

NORTH KOSSUTH 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  
North Kossuth 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 North Kossuth Community School District, Swea 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 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 North Kossuth 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 February 19, 2008, on our consideration of North Kossuth 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 38 through 39 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 North Kossuth 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

February 19, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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North Kossuth 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 \$3,511,051 in fiscal 2006 to \$3,334,874 in fiscal 2007, while General Fund expenditures increased from \$3,541,228 in fiscal 2006 to \$3,541,364 in fiscal 2007. The District's General Fund balance decreased from \$877,314 in fiscal 2006 to \$640,030 in fiscal 2007, a 28% decrease.
- The decrease in General Fund revenues was attributable to a decrease in local tax and federal sources in 2007. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2007. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

### USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Kossuth Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Kossuth 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 funds.

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

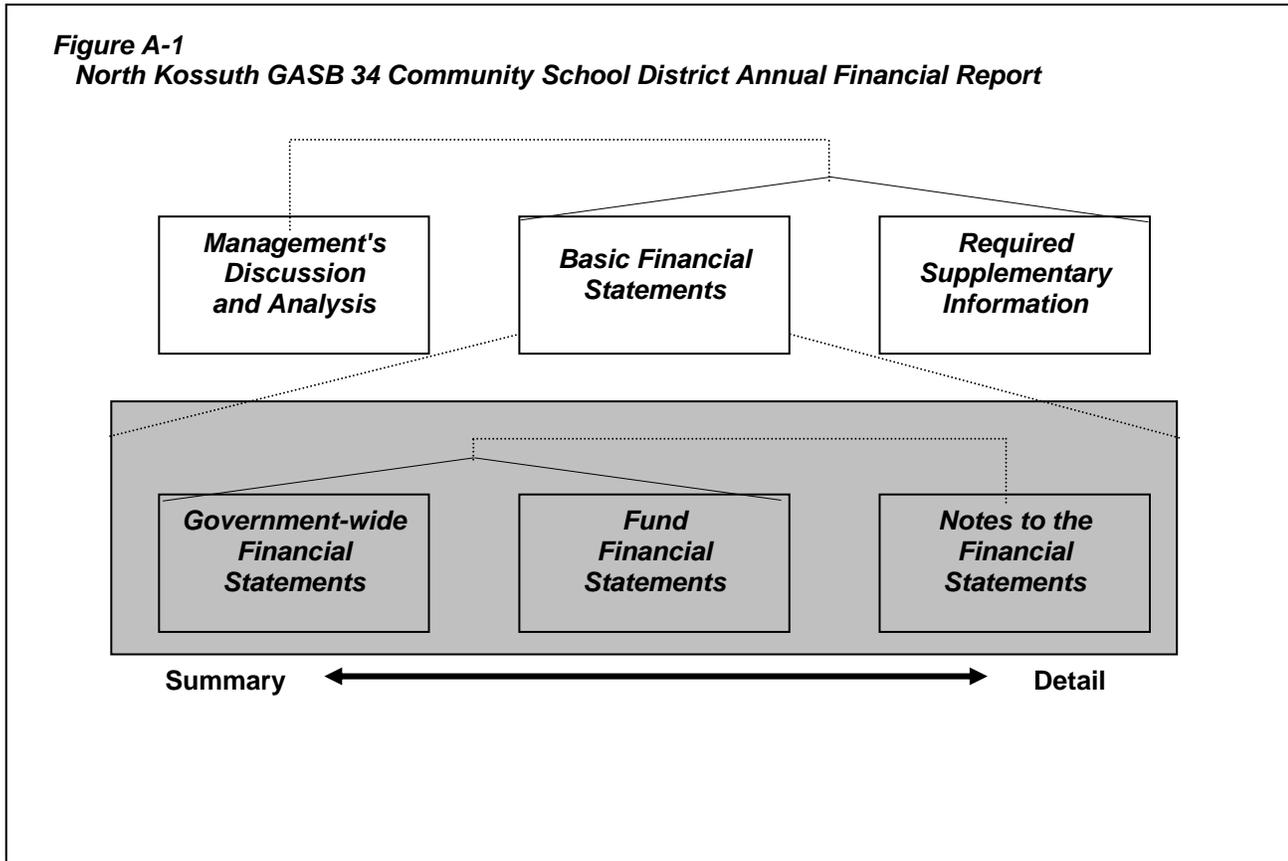


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<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 District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has two internal service funds; one used to account for the District's employee flexible benefit plan and one used to reimburse employees for a portion of their health insurance deductible.

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 accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds – These are funds through the District accounts for monies held on behalf of other organizations.

