

SOLON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

SOLON COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2007

|  | <u>Page</u> |                |
|--|-------------|----------------|
| <b>Officials</b>   | 1           |                |
| <b>Independent Auditor's Report</b>  | 2-3         |                |
| <b>Management's Discussion and Analysis</b>  | 4-14        |                |
| <b>Basic Financial Statements</b>  |             | <u>Exhibit</u> |
| Government-wide Financial Statements   |             |                |
| Statement of Net Assets  | A           | 16-17          |
| Statement of Activities  | B           | 18-19          |
| Governmental Fund Financial Statements   |             |                |
| Balance Sheet  | C           | 20             |
| Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets  | D           | 21             |
| Statement of Revenues, Expenditures and Changes in Fund Balances   | E           | 22-23          |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities         | F           | 24             |
| Proprietary Fund Financial Statements  |             |                |
| Statement of Net Assets  | G           | 25             |
| Statement of Revenues, Expenses and Changes in Net Assets  | H           | 26             |
| Statement of Cash Flows  | I           | 27             |
| Fiduciary Fund Financial Statements  |             |                |
| Statement of Fiduciary Net Assets  | J           | 28             |
| Statement of Changes in Fiduciary Net Assets   | K           | 29             |
| <b>Notes to Financial Statements</b>   | 30-43       |                |
| <b>Required Supplementary Information</b>  |             |                |
| Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Funds |             | 45             |
| Notes to Required Supplementary Information - Budgetary Reporting  |             | 46             |

SOLON COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2007

| <b>Other Supplementary Information</b>   | <u>Schedule</u> | <u>Page</u> |
|--|-----------------|-------------|
| Nonmajor Governmental Funds  |                 |             |
| Combining Balance Sheet  | 1               | 48          |
| Combining Schedule of Revenues, Expenditures and Changes in<br>Fund Balances   | 2               | 49          |
| Nonmajor Enterprise Funds  |                 |             |
| Combining Statement of Net Assets  | 3               | 50          |
| Combining Statement of Revenues, Expenses and Changes in<br>Fund Net Assets  | 4               | 51          |
| Combining Statement of Cash Flows  | 5               | 52          |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts   | 6               | 53-54       |
| Schedule of Revenues by Source and Expenditures by Function - All<br>Governmental Funds  | 7               | 55          |
| <b>Independent Auditor's Report on Internal Control over Financial Reporting<br/>and on Compliance and Other Matters Based on an Audit of Financial<br/>Statements Performed in Accordance with <u>Government Auditing Standards</u></b> |                 | 56-58       |
| <b>Schedule of Findings</b>  |                 | 59-63       |
| <b>Audit Staff</b>   |                 | 64          |

SOLON COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2007

| <u>Name</u>                      | <u>Title</u>                 | <u>Term Expires</u> |
|----------------------------------|------------------------------|---------------------|
| <b>Board of Education</b>        |                              |                     |
| (Before September 2006 Election) |                              |                     |
| Dick Schwab                      | Board President              | 2008                |
| Pat Smith                        | Board Member                 | 2006                |
| Ben Pardini                      | Board Member                 | 2006                |
| Joel Miller                      | Board Member                 | 2007                |
| Robert Upmeyer                   | Board Member                 | 2007                |
| (After September 2006 Election)  |                              |                     |
| Robert Upmeyer                   | Board President              | 2007                |
| Joel Miller                      | Board Member                 | 2007                |
| Dick Schwab                      | Board Member                 | 2008                |
| Dave Asprey                      | Board Member                 | 2009                |
| Ben Pardini                      | Board Member                 | 2009                |
| <b>School Officials</b>          |                              |                     |
| Brad Manard                      | Superintendent               | 2007                |
| Pat Moore                        | District Secretary/Treasurer | 2007                |
| C. Joseph Holland                | Attorney                     | 2007                |

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Solon Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Solon Community School District, Solon, Iowa, 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. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Solon Community School District as of 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, I have also issued my report dated March 6, 2008 on my consideration of Solon Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 45 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Solon Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 6, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I 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. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 7, is fairly stated, in all material respects in relation to the basic financial statements from which it has been derived.



Kay L. Chapman, CPA PC  
March 6, 2008

---

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

---

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

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$8,734,220 in fiscal 2006 to \$9,446,525 in fiscal 2007 and General Fund expenditures increased from \$8,928,707 in fiscal 2006 to \$9,392,447 in fiscal 2007. The District's General Fund balance increased from \$840,699 in fiscal 2006 to \$905,112 in fiscal 2007, a 7% increase.
- The increase in General Fund revenues was attributable to the following areas: ISL income surtax, open enrollment tuition, interest earnings, donations, State Aid, Teacher Quality and Section 8002- Impact Aid. The increase in expenditures occurred in the following areas: categorically funded programs (Teacher Quality and At Risk), instructional supplies, special education services, vocational programs, executive administration services, improvement of instruction services, school administration services, sub teachers (secondary level) and co-curricular instruction.
- The spread between the percentage increase in revenues (8%) and percentage increase in expenditures (5%) resulted in a slight increase to the District's General Fund cash 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 Solon 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 Solon 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 Solon Community School District acts solely as an agent or custodian for the benefit of those outside of County 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 non-major Governmental Funds.

