	<u><u>937</u></u>

# NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2007

### 1. Summary of Significant Accounting Policies

Northeast Hamilton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Blairsburg, Kamrar and Williams, Iowa and the predominately agricultural territory in a portion of Hamilton and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, Northeast Hamilton 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 Northeast Hamilton Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private-Purpose Trust Fund is used to account for assets held by the District under trust agreements, which require income earned to be used to benefit individuals with special personal needs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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

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

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

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

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets. The District has no long-term debt at June 30, 2007.

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

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

E. Budgeting and Budgetary Control

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

**2. Cash and Pooled Investments**

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

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

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	1,283,809

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

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

### 3. 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
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	42,750	-	-	42,750
Capital assets being depreciated:				
Buildings	1,618,292	18,822	-	1,637,114
Improvements other than buildings	106,774	-	-	106,774
Furniture and equipment	722,167	65,382	37,944	749,605
Total capital assets being deprec.	<u>2,447,233</u>	<u>84,204</u>	<u>37,944</u>	<u>2,493,493</u>
Less accumulated depreciation for:				
Buildings	955,646	27,255	-	982,901
Improvements other than buildings	95,219	723	-	95,942
Furniture and equipment	492,393	46,588	37,944	501,037
Total accumulated depreciation	<u>1,543,258</u>	<u>74,566</u>	<u>37,944</u>	<u>1,579,880</u>
Total capital assets being depreciated, net	<u>903,975</u>	<u>9,638</u>	-	<u>913,613</u>
Governmental activities capital assets, net	<u>946,725</u>	<u>9,638</u>	-	<u>956,363</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	80,181	-	-	80,181
Less accumulated depreciation	<u>66,193</u>	<u>2,123</u>	-	<u>68,316</u>
Business type activities capital assets, net	<u>13,988</u>	<u>2,123</u>	-	<u>11,865</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,590
Support services:	
Administration services	3,539
Operation and maintenance of plant services	7,260
Transportation	28,199
	<u>46,588</u>
Unallocated depreciation	27,978
Total depreciation expense – governmental activities	<u>74,566</u>
Business type activities:	
Food services	<u>2,123</u>

#### 4. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$79,390, \$87,646 and \$84,225 respectively, equal to the required contributions for each year.

#### 5. Risk Management

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

#### 6. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$98,443 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

#### 7. Construction Commitment

The District has entered into a \$20,630 contract for window replacements. Work on the project started after June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,959,300	81,906	2,041,206	2,065,739	2,065,739	(24,533)
Intermediate sources	5,000	-	5,000	-	-	5,000
State sources	991,282	1,614	992,896	1,160,420	1,160,420	(167,524)
Federal sources	84,765	50,096	134,861	141,000	141,000	(6,139)
Total revenues	<u>3,040,347</u>	<u>133,616</u>	<u>3,173,963</u>	<u>3,367,159</u>	<u>3,367,159</u>	<u>(193,196)</u>
Expenditures:						
Instruction	1,708,858	-	1,708,858	2,567,696	2,567,696	858,838
Support services	1,042,937	-	1,042,937	1,502,600	1,502,600	459,663
Non-instructional programs	827	132,845	133,672	203,304	203,304	69,632
Other expenditures	148,939	-	148,939	347,767	347,767	198,828
Total expenditures	<u>2,901,561</u>	<u>132,845</u>	<u>3,034,406</u>	<u>4,621,367</u>	<u>4,621,367</u>	<u>1,586,961</u>
Excess (deficiency) of revenues over (under) expenditures	138,786	771	139,557	(1,254,208)	(1,254,208)	1,393,765
Other financing sources (uses) net	<u>248</u>	<u>-</u>	<u>248</u>	<u>5,000</u>	<u>5,000</u>	<u>(4,752)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	139,034	771	139,805	(1,249,208)	(1,249,208)	1,389,013
Balance beginning of year	<u>1,309,503</u>	<u>15,425</u>	<u>1,324,928</u>	<u>1,340,546</u>	<u>1,340,546</u>	<u>(15,618)</u>
Balance end of year	<u><u>1,448,537</u></u>	<u><u>16,196</u></u>	<u><u>1,464,733</u></u>	<u><u>91,338</u></u>	<u><u>91,338</u></u>	<u><u>1,373,395</u></u>

NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

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

OTHER SUPPLEMENTARY INFORMATION

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity Fund	Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	128,227	51,987	160,402	340,616
Receivables:				
Property tax:				
Delinquent	272	-	552	824
Succeeding year	50,000	-	67,302	117,302
Accounts	-	807	-	807
Due from other governments	-	-	51,306	51,306
<b>Total assets</b>	<b>178,499</b>	<b>52,794</b>	<b>279,562</b>	<b>510,855</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	-	3,525	7,981	11,506
Deferred revenue:				
Succeeding year property tax	50,000	-	67,302	117,302
Other	-	-	51,306	51,306
Total liabilities	50,000	3,525	126,589	180,114
Fund balances:				
Unreserved reported in:				
Special revenue funds	128,499	49,269	152,973	330,741
<b>Total liabilities and fund balances</b>	<b>178,499</b>	<b>52,794</b>	<b>279,562</b>	<b>510,855</b>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity Fund	Plant and Equipment Levy	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	25,007	-	102,882	127,889
Other	6,214	160,225	2,223	168,662
State sources	13	-	27	40
Total revenues	<u>31,234</u>	<u>160,225</u>	<u>105,132</u>	<u>296,591</u>
Expenditures:				
Current:				
Instruction:				
Regular	9,018	-	4,059	13,077
Other	-	149,359	-	149,359
Support services:				
Instructional staff	1,102	-	-	1,102
Administration	4,992	-	-	4,992
Operation and maintenance of plant	16,760	-	-	16,760
Transportation	7,376	-	61,232	68,608
Non-instructional programs	827	-	-	827
Other expenditures:				
Facilities acquisition	-	-	50,496	50,496
Total expenditures	<u>40,075</u>	<u>149,359</u>	<u>115,787</u>	<u>305,221</u>
Net change in fund balances	(8,841)	10,866	(10,655)	(8,630)
Fund balances beginning of year	<u>137,340</u>	<u>38,403</u>	<u>163,628</u>	<u>339,371</u>
Fund balances end of year	<u><u>128,499</u></u>	<u><u>49,269</u></u>	<u><u>152,973</u></u>	<u><u>330,741</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Student council	1,112	6,167	5,957	1,322
Student commons	904	14,035	13,394	1,545
Fall play (drama)	1,082	848	651	1,279
Swing choir	10	8,568	7,171	1,407
Band	3,065	6,591	5,229	4,427
Instrument rent & ins.	1,046	-	625	421
Yearbook	3,863	9,755	6,880	6,738
Future farmers of america	5,361	14,881	14,153	6,089
Family and consumer science club	1,384	1,409	1,304	1,489
Fall cheerleaders	802	1,677	1,908	571
Drill team	461	-	-	461
Spanish club	1,260	4,405	5,628	37
Class of 2004	249	-	-	249
Class of 2007	554	280	816	18
Class of 2008	2,467	4,126	5,864	729
Class of 2009	880	1,247	1,153	974
Class of 2010	-	1,710	1,195	515
After prom party	762	2,745	2,641	866
Athletics	1,850	53,698	46,707	8,841
District football	-	700	481	219
Football donations	1,898	12,552	11,981	2,469
Boys basketball donations	1,960	3,096	4,003	1,053
Baseball donations	46	2,006	664	1,388
Boys track donations	293	1,490	1,170	613
Golf donations	193	996	1,157	32
Softball donations	14	895	37	872
Girls basketball donations	1,512	2,449	2,068	1,893
Volleyball donation	346	2,335	2,063	618
Girls track donations	-	319	269	50
Interest on investment	4,129	685	1,035	3,779
Earth day	688	-	-	688
Fifth grade Iowa trip	335	-	-	335
June 30, 2007 accruals	-	807	3,525	(2,718)
June 30, 2006 accruals	(123)	(247)	(370)	-
<b>Total</b>	<b>38,403</b>	<b>160,225</b>	<b>149,359</b>	<b>49,269</b>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2007

	<u>Spirit Club</u> \$
Balance beginning of year	3,035
Additions:	
Collections	26,776
Deductions:	
Miscellaneous	<u>20,617</u>
Balance end of year	<u><u>9,194</u></u>

## NORTHEAST HAMILTON COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,488,065	1,516,005	1,404,323	1,392,025
Tuition	229,589	212,004	233,379	97,437
Other	241,646	211,572	162,270	126,656
Intermediate sources	5,000	-	-	-
State sources	991,282	1,252,296	1,139,668	908,056
Federal sources	84,765	103,919	89,840	85,950
Total revenues	<u>3,040,347</u>	<u>3,295,796</u>	<u>3,029,480</u>	<u>2,610,124</u>
Expenditures:				
Instruction:				
Regular	992,603	1,033,066	1,021,015	960,410
Special	283,106	292,186	367,483	353,349
Other	433,149	459,902	347,561	279,106
Support services:				
Student	90,343	89,321	84,538	75,941
Instructional staff	105,076	176,173	86,869	79,631
Administration	339,596	332,257	325,582	280,503
Operation and maintenance of plant	294,859	305,449	253,704	266,533
Transportation	213,063	147,350	203,364	154,817
Non-instructional programs	827	945	10,341	1,492
Other expenditures:				
Facilities acquisition	50,496	67,983	108,615	79,763
AEA flowthrough	98,443	97,959	90,245	90,554
Total expenditures	<u>2,901,561</u>	<u>3,002,591</u>	<u>2,899,317</u>	<u>2,622,099</u>

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

To the Board of Education of  
Northeast Hamilton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Northeast Hamilton 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 March 14, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Northeast Hamilton 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 Northeast Hamilton Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northeast Hamilton Community School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Northeast Hamilton Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Northeast Hamilton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Northeast Hamilton Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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

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

#### Compliance and Other Matters

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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Northeast Hamilton Community School District and other parties to whom Northeast Hamilton Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

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

March 14, 2008

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

NORHTEAST HAMILTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

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