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						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,911,837	3,240,935	-13,001	-20,116	2,898,836	3,220,819	-10%
Capital assets	3,083,310	2,994,430	75,193	84,509	3,158,503	3,078,939	3%
<b>Total assets</b>	<b>5,995,147</b>	<b>6,235,365</b>	<b>62,192</b>	<b>64,393</b>	<b>6,057,339</b>	<b>6,299,758</b>	<b>-4%</b>
Long-term liabilities	732,878	856,713	-	-	732,878	856,713	-14%
Other liabilities	1,664,926	1,831,103	752	779	1,665,678	1,831,882	-9%
<b>Total liabilities</b>	<b>2,397,804</b>	<b>2,687,816</b>	<b>752</b>	<b>779</b>	<b>2,398,556</b>	<b>2,688,595</b>	<b>-11%</b>
Net Assets:							
Invested in capital assets, net of related debt	2,473,310	2,274,430	75,193	84,509	2,548,503	2,358,939	8%
Restricted	368,824	362,035	-	-	368,824	362,035	2%
Unrestricted	755,209	911,084	-13,753	-20,895	741,456	890,189	-17%
<b>TOTAL NET ASSETS</b>	<b>3,597,343</b>	<b>3,547,549</b>	<b>61,440</b>	<b>63,614</b>	<b>3,658,783</b>	<b>3,611,163</b>	<b>1%</b>

The District’s combined net assets increased by nearly 1%, or approximately \$47,620, over the prior year. The largest portion of the District’s net assets is the invested in capital assets, net of 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 increased approximately \$6,789 or 2% over the prior year. The increase was primarily a result of state categorical aid.

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 \$148,733, or 17%. This decrease can be attributed to increased day-to-day expenses.

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

Figure A-4

	Change in Net Assets						Percentage Change 2006-2007
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	372,980	343,711	42,766	41,665	415,746	385,376	8%
Operating grants & contributions	503,137	574,549	25,757	25,851	528,894	600,400	-12%
General Revenues:							
Property taxes	1,812,006	1,921,957			1,812,006	1,921,957	-6%
Income Surtax	212,976	216,192			212,976	216,192	-1%
Local option sales tax	214,697	214,646			214,697	214,646	0%
Unrestricted state grants	935,187	895,627			935,187	895,627	4%
Unrestricted investment earnings	25,559	15,346	59	54	25,618	15,400	66%
Other revenue	16,354				16,354		
<b>Total Revenues</b>	<b>4,092,896</b>	<b>4,182,028</b>	<b>68,582</b>	<b>67,570</b>	<b>4,161,478</b>	<b>4,249,598</b>	<b>-2%</b>
Expenses:							
Instruction	2,574,530	2,531,090			2,574,530	2,531,090	2%
Support services	1,203,781	1,215,487			1,203,781	1,215,487	-1%
Non-instructional programs			101,550	102,041	101,550	102,041	-0.50%
Other expenditures	233,997	231,977			233,997	231,977	0.50%
<b>Total expenses</b>	<b>4,012,308</b>	<b>3,978,554</b>	<b>101,550</b>	<b>102,041</b>	<b>4,113,858</b>	<b>4,080,595</b>	<b>1%</b>
<b>Change in net assets before transfers</b>	<b>80,588</b>	<b>203,474</b>	<b>-32,968</b>	<b>-34,471</b>	<b>47,620</b>	<b>169,003</b>	<b>-72%</b>
Transfers	-30,794		30,794		0		
<b>CHANGE IN NET ASSETS</b>	<b>49,794</b>	<b>203,474</b>	<b>-2,174</b>	<b>-34,471</b>	<b>47,620</b>	<b>169,003</b>	<b>-72%</b>
Net assets beginning of year	3,547,549	3,344,075	63,614	98,085	3,611,163	3,442,160	5%
<b>Net assets end of year</b>	<b>3,597,343</b>	<b>3,547,549</b>	<b>61,440</b>	<b>63,614</b>	<b>3,658,783</b>	<b>3,611,163</b>	<b>-1%</b>

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 94% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$4,902,896 and expenses were \$4,012,308. Decrease in revenue was mainly due to a decrease in property and income surtax. Expenses increased .5% due to increased salary and other expenses.

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

	Total Cost of Services			Net Cost of Services		
	2007 \$	2006 \$	Change 2006-2007	2007 \$	2006 \$	Change 2006-2007
Instruction	2,574,530	2,531,090	2%	1,868,459	1,787,160	5%
Support Services	1,203,781	1,215,487	-1%	1,166,249	1,169,239	0%
Other Expenses	233,997	231,977	1%	101,483	103,895	-2%
<b>TOTAL</b>	<b>4,012,308</b>	<b>3,978,554</b>	<b>1%</b>	<b>3,136,191</b>	<b>3,060,294</b>	<b>2%</b>

- The cost financed by users of the District's programs was \$372,980. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$503,137.
- The net cost of governmental activities was financed with \$2,239,679 in property and local other taxes and \$935,187 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$68,582 and expenses were \$101,550. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District slightly increased revenue and decreased expenses, but not enough to offset cost of running program. Steps are being taken to drastically reduce costs and increase student participation in both lunch and breakfast programs.

## INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$916,484, below last year's ending fund balances of \$1,119,884, a decrease of \$203,400. Most of this decrease is attributable to the General Fund.