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

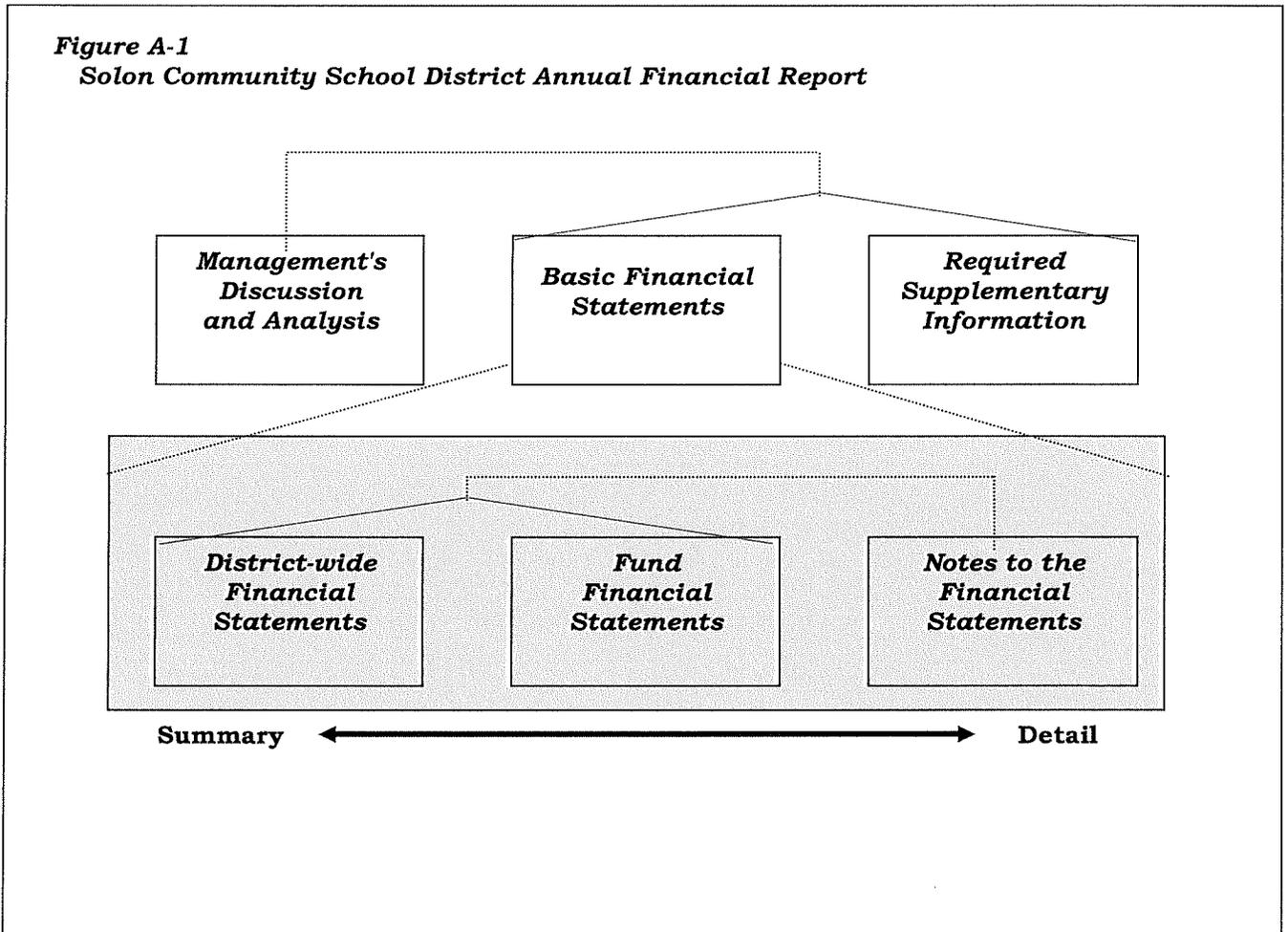


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

|  | 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, before and after and preschool program  | 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, before & after school and preschool programs are 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, Capital Projects Fund and Debt Service 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 three enterprise funds, the School Nutrition Fund, Before & After School Program Fund and Preschool Fund.

The required financial statements for proprietary funds include 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 funds.

- Private-purpose trust fund – The District accounts for outside donations for the maintenance of the Water Club in this fund.

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 includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

|  | Governmental<br>Activities |                     | Business-type<br>Activities |                   | Total<br>School District |                     | Total<br>Change  |
|--|----------------------------|---------------------|-----------------------------|-------------------|--------------------------|---------------------|------------------|
|  | <u>2007</u>                | <u>2006</u>         | <u>2007</u>                 | <u>2006</u>       | <u>2007</u>              | <u>2006</u>         | <u>2006-2007</u> |
| Current and other assets                           | \$ 7,509,490               | \$ 6,122,968        | \$ 380,100                  | \$ 326,122        | \$ 7,889,590             | \$ 6,449,090        | 22.34%           |
| Capital assets                                     | <u>10,634,479</u>          | <u>11,147,504</u>   | <u>50,729</u>               | <u>8,997</u>      | <u>10,685,208</u>        | <u>11,156,501</u>   | -4.22%           |
| Total assets                                       | <u>18,143,969</u>          | <u>17,270,472</u>   | <u>430,829</u>              | <u>335,119</u>    | <u>18,574,798</u>        | <u>17,605,591</u>   | 5.51%            |
| Long-term obligations                              | 8,632,226                  | 8,691,939           | -                           | -                 | 8,632,226                | 8,691,939           | -0.69%           |
| Other liabilities                                  | <u>6,309,610</u>           | <u>5,453,612</u>    | <u>26,863</u>               | <u>14,533</u>     | <u>6,336,473</u>         | <u>5,468,145</u>    | 15.88%           |
| Total liabilities                                  | <u>14,941,836</u>          | <u>14,145,551</u>   | <u>26,863</u>               | <u>14,533</u>     | <u>14,968,699</u>        | <u>14,160,084</u>   | 5.71%            |
| Net assets   |                            |                     |                             |                   |                          |                     |                  |
| Invested in capital assets,<br>net of related debt | 3,614,479                  | 3,892,504           | 50,729                      | 8,997             | 3,665,208                | 3,901,501           | -6.06%           |
| Restricted   | 141,751                    | 226,907             | -                           | -                 | 141,751                  | 226,907             | -37.53%          |
| Unrestricted                                       | <u>(554,097)</u>           | <u>(994,490)</u>    | <u>353,237</u>              | <u>311,589</u>    | <u>(200,860)</u>         | <u>(682,901)</u>    | 70.59%           |
| Total net assets                                   | <u>\$ 3,202,133</u>        | <u>\$ 3,124,921</u> | <u>\$ 403,966</u>           | <u>\$ 320,586</u> | <u>\$ 3,606,099</u>      | <u>\$ 3,445,507</u> | 4.66%            |

The District's combined net assets increased by 4.66%, or \$160,592 from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt.

The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$85,156, or approximately 38% from the prior year. Encompassed in this decrease are the following restricted assets: professional development, beginning teacher mentoring, At-Risk, PPEL unreserved fund balance, Activity Fund unreserved fund balance and Capital Projects unreserved fund balance. The unreserved fund balance equates to current assets less any current liabilities.

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 – increased \$482,041, or approximately 71%.

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

Figure A-4  
Change in Net Assets

|                                  | Governmental Activities |                    | Business Type Activities |                  | Total District    |                   | Total Change |
|----------------------------------|-------------------------|--------------------|--------------------------|------------------|-------------------|-------------------|--------------|
|                                  | 2007                    | 2006               | 2007                     | 2006             | 2007              | 2006              | 2006-2007    |
| Revenues                         |                         |                    |                          |                  |                   |                   |              |
| Program revenues                 |                         |                    |                          |                  |                   |                   |              |
| Charges for service and sales    | \$ 862,278              | \$ 761,715         | \$ 758,958               | \$ 706,135       | \$ 1,621,236      | \$ 1,467,850      | 10.45%       |
| Operating grants                 | 925,655                 | 805,022            | 69,516                   | 67,659           | 995,171           | 872,681           | 14.04%       |
| General revenues                 |                         |                    |                          |                  |                   |                   |              |
| Property tax                     | 4,823,991               | 4,370,366          | -                        | -                | 4,823,991         | 4,370,366         | 10.38%       |
| Unrestricted state grants        | 4,474,551               | 4,314,067          | -                        | -                | 4,474,551         | 4,314,067         | 3.72%        |
| Contributions and donations      | 72,048                  | 82,786             | -                        | -                | 72,048            | 82,786            | -12.97%      |
| Unrestricted investment earnings | 82,872                  | 100,915            | 1,181                    | 1,239            | 84,053            | 102,154           | -17.72%      |
| Other                            | 10,468                  | 11,778             | -                        | -                | 10,468            | 11,778            | -11.12%      |
| Total revenues                   | <u>11,251,863</u>       | <u>10,446,649</u>  | <u>829,655</u>           | <u>775,033</u>   | <u>12,081,518</u> | <u>11,221,682</u> | 7.66%        |
| Program expenses                 |                         |                    |                          |                  |                   |                   |              |
| Governmental activities          |                         |                    |                          |                  |                   |                   |              |
| Instruction                      | 6,278,446               | 5,767,129          | -                        | -                | 6,278,446         | 5,767,129         | 8.87%        |
| Support services                 | 3,472,881               | 3,262,211          | -                        | -                | 3,472,881         | 3,262,211         | 6.46%        |
| Non-instructional programs       | 5,451                   | 5,450              | 746,275                  | 746,442          | 751,726           | 751,892           | -0.02%       |
| Other expenses                   | <u>1,417,873</u>        | <u>1,436,079</u>   | <u>-</u>                 | <u>-</u>         | <u>1,417,873</u>  | <u>1,436,079</u>  | -1.27%       |
| Total expenses                   | <u>11,174,651</u>       | <u>10,470,869</u>  | <u>746,275</u>           | <u>746,442</u>   | <u>11,920,926</u> | <u>11,217,311</u> | 6.27%        |
| Change in net assets             | <u>\$ 77,212</u>        | <u>\$ (24,220)</u> | <u>\$ 83,380</u>         | <u>\$ 28,591</u> | <u>\$ 160,592</u> | <u>\$ 4,371</u>   | 3574.03%     |