## **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. The General Fund balance decreased from \$877,314 to \$640,030, a \$237,011 decrease. The decrease of local and federal source revenue funds combined with a \$30,794 permanent transfer to Nutrition Fund and the District's increase in General Fund expenditures required the District to use carryover fund balance to meet its financial obligations during the year.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$54,357 in 2006 to \$64,271 in 2007 due to increased tax revenue. We plan to use the carryover balance for a transportation vehicles and building repairs.
- The Management fund is used to pay for the district's property and liability insurance and for early retirement benefits. The fund ended the year with a fund balance of \$20,054 to continue to meet financial obligations during the year.
- The capitol projects fund increased from \$139,571 in fiscal 2006 to \$144,917 at June 30, 2007. The monies in the Capital Project Fund will be used for future capital improvements and equipment purchases.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$63,614 at June 30, 2006 to \$61,440 at June 30, 2007, representing a decrease of approximately 3%. The School Nutrition program continued to operate at a loss, however, a permanent transfer from the general fund diminished the loss to only 3%.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$554,614 less than budgeted receipts, a variance of 11%. The most significant variance resulted from the District receiving less in federal aid and local 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 manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs and support services functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2007, the District had invested \$3,158,503, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 3% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$155,022.

The original cost of the District's capital assets was \$5,788,812. Governmental funds account for \$5,651,568, with the remainder of \$137,244 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred improvements made to existing structures and furniture and equipment. A new gym floor was installed in the existing gymnasium for a total of \$60,325, outdoor lighting was improved and exterior doors were installed. The District also purchased approximately \$84,000 of computers and a \$64,000 bus.

Figure A-6

**Capital Assets (net of depreciation)**

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2006-2007
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	30,725	30,725			30,725	30,725	0%
Buildings	2,462,375	2,465,839			2,462,375	2,465,839	0%
Improvements Equipment & Furniture	4,737	2,217			4,737	2,217	113%
	585,473	495,649	75,193	84,509	660,666	580,158	14%
<b>TOTAL</b>	<b>3,083,310</b>	<b>2,994,430</b>	<b>75,193</b>	<b>84,509</b>	<b>3,158,503</b>	<b>3,078,939</b>	<b>3%</b>

**Long-Term Debt**

At June 30, 2007, the District had \$732,878 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 14% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

**Figure A-7  
Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2006-2007
	2007	2006	
	\$	\$	
Capital Loan Note	610,000	720,000	-15%
Termination Benefits	106,783	131,303	-19%
Compensated Absences	16,095	5,410	197%
<b>Total</b>	<b>732,878</b>	<b>856,713</b>	<b>-14%</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:

- School financing is highly dependent upon student enrollment. The District's October 2007 enrollment continued to decline. This drop in enrollment will decrease the District's funding for fiscal year 2009.
- Negotiations for the Master Contract with the North Kossuth Education Association will require an increase in salary and benefits costs. No employees are considering retirement at this time, however with whole grade sharing discussion starting, a reduction of employees may affect future costs.
- The district continued to partially self-fund employee health insurance. This money will likely remain in the PSF account to allow the district to consider increasing the portion that is self-funded, further reducing the amount that is paid to the insurance provider.

## **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 Kay Hardt, District Secretary/Treasurer and Business Manager, North Kossuth Community School District, 203 5<sup>th</sup> Street North, Swea City, IA, 50590.

## BASIC FINANCIAL STATEMENTS

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	917,465	6,427	923,892
Receivables:			
Property tax:			
Delinquent	39,285	-	39,285
Succeeding year	1,627,978	-	1,627,978
Accounts	5,394	-	5,394
Interfund receivables	23,906	(23,906)	-
Due from other governments	297,809	-	297,809
Inventories	-	4,478	4,478
Capital assets, net of accumulated depreciation	3,083,310	75,193	3,158,503
<b>Total assets</b>	<b>5,995,147</b>	<b>62,192</b>	<b>6,057,339</b>
<b>Liabilities</b>			
Accounts payable	29,147	-	29,147
Salaries and benefits payable	1,614	-	1,614
Accrued interest payable	2,405	-	2,405
Deferred revenue:			
Succeeding year property tax	1,627,978	-	1,627,978
Other	3,782	752	4,534
Long-term liabilities:			
Portion due within one year:			
Capital loan notes payable	115,000	-	115,000
Termination benefits	24,222	-	24,222
Compensated absences	10,685	-	10,685
Portion due after one year:			
Capital loan notes payable	495,000	-	495,000
Termination benefits	82,561	-	82,561
Compensated absences	5,410	-	5,410
<b>Total liabilities</b>	<b>2,397,804</b>	<b>752</b>	<b>2,398,556</b>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,473,310	75,193	2,548,503
Restricted for:			
State categorical aid	26,410	-	26,410
Physical plant and equipment levy	150,285	-	150,285
Other special revenue purposes	47,212	-	47,212
Local option sales tax capital projects	144,917	-	144,917
Unrestricted	755,209	(13,753)	741,456
<b>Total net assets</b>	<u>3,597,343</u>	<u>61,440</u>	<u>3,658,783</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,474,742	122,575	193,810	-
Special	577,662	33,822	49,573	-
Other	522,126	210,853	95,438	-
	<u>2,574,530</u>	<u>367,250</u>	<u>338,821</u>	<u>-</u>
Support services:				
Student	51,818	-	-	-
Instructional staff	73,418	-	-	-
Administration	436,216	-	-	-
Operation and maintenance of plant	357,541	-	-	-
Transportation	284,788	5,730	31,802	-
	<u>1,203,781</u>	<u>5,730</u>	<u>31,802</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	10,269	-	-	-
Long-term debt interest	22,237	-	-	-
AEA flowthrough	132,514	-	132,514	-
Depreciation (unallocated)*	68,977	-	-	-
	<u>233,997</u>	<u>-</u>	<u>132,514</u>	<u>-</u>
Total governmental activities	4,012,308	372,980	503,137	-
Business type activities:				
Non-instructional programs:				
Food service operations	101,550	42,766	25,757	-
Total	<u>4,113,858</u>	<u>415,746</u>	<u>528,894</u>	<u>-</u>

**General Revenues:**

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

Transfers

    Total general revenues and transfers

**Change in net assets**

Net assets beginning of year	
Net assets end of year	

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,158,357)	-	(1,158,357)
(494,267)	-	(494,267)
(215,835)	-	(215,835)
<u>(1,868,459)</u>	<u>-</u>	<u>(1,868,459)</u>
(51,818)	-	(51,818)
(73,418)	-	(73,418)
(436,216)	-	(436,216)
(357,541)	-	(357,541)
(247,256)	-	(247,256)
<u>(1,166,249)</u>	<u>-</u>	<u>(1,166,249)</u>
(10,269)	-	(10,269)
(22,237)	-	(22,237)
-	-	-
(68,977)	-	(68,977)
<u>(101,483)</u>	<u>-</u>	<u>(101,483)</u>
(3,136,191)	-	(3,136,191)
-	(33,027)	(33,027)
<u>(3,136,191)</u>	<u>(33,027)</u>	<u>(3,169,218)</u>
1,628,318	-	1,628,318
183,688	-	183,688
212,976	-	212,976
214,697	-	214,697
935,187	-	935,187
25,559	59	25,618
16,354	-	16,354
3,216,779	59	3,216,838
(30,794)	30,794	-
<u>3,185,985</u>	<u>30,853</u>	<u>3,216,838</u>
49,794	(2,174)	47,620
<u>3,547,549</u>	<u>63,614</u>	<u>3,611,163</u>
<u>3,597,343</u>	<u>61,440</u>	<u>3,658,783</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2007

	General Fund	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	446,329	68,332	100,633	151,746	767,040
Receivables:					
Property tax:					
Delinquent	32,921	3,943	2,421	-	39,285
Succeeding year	1,296,667	191,311	140,000	-	1,627,978
Accounts	4,156	-	-	1,238	5,394
Interfund receivable	106,906	-	-	-	106,906
Due from other governments	170,198	86,014	-	41,597	297,809
<b>Total assets</b>	<b>2,057,177</b>	<b>349,600</b>	<b>243,054</b>	<b>194,581</b>	<b>2,844,412</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	7,567	8,004	-	2,452	18,023
Salaries and benefits payable	1,614	-	-	-	1,614
Interfund payable	-	-	83,000	-	83,000
Deferred revenue:					
Succeeding year property tax	1,296,667	191,311	140,000	-	1,627,978
Other	111,299	86,014	-	-	197,313
Total liabilities	<u>1,417,147</u>	<u>285,329</u>	<u>223,000</u>	<u>2,452</u>	<u>1,927,928</u>
Fund balances:					
Reserved for:					
State categorical aid	26,410	-	-	-	26,410
Unreserved reported in:					
General fund	613,620	-	-	-	613,620
Special revenue funds	-	64,271	20,054	47,212	131,537
Capital projects funds	-	-	-	144,917	144,917
Total fund balances	<u>640,030</u>	<u>64,271</u>	<u>20,054</u>	<u>192,129</u>	<u>916,484</u>
<b>Total liabilities and fund balances</b>	<b>2,057,177</b>	<b>349,600</b>	<b>243,054</b>	<b>194,581</b>	<b>2,844,412</b>

NORTH KOSSUTH 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>	916,484
 <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.	3,083,310
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	193,531
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,405)
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	139,301
Long-term liabilities, including notes payable, termination benefits and compensated absences, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(732,878)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,597,343</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,631,564	275,493	111,531	214,697	2,233,285
Tuition	224,855	-	-	-	224,855
Other	40,131	801	6,317	142,789	190,038
State sources	1,269,405	-	-	-	1,269,405
Federal sources	168,919	-	-	-	168,919
Total revenues	<u>3,334,874</u>	<u>276,294</u>	<u>117,848</u>	<u>357,486</u>	<u>4,086,502</u>
Expenditures:					
Current:					
Instruction:					
Regular	1,454,889	-	23,575	10,572	1,489,036
Special	577,662	-	-	-	577,662
Other	379,835	-	-	141,617	521,452
	<u>2,412,386</u>	<u>-</u>	<u>23,575</u>	<u>152,189</u>	<u>2,588,150</u>
Support services:					
Student	52,491	-	-	-	52,491
Instructional staff	53,561	-	-	94,544	148,105
Administration	401,924	-	25,993	-	427,917
Operation and maintenance of plant	245,257	72,000	24,766	19,096	361,119
Transportation	243,231	60,662	8,034	9,323	321,250
	<u>996,464</u>	<u>132,662</u>	<u>58,793</u>	<u>122,963</u>	<u>1,310,882</u>
Other expenditures:					
Facilities acquisition	-	-	-	93,844	93,844
Long-term debt:					
Principal	-	-	-	110,000	110,000
Interest and fiscal charges	-	-	-	23,718	23,718
AEA flowthrough	132,514	-	-	-	132,514
	<u>132,514</u>	<u>-</u>	<u>-</u>	<u>227,562</u>	<u>360,076</u>
Total expenditures	<u>3,541,364</u>	<u>132,662</u>	<u>82,368</u>	<u>502,714</u>	<u>4,259,108</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(206,490)</u>	<u>143,632</u>	<u>35,480</u>	<u>(145,228)</u>	<u>(172,606)</u>
Other financing sources (uses):					
Operating transfers in	-	-	-	133,718	133,718
Operating transfers out	(30,794)	(133,718)	-	-	(164,512)
Total other financing sources (uses)	<u>(30,794)</u>	<u>(133,718)</u>	<u>-</u>	<u>133,718</u>	<u>(30,794)</u>
Net change in fund balances	(237,284)	9,914	35,480	(11,510)	(203,400)
Fund balances beginning of year	<u>877,314</u>	<u>54,357</u>	<u>(15,426)</u>	<u>203,639</u>	<u>1,119,884</u>
Fund balances end of year	<u>640,030</u>	<u>64,271</u>	<u>20,054</u>	<u>192,129</u>	<u>916,484</u>