In fiscal 2007, property tax and unrestricted state grants account for 76% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$12,081,518 of which \$11,251,863 was for governmental activities and \$829,655 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 8% increase in revenues and a 6% increase in expenses. Property taxes increased \$453,625 to fund increases in expenditures. The increase in expenses related to negotiated salary and benefits for all staff, as well as increase in expenses funded by grants received by the District (At-Risk and Teacher Quality).

### Governmental Activities

Revenues for governmental activities were \$11,251,863 and expenses were \$11,174,651. In part, this difference between revenue and expenditures can be attributed to the Board's adoption of a Fiscal Management Strategy adopted in February of 2007.

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

Figure A-5

|                            | Total and Net Cost of Governmental Activities |                      |                                   |                      |                     |                                   |
|----------------------------|---|----------------------|-----------------------------------|----------------------|---------------------|-----------------------------------|
|                            | Total Cost of Services                        |                      |                                   | Net Cost of Services |                     |                                   |
|                            | <u>2007</u>                                   | <u>2006</u>          | <u>Change</u><br><u>2006-2007</u> | <u>2007</u>          | <u>2006</u>         | <u>Change</u><br><u>2006-2007</u> |
| Instruction                | \$ 6,278,446                                  | \$ 5,767,129         | 8.9%                              | \$ 4,882,631         | \$ 4,547,773        | 7.4%                              |
| Support services           | 3,472,881                                     | 3,262,211            | 6.5%                              | 3,448,521            | 3,255,793           | 5.9%                              |
| Non-instructional programs | 5,451   | 5,450                | 0.0%                              | 5,451                | 5,450               | 0.0%                              |
| Other expenses             | <u>1,417,873</u>                              | <u>1,436,079</u>     | <u>-1.3%</u>                      | <u>1,050,115</u>     | <u>1,095,116</u>    | <u>-4.1%</u>                      |
| Total expenses             | <u>\$ 11,174,651</u>                          | <u>\$ 10,470,869</u> | <u>6.7%</u>                       | <u>\$ 9,386,718</u>  | <u>\$ 8,904,132</u> | <u>5.4%</u>                       |

- The cost financed by users of the District's programs was \$862,278.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$926,655.
- The net cost of governmental activities was financed with \$4,823,991 in property taxes and \$4,474,551 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$829,655 representing a 7% increase over the prior year while expenses were \$746,275, a less than 1% decrease from the prior year. The District's business type activities include the School Nutrition Fund, Before & After School Fund and Preschool 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 School Nutrition Fund recognized an increase in revenues of \$54,622. This is seen in the increase in reimbursable lunch and breakfast sales, as well as a slight increase in federal reimbursement. The expenditures

increase is shown in general supplies, groceries, government commodities and depreciation.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, Solon 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 \$1,247,971, slightly above last year's ending fund balances, as restated, of \$1,238,594. The increase in fund balance can be attributed to many factors. A few of the factors were the Fiscal Management Strategy and other cost containing measures used by the District to improve the fund balance at year-end.

### **Governmental Fund Highlights**

- The District's General Fund financial position is the result of many factors. The District's General Fund showed moderate improvement. Growth during the year in surtaxes, transportation fees, donations and categorical funding attributed to an increase in revenues.
- The General Fund balance increased from \$840,699 to \$907,165, as a result of a larger spread between current assets and liabilities. Cash and investments showed improvement over the prior fiscal year. Asset totals inflated largely due to the succeeding years property taxes being recognized on the District's financials. Along these same lines, the liabilities increased substantially due to the succeeding years property taxes being recognized on the financials – on the liability side as a deferred revenue.
- The Debt Service Fund balance increased from \$113,646 at June 30, 2006 to \$132,762 at June 30, 2007.

### **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$320,586 at June 30, 2006 to \$403,966 at June 30, 2007, representing an increase of approximately 26%. Current assets showed an increase in Cash/Investments. Liabilities showed an increase as well in the areas of interfund payables and payroll deductions/withholdings. Interfund payables were for transportation and facility/equipment rental. This resulted in an overall net asset increase for the Enterprise Fund.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Solon Community School District amended its annual budget one time to reallocate expenditures among the four functions. Due to the reclassification and coding changes, the budget was exceeded in two areas, but overall did not exceed the established total.

The District's revenues were \$334,620 more than budgeted revenues, a variance of 2%. Areas that contributed to this variance were revenues in tuition, income surtaxes, investment earnings, donations and charge for services income.

Total expenditures were \$352,365 less than budgeted. The adoption of a Fiscal Management Strategy by the Board of Education aided in this position. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Instruction and Other Expenditures functions, due to account code changes mandated by the Iowa Department of Education.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$10,685,208, 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 decrease of approximately 4% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$566,878.

The original cost of the District's capital assets was \$19,125,740. Governmental funds account for \$19,061,315, with the remainder of \$64,425 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the improvements other than buildings category. The District's improvements other than buildings category totaled \$130,189 at June 30, 2006 compared to \$113,269 at June 30, 2007. This decrease resulted from annual depreciation expense for the 2007 fiscal year.