## NORTH KOSSUTH 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>		(203,400)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:		
Expenditures for capital assets	243,902	
Depreciation expense	<u>(155,022)</u>	88,880
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.		6,394
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		110,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		1,481
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	24,520	
Compensated absences	<u>(10,685)</u>	13,835
An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>32,604</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>49,794</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2007

	Enterprise Fund Nonmajor School Nutrition	Governmental Activities - Internal Service Fund
	\$	\$
<b>Assets</b>		
Cash and cash equivalents	6,427	150,425
Inventories	4,478	-
Capital assets, net of accumulated depreciation	<u>75,193</u>	<u>-</u>
<b>Total assets</b>	<u>86,098</u>	<u>150,425</u>
<b>Liabilities</b>		
Accounts payable	-	11,124
Interfund payable	23,906	-
Deferred revenue	<u>752</u>	<u>-</u>
<b>Total liabilities</b>	<u>24,658</u>	<u>11,124</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	75,193	-
Unrestricted	<u>(13,753)</u>	<u>139,301</u>
<b>Total net assets</b>	<u><u>61,440</u></u>	<u><u>139,301</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	42,766	72,199
Operating expenses:		
Non-instructional programs:		
Salaries	38,180	-
Benefits	20,608	41,181
Supplies	33,446	-
Depreciation	8,651	-
Other	665	-
	<u>101,550</u>	<u>41,181</u>
Operating gain (loss)	<u>(58,784)</u>	<u>31,018</u>
Non-operating revenues:		
State sources	895	-
Federal sources	24,862	-
Interest income	59	1,586
Total non-operating revenues	<u>25,816</u>	<u>1,586</u>
Gain (loss) before transfers	(32,968)	32,604
Transfers in	<u>30,794</u>	<u>-</u>
Change in net assets	(2,174)	32,604
Net assets beginning of year	<u>63,614</u>	<u>106,697</u>
Net assets end of year	<u><u>61,440</u></u>	<u><u>139,301</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2007

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
<b>Cash flows from operating activities:</b>		
Cash received from sale of lunches and breakfasts	42,739	-
Cash from services provided to other funds	-	72,199
Cash payments to employees for services	(58,788)	(34,586)
Cash payments to suppliers for goods or services	(29,008)	-
Net cash provided by (used by) provided by operating activities	<u>(45,057)</u>	<u>37,613</u>
<b>Cash flows from non-capital financing activities:</b>		
Transfers from General Fund	30,794	-
Loan repayment to General Fund	(6,888)	-
State grants received	895	-
Federal grants received	20,174	-
Net cash provided by non-capital financing activities	<u>44,975</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
<b>Cash flows from investing activities:</b>		
Interest on investments	<u>59</u>	<u>1,586</u>
Net increase (decrease) in cash and cash equivalents	(23)	39,199
Cash and cash equivalents at beginning of year	<u>6,450</u>	<u>111,226</u>
Cash and cash equivalents at end of year	<u><u>6,427</u></u>	<u><u>150,425</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(58,784)	31,018
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	4,688	-
Depreciation	8,654	-
Loss on disposal of capital assets	662	-
Decrease (increase) in inventories	(250)	-
(Decrease) increase in accounts payable	-	6,595
(Decrease) increase in deferred revenue	(27)	-
Net cash used in operating activities	<u><u>(45,057)</u></u>	<u><u>37,613</u></u>

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

During the year ended June 30, 2007, the District received \$4,688 of federal commodities.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2007

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	6,670	11,998
<b>Liabilities</b>		
Other payables	<u>-</u>	<u>11,998</u>
<b>Net Assets</b>		
Reserved for scholarships	<u><u>6,670</u></u>	<u><u>-</u></u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trust <u>Scholarship</u> \$
Additions:	
Local sources:	
Gifts and contributions	3,000
Deductions:	
Support services:	
Scholarships awarded	<u>8,000</u>
Change in net assets	(5,000)
Net assets beginning of year	<u>11,670</u>
Net assets end of year	<u><u>6,670</u></u>

# NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2007

### 1. Summary of Significant Accounting Policies

North Kossuth 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 Bancroft, Ledyard and Swea City, Iowa and the predominately agricultural territory in a portion of Kossuth County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

#### A. Reporting Entity

For financial reporting purposes, North Kossuth 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 North Kossuth 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 Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

The Management Fund is a special revenue fund that is used to account for the revenues from and expenditures of the management property tax levy.

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

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's health insurance deductible reimbursement plan.

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 through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for other organizations. 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 of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax 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 sick leave hours for subsequent use or for payment upon retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have 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 Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

## 2. **Cash and Pooled Investments**

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

### 3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor School Nutrition Fund	23,906
General Fund	Management Fund	83,000

The loans from the General Fund to the School Nutrition and Management Funds were made to assist with cash flow.

### 4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Funds: Debt Service Fund	Physical Plant and Equipment Levy Fund	133,718
Nonmajor School Nutrition Fund	General Fund	30,794

The transfer from the PPEL Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from the General Fund to the School Nutrition Fund was made to subsidize the food service program.

### 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	30,725	-	-	30,725
Capital assets being depreciated:				
Buildings	3,185,690	65,250	-	3,250,940
Improvements other than buildings	42,105	2,783	-	44,888
Furniture and equipment	2,205,247	175,869	56,101	2,325,015
Total capital assets being deprec.	5,433,042	243,902	56,101	5,620,843
Less accumulated depreciation for:				
Buildings	719,851	68,714	-	788,565
Improvements other than buildings	39,888	263	-	40,151
Furniture and equipment	1,709,598	86,045	56,101	1,739,542
Total accumulated depreciation	2,469,337	155,022	56,101	2,568,258

Total capital assets being depreciated, net	<u>2,963,705</u>	<u>88,880</u>	<u>-</u>	<u>3,052,585</u>
Governmental activities capital assets, net	<u>2,994,430</u>	<u>88,880</u>	<u>-</u>	<u>3,083,310</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Business type activities:</b>				
Furniture and equipment	149,885	-	12,641	137,244
Less accumulated depreciation	<u>65,376</u>	<u>8,651</u>	<u>11,976</u>	<u>62,051</u>
Business type activities capital assets, net	<u>84,509</u>	<u>(8,651)</u>	<u>665</u>	<u>75,193</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	23,295
Other	674
Support services:	
Instructional support	9,465
Administration services	12,500
Operation and maintenance of plant services	885
Transportation	<u>39,226</u>
	86,045
Unallocated depreciation	<u>68,977</u>
Total depreciation expense – governmental activities	<u>155,022</u>
Business type activities:	
Food services	<u>8,651</u>

## 6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Capital loan notes	720,000	-	110,000	610,000	115,000
Termination benefits	131,303	-	24,520	106,783	24,222
Compensated absences	5,410	21,370	10,685	16,095	10,685
Total	<u>856,713</u>	<u>21,370</u>	<u>145,205</u>	<u>732,878</u>	<u>149,907</u>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during the year ended June 30, 2007. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of the District paying \$322 per month for up to eight years for the retiree's health insurance premiums.

At June 30, 2007, the District has obligations to five participants with a total liability of \$106,783. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$24,520.

### Capital Loan Notes

The District issued \$1,035,000 of capital loan notes during the year ended June 30, 2003. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2008	3.000	115,000	20,430	135,430
2009	3.250	120,000	16,980	136,980
2010	3.50	120,000	13,080	133,080
2011	3.50	125,000	9,120	134,120
2012	3.65	130,000	4,746	134,746
		<u>610,000</u>	<u>64,356</u>	<u>674,356</u>

During the year ended June 30, 2007 the District made principal and interest payments totaling \$133,318 under the note agreement.

## **7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$107,034, \$105,180 and \$103,587 respectively, equal to the required contributions for each year.

## **8. Risk Management**

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

## 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$132,514 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

## 10. Lease Commitment

The District entered into a ten-year contract to lease a school building in fiscal year 2002. The payments the District will make over the next five years are as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
	\$
2008	63,996
2009	63,996
2010	63,996
2011	63,996
2012	63,996

The lease also contains a provision that the District may be required to pay additional rent if the District's share of utilities exceeds \$1,500 per month. In no event should the required rent payment by the District exceed \$72,000 per year.

The lease may be terminated if the District's student count drops below 325 students. If the District terminates the lease under this provision, the District shall continue to pay \$3,833 per month through year seven of the lease and \$3,000 per month through year ten of the lease.