Figure A-6  
Capital Assets, Net of Depreciation

|                                    | Capital Assets, Net of Depreciation |                      |                             |                 |                      |                      | Total<br>Change<br><u>2006-</u><br><u>2007</u> |
|------------------------------------|-------------------------------------|----------------------|-----------------------------|-----------------|----------------------|----------------------|--|
|                                    | Governmental Activities             |                      | Business Type<br>Activities |                 | Total District       |                      |  |
|                                    | <u>2007</u>                         | <u>2006</u>          | <u>2007</u>                 | <u>2006</u>     | <u>2007</u>          | <u>2006</u>          |  |
| Land                               | \$ 582,068                          | \$ 582,068           | \$ -                        | \$ -            | \$ 582,068           | \$ 582,068           | 0.00%  |
| Buildings and improvements         | 9,420,562                           | 9,825,851            | -                           | -               | 9,420,562            | 9,825,851            | 4.12%  |
| Improvements, other than buildings | 113,269                             | 130,189              | -                           | -               | 113,269              | 130,189              | 13.00%   |
| Furniture and equipment            | <u>518,580</u>                      | <u>609,396</u>       | <u>50,729</u>               | <u>8,997</u>    | <u>569,309</u>       | <u>618,393</u>       | -7.94%   |
| Totals                             | <u>\$ 10,634,479</u>                | <u>\$ 11,147,504</u> | <u>\$ 50,729</u>            | <u>\$ 8,997</u> | <u>\$ 10,685,208</u> | <u>\$ 11,156,501</u> | -4.22%   |

### Long-Term Debt

At June 30, 2007, the District had \$8,632,226 in general obligation and other long-term debt outstanding. This represents a decrease of 6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

Figure A-7

|                          | Outstanding Long-term Obligations |                    |                             |
|--------------------------|-----------------------------------|--------------------|-----------------------------|
|                          | Total                             |                    | Total                       |
|                          | School District                   |                    | Change                      |
|                          | <u>2007</u>                       | <u>2006</u>        | <u>2006-</u><br><u>2007</u> |
| General obligation bonds | \$ 8,320,000                      | \$8,775,000        | -5.19%                      |
| Capital loan notes       | 160,000                           | 235,000            | -31.91%                     |
| Compensated absences     | 20,900                            | 19,010             | 9.94%                       |
| Early retirement         | <u>131,326</u>                    | <u>151,133</u>     | -13.11%                     |
| Total                    | <u>\$ 8,632,226</u>               | <u>\$9,180,143</u> | -5.97%                      |

### **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The District asked the Voters of the District to extend the current instructional support levy for another 10 years. The Instructional Support Levy was placed on the September 2007 ballot, which passed and is in effect for another 10 years.
- The enrollment has been on an upward trend over the past three years. The October 2007 certified enrollment count rose by 7.4 students over the October 2006 certified enrollment count. The increase in enrollment, as well as students open enrolling into the District, places the potential need for increased staffing. Although the student enrollment is increasing, which also creates an increase in funding; the funding is not currently sufficient to cover the additional needs. Along these same lines, the District also realized as student enrollment continues to grow our facilities/buildings will also need to accommodate the increase. The District will continue to discuss expansion areas and funding sources.
- The District budgeted \$225,000 for Cash Reserve. This money is meant to be used to help fund the District's unspent balance. At the current time, as well as in past years, the Cash Reserve has been used as actual revenue rather than being used to help fund an increasing Unspent Balance.
- Both Johnson County and Linn County placed the SILO (School Infrastructure Local Option Sales & Service Tax) ballot question before the voters in February 2007. Both measures passed and will help fund the facility needs of the District. The District will begin receiving funds beginning with the 2007-2008 budget year. Estimates provided by Iowa Department of Revenue for both counties, will be \$1,450,000.
- The Board adopted a Fiscal Management Strategy plan. It is intent with the implementation and continuance of this plan, that the District will begin to see improvements in their financials. Improvements in financial condition can improve the District's standings in respect to ISCAP borrowing capacity (less borrowing

needed as District grows stronger) and also bond rating of the District . The better bond rating of a District equates to lower interest rates.

### **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, District Secretary/Treasurer and Business Manager, Solon Community School District, 301 S Iowa St, Solon, Iowa, 52333.

## Basic Financial Statements

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Net Assets  
 June 30, 2007

Exhibit A

| <b>Assets</b>                                   | Governmental<br><u>Activities</u> | Business Type<br><u>Activities</u> | <u>Total</u>      |
|---|-----------------------------------|------------------------------------|-------------------|
| Cash and cash equivalents                       |                                   |                                    |                   |
| ISCAP   | \$ 1,805,650                      | \$ -                               | \$ 1,805,650      |
| Other   | 1,332,710                         | 377,215                            | 1,709,925         |
| Receivables                                     |                                   |                                    |                   |
| Property tax                                    |                                   |                                    |                   |
| Delinquent                                      | 23,692                            | -                                  | 23,692            |
| Succeeding year                                 | 4,205,674                         | -                                  | 4,205,674         |
| Accounts receivable                             | 100,378                           | -                                  | 100,378           |
| Accrued interest                                |                                   |                                    |                   |
| ISCAP   | 11,803                            | -                                  | 11,803            |
| Due from other governments                      | 18,365                            | -                                  | 18,365            |
| Due from other funds                            | 11,218                            | -                                  | 11,218            |
| Inventories                                     | -                                 | 2,885                              | 2,885             |
| Non-depreciable capital assets                  | 582,068                           | -                                  | 582,068           |
| Capital assets, net of accumulated depreciation | 10,052,411                        | 50,729                             | 10,103,140        |
| Total assets                                    | <u>18,143,969</u>                 | <u>430,829</u>                     | <u>18,574,798</u> |
| <b>Liabilities</b>                              |                                   |                                    |                   |
| Accounts payable                                | 57,060                            | -                                  | 57,060            |
| Salaries and benefits payable                   | 164,019                           | 15,645                             | 179,664           |
| Accrued interest payable                        | 53,091                            | -                                  | 53,091            |
| Due to other fund                               | -                                 | 11,218                             | 11,218            |
| Deferred revenue                                |                                   |                                    |                   |
| Succeeding year property tax                    | 4,205,674                         | -                                  | 4,205,674         |
| ISCAP warrants payable                          | 1,809,000                         | -                                  | 1,809,000         |
| ISCAP accrued interest payable                  | 9,470                             | -                                  | 9,470             |
| ISCAP unamortized premium                       | 11,296                            | -                                  | 11,296            |
| Long-term liabilities                           |                                   |                                    |                   |
| Portion due within one year                     |                                   |                                    |                   |
| General obligation bonds payable                | 475,000                           | -                                  | 475,000           |
| Capital loan notes payable                      | 80,000                            | -                                  | 80,000            |
| Early retirement payable                        | 65,663                            | -                                  | 65,663            |
| Portion due after one year                      |                                   |                                    |                   |
| General obligation bonds payable                | 7,845,000                         | -                                  | 7,845,000         |
| Capital loan notes payable                      | 80,000                            | -                                  | 80,000            |
| Compensated absences payable                    | 20,900                            | -                                  | 20,900            |
| Early retirement payable                        | 65,663                            | -                                  | 65,663            |
| Total liabilities                               | <u>14,941,836</u>                 | <u>26,863</u>                      | <u>14,968,699</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Net Assets  
 June 30, 2007

Exhibit A

|   | <u>Governmental<br/>Activities</u> | <u>Business Type<br/>Activities</u> | <u>Total</u>        |
|---|------------------------------------|-------------------------------------|---------------------|
| <b>NET ASSETS</b>                               |                                    |                                     |                     |
| Invested in capital assets, net of related debt | \$ 3,614,479                       | \$ 50,729                           | \$ 3,665,208        |
| Restricted for                                  |                                    |                                     |                     |
| At-risk program                                 | 7,085                              | -                                   | 7,085               |
| Beginning Teacher Mentoring program             | 2,522                              | -                                   | 2,522               |
| Professional Development program                | 1,103                              | -                                   | 1,103               |
| Physical plant and equipment levy               | 30,630                             | -                                   | 30,630              |
| Other special revenue purposes                  | 100,309                            | -                                   | 100,309             |
| Capital projects                                | 102                                | -                                   | 102                 |
| Unrestricted                                    | <u>(554,097)</u>                   | <u>353,237</u>                      | <u>(200,860)</u>    |
| Total net assets                                | <u>\$ 3,202,133</u>                | <u>\$ 403,966</u>                   | <u>\$ 3,606,099</u> |

See notes to financial statements.