The District has also leased a bus and copy machines under operating leases. The remaining payments required under the leases are as follows:

<u>Year Ended June 30,</u>	<u>Bus Lease Payments</u>	<u>Copier Lease Payments</u>
	\$	\$
2008	9,323	7,404
2009	9,323	7,404
2010	-	7,404
2011	-	7,404
2012	-	617

## 11. Deficit Fund Balances

At June 30, 2007 the District had an unrestricted net assets deficit of \$13,753 in the Enterprise, School Nutrition Fund.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,648,178	42,825	2,691,003	2,906,728	2,906,728	(215,725)
State sources	1,269,405	895	1,270,300	1,359,988	1,359,988	(89,688)
Federal sources	168,919	24,862	193,781	442,982	442,982	(249,201)
Total revenues	<u>4,086,502</u>	<u>68,582</u>	<u>4,155,084</u>	<u>4,709,698</u>	<u>4,709,698</u>	<u>(554,614)</u>
Expenditures:						
Instruction	2,588,150	-	2,588,150	3,833,841	3,833,841	1,245,691
Support services	1,310,882	-	1,310,882	1,048,500	1,048,500	(262,382)
Non-instructional programs	-	101,550	101,550	50,000	50,000	(51,550)
Other expenditures	360,076	-	360,076	515,899	515,899	155,823
Total expenditures	<u>4,259,108</u>	<u>101,550</u>	<u>4,360,658</u>	<u>5,448,240</u>	<u>5,448,240</u>	<u>1,087,582</u>
Excess (deficiency) of revenues over (under) expenditures	(172,606)	(32,968)	(205,574)	(738,542)	(738,542)	532,968
Other financing sources (uses) net	<u>(30,794)</u>	<u>30,794</u>	<u>-</u>	<u>(99,000)</u>	<u>(99,000)</u>	<u>99,000</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(203,400)	(2,174)	(205,574)	(837,542)	(837,542)	631,968
Balance beginning of year	<u>1,119,884</u>	<u>63,614</u>	<u>1,183,498</u>	<u>1,443,460</u>	<u>1,443,460</u>	<u>(259,962)</u>
Balance end of year	<u><u>916,484</u></u>	<u><u>61,440</u></u>	<u><u>977,924</u></u>	<u><u>605,918</u></u>	<u><u>605,918</u></u>	<u><u>372,006</u></u>

NORTH KOSSUTH 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 a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides 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.

During the year ended June 30, 2007, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2007

<b>Assets</b>	<u>Special Revenue Funds</u>			<u>Total</u>
	<u>Student Activity Fund</u>	<u>District Support Trust</u>	<u>Capital Projects</u>	
	\$	\$	\$	\$
Cash and pooled investments	44,806	-	106,940	151,746
Accounts	1,238	-	-	1,238
Due from other governments	2,051	-	39,546	41,597
<b>Total assets</b>	<u>48,095</u>	<u>-</u>	<u>146,486</u>	<u>194,581</u>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Accounts payable	<u>883</u>	<u>-</u>	<u>1,569</u>	<u>2,452</u>
Fund balances:				
Unreserved reported in:				
Special revenue funds	47,212	-	-	47,212
Capital projects funds	-	-	144,917	144,917
Total fund balances	<u>47,212</u>	<u>-</u>	<u>144,917</u>	<u>192,129</u>
<b>Total liabilities and fund balances</b>	<u>48,095</u>	<u>-</u>	<u>146,486</u>	<u>194,581</u>

## NORTH KOSSUTH 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
	Student	District	Capital	Debt Service	
	Activity Fund	Support Trust	Projects		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	-	-	214,697	-	214,697
Other	135,343	-	7,446	-	142,789
Total revenues	<u>135,343</u>	<u>-</u>	<u>222,143</u>	<u>-</u>	<u>357,486</u>
Expenditures:					
Current:					
Instruction:					
Regular	-	10,572	-	-	10,572
Other	141,617	-	-	-	141,617
Support services:					
Instructional staff	-	-	94,544	-	94,544
Operation and maintenance of plant	-	-	19,096	-	19,096
Transportation	-	-	9,323	-	9,323
Other expenditures:					
Facilities acquisition	-	-	93,844	-	93,844
Long-term debt:					
Principal	-	-	-	110,000	110,000
Interest and fiscal charges	-	-	-	23,718	23,718
Total expenditures	<u>141,617</u>	<u>10,572</u>	<u>216,807</u>	<u>133,718</u>	<u>502,714</u>
Excess (deficiency) of revenues over (under) expenditures	(6,274)	(10,572)	5,336	(133,718)	(145,228)
Other financing sources (uses):					
Operating transfers in	-	-	-	133,718	133,718
Net change in fund balances	(6,274)	(10,572)	5,336	-	(11,510)
Fund balances beginning of year	<u>53,486</u>	<u>10,572</u>	<u>139,581</u>	<u>-</u>	<u>203,639</u>
Fund balances end of year	<u>47,212</u>	<u>-</u>	<u>144,917</u>	<u>-</u>	<u>192,129</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