**SOLON COMMUNITY SCHOOL DISTRICT**  
 Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit B

| <b><u>Functions/Programs</u></b><br><b>Primary Government</b><br>Governmental activities | Program Revenues |                         |  | Net (Expense) Revenue<br>and Changes in Net Assets             |                    |                |
|--|------------------|-------------------------|--|--|--------------------|----------------|
|  | Expenses         | Charges<br>for Services | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Capital Grants,<br>Contributions<br>and Restricted<br>Interest | Primary Government | Total          |
| Instruction  |                  |                         |  |  |                    |                |
| Regular instruction  | \$ 4,291,036     | \$ 714,098              | \$ 440,198   | \$ -   | \$ (3,136,740)     | \$ (3,136,740) |
| Special instruction  | 1,196,206        | 110,758                 | 103,972  | -  | (981,476)          | (981,476)      |
| Other instruction  | 791,204          | 16,714                  | 10,075   | -  | (764,415)          | (764,415)      |
|  | 6,278,446        | 841,570                 | 554,245  | -  | (4,882,631)        | (4,882,631)    |
| Support services   |                  |                         |  |  |                    |                |
| Student  | 138,969          | -                       | -  | -  | (138,969)          | (138,969)      |
| Instructional staff  | 657,798          | -                       | -  | -  | (657,798)          | (657,798)      |
| Administration   | 1,103,975        | -                       | -  | -  | (1,103,975)        | (1,103,975)    |
| Operation and maintenance of plant   | 1,160,748        | 6,802                   | -  | -  | (1,153,946)        | (1,153,946)    |
| Transportation   | 411,391          | 13,906                  | 3,652  | -  | (393,833)          | (393,833)      |
|  | 3,472,881        | 20,708                  | 3,652  | -  | (3,448,521)        | (3,448,521)    |
|  | 5,451            | -                       | -  | -  | (5,451)            | (5,451)        |
| Non-instructional programs   |                  |                         |  |  |                    |                |
| Other expenditures   |                  |                         |  |  |                    |                |
| Facilities acquisition   | 336,138          | -                       | -  | -  | (336,138)          | (336,138)      |
| Long-term debt interest  | 308,688          | -                       | -  | -  | (308,688)          | (308,688)      |
| AEA flowthrough  | 367,758          | -                       | 367,758  | -  | -                  | -              |
| Depreciation (unallocated) *   | 405,289          | -                       | -  | -  | (405,289)          | (405,289)      |
|  | 1,417,873        | -                       | 367,758  | -  | (1,050,115)        | (1,050,115)    |
| Total governmental activities  | 11,174,651       | 862,278                 | 925,655  | -  | (9,386,718)        | (9,386,718)    |

See notes to financial statements.

**SOLON COMMUNITY SCHOOL DISTRICT**  
 Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit B

|  | Program Revenues        |  | Net (Expense) Revenue<br>and Changes in Net Assets             |                    |
|--|-------------------------|--|--|--------------------|
|  | Charges<br>for Services | Operating Grants,<br>Contributions<br>and Restricted<br>Interest | Capital Grants,<br>Contributions<br>and Restricted<br>Interest | Primary Government |
|  | Expenses                | Interest   | Interest   | Total              |
| <b><u>Functions/Programs (continued)</u></b> |                         |  |  |                    |
| <b>Primary Government (continued)</b>        |                         |  |  |                    |
| Business type activities                     |                         |  |  |                    |
| Non-instructional programs                   |                         |  |  |                    |
| Food service operations                      | \$ 441,963              | \$ 69,516  | \$ -   | \$ 25,513          |
| Before & After program                       | 243,429                 | -  | -  | 52,609             |
| Preschool program                            | 60,883                  | -  | -  | 4,077              |
| Total business type activities               | 746,275                 | 69,516   | -  | 82,199             |
| Total primary government                     | \$11,920,926            | \$ 995,171   | \$ -   | (9,386,718)        |
| <b><u>General Revenues</u></b>               |                         |  |  |                    |
| Property tax levied for                      |                         |  |  |                    |
| General purposes                             |                         |  |  | 3,623,490          |
| Debt service                                 |                         |  |  | 412,610            |
| Capital outlay                               |                         |  |  | 787,891            |
| Unrestricted state grants                    |                         |  |  | 4,474,551          |
| Contributions and donations                  |                         |  |  | 72,048             |
| Unrestricted investment earnings             |                         |  |  | 82,872             |
| Other  |                         |  |  | 10,468             |
| Total general revenues                       |                         |  |  | 9,463,930          |
| Change in net assets                         |                         |  |  | 1,181              |
| Net assets, beginning of year, as restated   |                         |  |  | 83,380             |
| Net assets, end of year                      |                         |  |  | 3,124,921          |
|  |                         |  |  | 320,586            |
|  |                         |  |  | \$ 3,202,133       |
|  |                         |  |  | \$403,966          |
|  |                         |  |  | \$ 3,606,099       |

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

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2007

| <b>Assets</b>                            | <u>General</u>     | <u>Debt<br/>Service</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total</u>       |
|--|--------------------|-------------------------|--|--------------------|
| Cash and pooled investments              |                    |                         |  |                    |
| ISCAP                                    | \$1,805,650        | \$ -                    | \$ -                                       | \$1,805,650        |
| Other                                    | 990,767            | 133,248                 | 208,695                                    | 1,332,710          |
| Receivables                              |                    |                         |  |                    |
| Property tax                             |                    |                         |  |                    |
| Delinquent                               | 15,328             | 4,514                   | 3,850                                      | 23,692             |
| Succeeding year                          | 2,787,577          | 790,885                 | 627,212                                    | 4,205,674          |
| Accounts receivable                      | 100,378            | -                       | -  | 100,378            |
| Accrued interest                         |                    |                         |  |                    |
| ISCAP                                    | 11,803             | -                       | -  | 11,803             |
| Due from other governments               | 18,365             | -                       | -  | 18,365             |
| Due from other funds                     | 11,218             | -                       | -  | 11,218             |
| Total assets and other debits            | <u>\$5,741,086</u> | <u>\$928,647</u>        | <u>\$839,757</u>                           | <u>\$7,509,490</u> |
| <br><b>Liabilities and Fund Balances</b> |                    |                         |  |                    |
| <b>Liabilities</b>                       |                    |                         |  |                    |
| Accounts payable                         | \$ 52,559          | \$ -                    | \$ 4,501                                   | \$ 57,060          |
| Salaries and benefits payable            | 164,019            | -                       | -  | 164,019            |
| ISCAP warrants payable                   | 1,809,000          | -                       | -  | 1,809,000          |
| ISCAP accrued interest payable           | 9,470              | -                       | -  | 9,470              |
| ISCAP unamortized premium                | 11,296             | -                       | -  | 11,296             |
| Deferred revenue                         |                    |                         |  |                    |
| Succeeding year property tax             | 2,787,577          | 790,885                 | 627,212                                    | 4,205,674          |
| Bonds payable                            | -                  | 5,000                   | -  | 5,000              |
| Total liabilities                        | <u>4,833,921</u>   | <u>795,885</u>          | <u>631,713</u>                             | <u>6,261,519</u>   |
| <b>Fund balances</b>                     |                    |                         |  |                    |
| Reserved for                             |                    |                         |  |                    |
| At-risk program                          | 7,085              | -                       | -  | 7,085              |
| Beginning Teacher Mentoring program      | 2,522              | -                       | -  | 2,522              |
| Professional Development program         | 1,103              | -                       | -  | 1,103              |
| Debt service                             | -                  | 132,762                 | -  | 132,762            |
| Unreserved, governmental funds           | 896,455            | -                       | 102  | 896,557            |
| Unreserved, special revenue funds        | -                  | -                       | 207,942                                    | 207,942            |
| Total fund balances                      | <u>907,165</u>     | <u>132,762</u>          | <u>208,044</u>                             | <u>1,247,971</u>   |
| Total liabilities and fund balances      | <u>\$5,741,086</u> | <u>\$928,647</u>        | <u>\$839,757</u>                           | <u>\$7,509,490</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2007