<u>Account</u>	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Athletics	23,374	74,161	79,580	17,955
Vocal	1,275	241	512	1,004
Instrumental	986	1,344	1,253	1,077
MS student council	348	-	100	248
MS pals	152	-	-	152
MS yearbook	180	-	-	180
MS cheerleaders	508	-	-	508
MS athletics	41	-	41	-
MS science club	147	-	147	-
Activity tickets	-	2,790	2,790	-
Insurance	-	35	35	-
Interest	620	787	68	1,339
Drama and speech	906	45	139	812
FFA	-	7,454	5,853	1,601
FFA scholarship CD	1,000	-	-	1,000
FCCLA	546	5,851	5,702	695
Student council-high school	7,176	4,197	3,559	7,814
National honor society	276	291	322	245
Annual	2,556	7,956	8,720	1,792
Pictures	328	-	328	-
Spanish club	1,026	-	-	1,026
Economics club	203	-	-	203
Voc. team club	460	150	21	589
FCA club	206	-	-	206
Elementary book club	2,988	10,332	10,417	2,903
Elementary read-a-thon	1,417	-	408	1,009
Elementary spec. olympics	63	77	-	140
Business club	1,459	8,513	10,033	(61)
Quiz bowl	585	1,005	769	821
Science club	331	-	-	331
Class of 2005	281	-	281	-
Class of 2006	252	79	331	-
Class of 2007	2,796	1,205	2,736	1,265
Class of 2008	922	6,860	6,359	1,423
Class of 2009	78	1,950	1,113	915
Class of 2010	-	20	-	20
Total	53,486	135,343	141,617	47,212

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2007

	Music Boosters	PTO	Total
	\$	\$	\$
Balance beginning of year	-	-	-
Additions:			
Miscellaneous	11,262	3,639	14,901
Deductions:			
Miscellaneous	-	2,903	2,903
Balance end of year	<u>11,262</u>	<u>736</u>	<u>11,998</u>

## NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,233,285	2,330,981	2,237,918	2,056,297
Tuition	224,855	170,375	268,802	245,588
Other	190,038	188,682	216,864	199,033
State sources	1,269,405	1,204,489	1,476,134	1,410,097
Federal sources	168,919	265,687	401,412	136,897
Total revenues	<u>4,086,502</u>	<u>4,160,214</u>	<u>4,601,130</u>	<u>4,047,912</u>
Expenditures:				
Instruction:				
Regular	1,489,036	1,485,648	1,610,145	1,317,154
Special	577,662	566,513	756,089	737,332
Other	521,452	510,544	272,263	363,522
Support services:				
Student	52,491	52,417	51,628	46,247
Instructional staff	148,105	30,542	70,063	74,736
Administration	427,917	484,188	496,008	455,391
Operation and maintenance of plant	361,119	338,416	274,303	230,455
Transportation	321,250	279,018	239,727	288,779
Other expenditures:				
Facilities acquisition	93,844	114,819	552,480	1,972,927
Long-term debt:				
Principal	110,000	110,000	105,000	100,000
Interest and other charges	23,718	26,193	28,293	30,193
AEA flowthrough	132,514	128,082	130,763	132,787
Total expenditures	<u>4,259,108</u>	<u>4,126,380</u>	<u>4,586,762</u>	<u>5,749,523</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  
North Kossuth 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 North Kossuth Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 19, 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 North Kossuth 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 North Kossuth Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Kossuth 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 North Kossuth Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of North Kossuth Community School District's financial statements that is more than inconsequential will not be prevented or detected by North Kossuth 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 North Kossuth Community School District's internal control.

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

#### Compliance and Other Matters

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

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

North Kossuth 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 North Kossuth 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 North Kossuth Community School District and other parties to whom North Kossuth 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 North Kossuth Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

February 19, 2008

NORTH KOSSUTH 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 Check Signatures: We noted that checks are being signed for the board secretary and board president, by the District's accounting software. This practice negates the control procedure established by requiring two signatures on checks.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks.

District Response: We will review the practice of having the accounting software print checks with signatures.

Conclusion: Response accepted.

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

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

NORTH KOSSUTH 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, exceeded the amounts budgeted in the support services and non-instructional programs functional areas.

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

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

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Beth Rolling, Board President, spouse is director at local bank and father is the owner of the same bank	School banking	\$

Recommendation: When school board members have relationships with local banks, conflicts of interest may occur with school banking agreements and when the bank has a depositor or lender relationship with entities that also do business with the school. The board should consult with its attorney before entering into any transactions that may appear to be a conflict of interest.

District response: We will consult with our attorney on all issues that might be a conflict of interest.

Conclusion: Response accepted.

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

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

07-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October 2006, was overstated by twenty-five students. Open enrollment in students were counted as resident students.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We have contact these departments.

Conclusion: Response accepted.

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.

07-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program and not as a clearing account for other District transactions. There are some accounts in the Student Activity Fund that are not for extra-curricular student activities.

Recommendation: We recommend these accounts be reviewed, transferred to the proper fund and then eliminated to prevent future use.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

07-II-K Internal Service Fund Expenditure Procedures: The District is using an internal service fund to account for its medical deductible reimbursement plan. All public funds are the legal responsibility of the board, board secretary and board treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. We noted that the Internal Service Fund was not following the statutory requirements for board approval prior to disbursement, publication of bills paid and dual signatures by the board president and board secretary.

Recommendation: The District should implement procedures to ensure compliance with statutory requirements for expenditures in the Internal Service Fund.

District Response: The District will pursue the auditor's recommendation.

Conclusion: Response accepted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

07-II-L      Deficit Balances: The School Nutrition Fund has an unrestricted net assets deficit of \$13,753 at June 30, 2007.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on methods to improve the financial position of the School Nutrition Fund.

Conclusion: Response accepted.