Exhibit D

|  |                     |
|--|---------------------|
| <b>Total fund balances of governmental funds</b>   | \$ 1,247,971        |
| <b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>  |                     |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.   | 10,634,479          |
| 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.   | (53,091)            |
| Long-term liabilities, including bonds and notes payable, compensated absences and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | <u>(8,627,226)</u>  |
| <b>Net assets of governmental activities</b>   | <u>\$ 3,202,133</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2007

Exhibit E

|                                    | <u>General</u>   | <u>Debt<br/>Service</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total</u>      |
|------------------------------------|------------------|-------------------------|--|-------------------|
| Revenues                           |                  |                         |  |                   |
| Local sources                      |                  |                         |  |                   |
| Local tax                          | \$3,218,381      | \$787,796               | \$675,553                                  | \$4,681,730       |
| Tuition                            | 455,383          | -                       | -  | 455,383           |
| Other                              | 219,962          | 19,281                  | 322,708                                    | 561,951           |
| State sources                      | 5,291,614        | -                       | -  | 5,291,614         |
| Federal sources                    | 261,185          | -                       | -  | 261,185           |
| Total revenues                     | <u>9,446,525</u> | <u>807,077</u>          | <u>998,261</u>                             | <u>11,251,863</u> |
| Expenditures                       |                  |                         |  |                   |
| Current                            |                  |                         |  |                   |
| Instruction                        |                  |                         |  |                   |
| Regular                            | 4,174,531        | -                       | 138,435                                    | 4,312,966         |
| Special                            | 1,199,336        | -                       | -  | 1,199,336         |
| Other                              | 459,216          | -                       | 299,063                                    | 758,279           |
|                                    | <u>5,833,083</u> | <u>-</u>                | <u>437,498</u>                             | <u>6,270,581</u>  |
| Support services                   |                  |                         |  |                   |
| Student                            | 138,969          | -                       | -  | 138,969           |
| Instructional staff                | 637,501          | -                       | -  | 637,501           |
| Administration                     | 1,082,580        | -                       | 12,697                                     | 1,095,277         |
| Operation and maintenance of plant | 986,615          | -                       | 189,378                                    | 1,175,993         |
| Transportation                     | 343,888          | -                       | -  | 343,888           |
|                                    | <u>3,189,553</u> | <u>-</u>                | <u>202,075</u>                             | <u>3,391,628</u>  |
| Other expenditures                 |                  |                         |  |                   |
| Facilities acquisition             | -                | -                       | 340,888                                    | 340,888           |
| Long-term debt                     |                  |                         |  |                   |
| Principal                          | -                | 530,000                 | -  | 530,000           |
| Interest and fiscal charges        | -                | 341,631                 | -  | 341,631           |
| AEA flowthrough                    | 367,758          | -                       | -  | 367,758           |
|                                    | <u>367,758</u>   | <u>871,631</u>          | <u>340,888</u>                             | <u>1,580,277</u>  |
| Total expenditures                 | <u>9,390,394</u> | <u>871,631</u>          | <u>980,461</u>                             | <u>11,242,486</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2007

Exhibit E

|  | <u>General</u>    | <u>Debt<br/>Service</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total</u>       |
|--|-------------------|-------------------------|--|--------------------|
| Excess (deficiency) of revenues over<br>(under) expenditures | \$ 56,131         | \$ (64,554)             | \$ 17,800                                  | \$ 9,377           |
| Other financing sources (uses)                               |                   |                         |  |                    |
| Interfund operating transfers in                             | 10,335            | 83,670                  | -  | 94,005             |
| Interfund operating transfers (out)                          | <u>-</u>          | <u>-</u>                | <u>(94,005)</u>                            | <u>(94,005)</u>    |
| Total other financing sources (uses)                         | <u>10,335</u>     | <u>83,670</u>           | <u>(94,005)</u>                            | <u>-</u>           |
| Net change in fund balances                                  | 66,466            | 19,116                  | (76,205)                                   | 9,377              |
| Fund balance, beginning of year, as restated                 | <u>840,699</u>    | <u>113,646</u>          | <u>284,249</u>                             | <u>1,238,594</u>   |
| Fund balance, end of year                                    | <u>\$ 907,165</u> | <u>\$132,762</u>        | <u>\$208,044</u>                           | <u>\$1,247,971</u> |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2007

Exhibit F

**Net change in fund balances - total governmental funds** \$ 9,377

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

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

|                                 |                  |           |
|---------------------------------|------------------|-----------|
| Expenditures for capital assets | \$ 46,301        |           |
| Depreciation expense            | <u>(559,326)</u> | (513,025) |

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 530,000

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 governmental funds, as follows:

|                      |                |        |
|----------------------|----------------|--------|
| Early retirement     | \$ 19,807      |        |
| Compensated absences | <u>(1,890)</u> | 17,917 |

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. 32,943

**Change in net assets of governmental activities** \$ 77,212

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Net Assets  
 Proprietary Funds  
 June 30, 2007

Exhibit G

|   | Business Type<br><u>Activities</u><br>Nonmajor<br><u>Enterprise</u> |
|---|---|
| <b>Assets</b>                                   |   |
| Cash and pooled investments                     | \$377,215   |
| Inventories                                     | 2,885   |
| Capital assets, net of accumulated depreciation | <u>50,729</u>   |
| Total assets                                    | <u>430,829</u>  |
| <br><b>Liabilities</b>                          |   |
| Salaries and benefits payable                   | 15,645  |
| Due to other funds                              | <u>11,218</u>   |
| Total liabilities                               | <u>26,863</u>   |
| <br><b>Net Assets</b>                           |   |
| Invested in capital assets                      | 50,729  |
| Unrestricted                                    | <u>353,237</u>  |
| Total net assets                                | <u>\$403,966</u>  |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Proprietary Funds  
 For the Year Ended June 30, 2007

Exhibit H

|  | Business Type<br><u>Activities</u><br>Nonmajor<br><u>Enterprise</u> |
|--|---|
| Operating revenue                          |   |
| Local sources                              |   |
| Charges for service                        | <u>\$758,958</u>  |
| Operating expenses                         |   |
| Instruction                                |   |
| Regular                                    |   |
| Salaries                                   | 41,192  |
| Benefits                                   | 16,800  |
| Purchased services                         | 8   |
| Supplies                                   | 2,472   |
| Miscellaneous                              | 411   |
|  | <u>60,883</u>   |
| Support services                           |   |
| Administration                             |   |
| Purchased services                         | <u>495</u>  |
| Operation and maintenance of plant         |   |
| Purchased services                         | <u>11,991</u>   |
| Non-instructional programs                 |   |
| Salaries                                   | 303,918   |
| Benefits                                   | 78,221  |
| Purchased services                         | 16,814  |
| Supplies                                   | 261,959   |
| Miscellaneous                              | 4,442   |
| Depreciation                               | 7,552   |
|  | <u>672,906</u>  |
| Total operating expenses                   | <u>746,275</u>  |
| Operating income                           | <u>12,683</u>   |
| Non-operating revenue                      |   |
| Interest income                            | 1,181   |
| State sources                              | 4,958   |
| Federal sources                            | 64,558  |
| Total non-operating revenue                | <u>70,697</u>   |
| Net income                                 | 83,380  |
| Net assets, beginning of year, as restated | <u>320,586</u>  |
| Net assets, end of year                    | <u><u>\$403,966</u></u>   |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Cash Flows  
 Proprietary Funds  
 For the Year Ended June 30, 2007

Exhibit I

|  | Business Type<br><u>Activities</u><br>Nonmajor<br><u>Enterprise</u> |
|--|---|
| Cash flows from operating activities   |   |
| Cash received from sale of services  | \$ 759,153  |
| Cash payments to employees for services  | (427,272)   |
| Cash payments to suppliers for goods and services                                      | <u>(291,877)</u>  |
| Net cash provided by operating activities  | <u>40,004</u>   |
| Cash flows from non-capital financing activities                                       |   |
| State grants received  | 4,958   |
| Federal grants received  | <u>56,885</u>   |
| Net cash provided by non-capital financing activities                                  | <u>61,843</u>   |
| Cash flows from capital and related financing activities                               |   |
| Acquisition of capital assets  | <u>(38,205)</u>   |
| Cash flows from investing activities   |   |
| Interest on investments  | <u>1,181</u>  |
| Net increase in cash and cash equivalents  | 64,823  |
| Cash and cash equivalents, beginning of year   | <u>312,392</u>  |
| Cash and cash equivalents, end of year   | <u><u>\$ 377,215</u></u>  |
| <br>   |   |
| <b>Reconciliation of operating income to net cash provided by operating activities</b> |   |
| Operating income   | \$ 12,683   |
| Adjustments to reconcile operating income to net cash provided by operating activities |   |
| Depreciation   | 7,552   |
| Commodities used   | 7,673   |
| Decrease in accounts receivable  | 195   |
| (Increase) in inventory  | (429)   |
| Increase in accounts payable   | 3,363   |
| Increase in due to other funds   | 3,917   |
| Increase in accrued salaries and benefits  | <u>5,050</u>  |
| Net cash provided by operating activities  | <u><u>\$ 40,004</u></u>   |

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

During the year ended June 30, 2007, the District received \$7,673 of federal commodities.

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
June 30, 2007

Exhibit J

|                             | <u>Private<br/>Purpose<br/>Trust<br/>Water<br/>Club</u> |
|-----------------------------|---|
| <b>Assets</b>               |   |
| Cash and pooled investments | \$ 2,527  |
| <b>Liabilities</b>          |   |
| Due to others               | <u>53</u>   |
| <b>Net assets</b>           |   |
| Reserved for scholarships   | <u>\$ 2,474</u>   |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
 Statement of Changes in Fiduciary Net Assets  
 Fiduciary Fund  
 For the Year Ended June 30, 2007

Exhibit K

|  | <u>Private<br/>Purpose<br/>Trust</u><br><u>Water<br/>Club</u> |
|--|---|
| Additions                                  |   |
| Local sources                              |   |
| Miscellaneous                              | \$1,282   |
| Deductions                                 |   |
| Support services                           |   |
| Operation and maintenance of plant         | 405   |
| Non-instructional programs                 |   |
| Other enterprise operations                | <u>1,298</u>  |
| Total deductions                           | <u>1,703</u>  |
| Change in net assets                       | (421)   |
| Net assets, beginning of year, as restated | <u>2,895</u>  |
| Net assets, end of year                    | <u><u>\$2,474</u></u>   |

See notes to financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2007

**Note 1. Summary of Significant Accounting Policies**

The Solon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Solon, Iowa, and the agricultural territory in Johnson and Linn Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but 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 other nonmajor governmental funds.

The District reports the following major governmental funds:

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

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports no major proprietary funds. However, it reports three nonmajor proprietary, enterprise funds. The School Nutrition Fund is used to account for the food service operations of the District, the Before & After School Fund is used to account before and after school daycare operations of the District and the Preschool Fund is used to account for the preschool operations of the District.

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

The Private Purpose Trust Fund is used to account for assets held by the District which benefit individuals through various activities of the Water Club.

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, compensated absences and early retirement 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 funds of the District apply 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 funds are 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 balance sheet:

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than twelve 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 that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

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

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

| <u>Asset Class</u>        | <u>Useful Life</u> |
|---------------------------|--------------------|
| Buildings                 | 50 years           |
| Improvements to buildings | 20-50 years        |
| Furniture and equipment   | 4-12 years         |

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

Early Retirement Termination Benefits - District employees meeting certain requirements are eligible for early retirement benefits. 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 resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2007. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused sick leave for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements when employees resign or retire. 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.

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 represents 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 property tax receivables not collected within sixty days after year end.

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

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

Net Assets - Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports no restricted net assets restricted by enabling legislation.

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures exceeded the amounts budgeted in the Instruction and Other Expenditures functions, but not in total.

**Note 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.

**Note 3. Due From and Due to Other Funds**

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

| <u>Receivable Fund</u> | <u>Payable Fund</u>               | <u>Amount</u>   |
|------------------------|-----------------------------------|-----------------|
| General                | Enterprise Fund, School Nutrition | \$ 6,402        |
| General                | Enterprise Fund, Before & After   | <u>4,816</u>    |
| Total                  |                                   | <u>\$11,218</u> |

The School Nutrition Fund is paying the General Fund for rental of facilities and the Before & After Fund is paying the General Fund for use of buses for fieldtrips. These amounts will be paid during the year ending June 30, 2007.

**Note 4. Interfund Transfers**

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

| <u>Fund</u>            | <u>Transfers In</u> | <u>Transfers Out</u> |
|------------------------|---------------------|----------------------|
| Debt Service           | \$ 83,670           | \$ -                 |
| General Fund           | 10,335              | -                    |
| Non-major governmental | -                   | 94,005               |
| Total                  | <u>\$ 94,005</u>    | <u>\$ 94,005</u>     |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Student Activity Fund to the General Fund were to correct the classification of two accounts. The transfers from the Physical Plant and Equipment Levy Fund to the Debt Service Fund were to make the principal and interest payments on the capital loan notes.

**Note 5. Iowa Schools Cash Anticipation Program (ISCAP)**

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

| <u>Series</u> | <u>Warrant Date</u> | <u>Final Warrant Maturity</u> | <u>Investments</u>  | <u>Accrued Interest Receivable</u> | <u>Warrants Payable</u> | <u>Accrued Interest Payable</u> | <u>Unamortized Premium</u> |
|---------------|---------------------|-------------------------------|---------------------|------------------------------------|-------------------------|---------------------------------|----------------------------|
| 2006-07B      | 1/26/07             | 1/25/08                       | \$ 505,707          | \$ 11,414                          | \$ 507,000              | \$ 9,150                        | \$ 1,635                   |
| 2007-08A      | 6/27/07             | 6/27/08                       | <u>1,299,943</u>    | <u>389</u>                         | <u>1,302,000</u>        | <u>320</u>                      | <u>9,661</u>               |
|               |                     |                               | <u>\$ 1,805,650</u> | <u>\$ 11,803</u>                   | <u>\$ 1,809,000</u>     | <u>\$ 9,470</u>                 | <u>\$ 11,296</u>           |

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

| <u>Series</u> | <u>Balance, Beginning of Year</u> | <u>Advances Received</u> | <u>Advances Repaid</u> | <u>Balance, End of Year</u> |
|---------------|-----------------------------------|--------------------------|------------------------|-----------------------------|
| 2006-07A      | \$ -                              | \$ 600,000               | \$ 600,000             | \$ -                        |

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

| <u>Series</u> | <u>Interest Rates on Warrants</u> | <u>Interest Rates on Investments</u> |
|---------------|-----------------------------------|--------------------------------------|
| 2006-07A      | 4.50%                             | 5.676%                               |
| 2006-07B      | 4.25%                             | 5.315%                               |
| 2007-08A      | 4.50%                             | 5.455%                               |

### Note 6. Capital Assets

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

| <u>Governmental activities</u>               | <u>Balance, Beginning of Year</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Balance, End of Year</u> |
|--|-----------------------------------|--------------------|------------------|-----------------------------|
| Capital assets not being depreciated:        |                                   |                    |                  |                             |
| Land   | \$ 582,068                        | \$ -               | \$ -             | \$ 582,068                  |
| Capital assets being depreciated:            |                                   |                    |                  |                             |
| Buildings and improvements                   | 16,396,240                        | -                  | -                | 16,396,240                  |
| Improvements other than buildings            | 421,189                           | 4,750              | -                | 425,939                     |
| Furniture and equipment                      | <u>1,615,517</u>                  | <u>41,551</u>      | <u>-</u>         | <u>1,657,068</u>            |
| Total capital assets being depreciated       | <u>18,432,946</u>                 | <u>46,301</u>      | <u>-</u>         | <u>18,479,247</u>           |
| Less accumulated depreciation for:           |                                   |                    |                  |                             |
| Buildings and improvements                   | 6,570,389                         | 405,289            | -                | 6,975,678                   |
| Improvements other than buildings            | 291,000                           | 21,670             | -                | 312,670                     |
| Furniture and equipment                      | <u>1,006,121</u>                  | <u>132,367</u>     | <u>-</u>         | <u>1,138,488</u>            |
| Total accumulated depreciation               | <u>7,867,510</u>                  | <u>559,326</u>     | <u>-</u>         | <u>8,426,836</u>            |
| Total capital assets being depreciated, net  | <u>10,565,436</u>                 | <u>(513,025)</u>   | <u>-</u>         | <u>10,052,411</u>           |
| Governmental activities capital assets, net  | <u>\$ 11,147,504</u>              | <u>\$(513,025)</u> | <u>\$ -</u>      | <u>\$ 10,634,479</u>        |
| <u>Business-type activities</u>              |                                   |                    |                  |                             |
| Furniture and equipment                      | \$ 15,141                         | \$ 49,284          | \$ -             | \$ 64,425                   |
| Less accumulated depreciation                | <u>6,144</u>                      | <u>7,552</u>       | <u>-</u>         | <u>13,696</u>               |
| Business-type activities capital assets, net | <u>\$ 8,997</u>                   | <u>\$ 41,732</u>   | <u>\$ -</u>      | <u>\$ 50,729</u>            |

Depreciation expense was charged to the following functions:

**Governmental activities**

|  |  |                          |
|--|--|--------------------------|
| Instruction  |  |                          |
| Regular  |  | \$ 31,293                |
| Special  |  | 3,459                    |
| Other  |  | 32,925                   |
| Support services                                   |  |                          |
| Instructional staff                                |  | 1,960                    |
| Administration                                     |  | 6,808                    |
| Operation and maintenance of plant                 |  | 4,638                    |
| Transportation                                     |  | 67,503                   |
| Non-instructional programs                         |  | 5,451                    |
| Unallocated depreciation                           |  | <u>405,289</u>           |
| Total governmental activities depreciation expense |  | <u><u>\$ 559,326</u></u> |

**Business type activities**

|               |  |                        |
|---------------|--|------------------------|
| Food services |  | <u><u>\$ 7,552</u></u> |
|---------------|--|------------------------|

During the year ended June 30, 2007, the District discovered several errors in the cost basis and accumulated depreciation recorded for the prior year. Therefore, the beginning cost and accumulated depreciation for the current fiscal year has been adjusted, as follows:

| <u>Category</u> | <u>Cost</u>                 | <u>Acc. Depr.</u>           | <u>Net Effect</u>        |
|-----------------|-----------------------------|-----------------------------|--------------------------|
| Buildings       | \$ 12,500                   | \$ 12,875                   | \$ (375)                 |
| Improvements    | 4,448                       | (8,755)                     | 13,203                   |
| Equipment       | <u>(1,459,214)</u>          | <u>(1,676,229)</u>          | <u>217,015</u>           |
| Totals          | <u><u>\$(1,442,266)</u></u> | <u><u>\$(1,672,109)</u></u> | <u><u>\$ 229,843</u></u> |

The beginning balance of the Governmental Activities in the government-wide Statement of Activities has also been increased by \$229,843 due to these corrections.

**Note 7. Long-term Liabilities**

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

|                            | Balance,<br>Beginning<br>of Year | <u>Additions</u>  | <u>Reductions</u>  | Balance,<br>End<br>of Year | Due<br>Within<br><u>One Year</u> |
|----------------------------|----------------------------------|-------------------|--------------------|----------------------------|----------------------------------|
| General obligation bonds   | \$ 8,775,000                     | \$ -              | \$(455,000)        | \$ 8,320,000               | \$ 480,000                       |
| Capital loan notes payable | 235,000                          | -                 | (75,000)           | 160,000                    | 80,000                           |
| Compensated absences       | 19,010                           | 20,900            | (19,010)           | 20,900                     | -                                |
| Early retirement           | <u>151,133</u>                   | <u>131,325</u>    | <u>(151,132)</u>   | <u>131,326</u>             | <u>65,663</u>                    |
| Totals                     | <u>\$ 9,180,143</u>              | <u>\$ 152,225</u> | <u>\$(700,142)</u> | <u>\$ 8,632,226</u>        | <u>\$ 625,663</u>                |

Interest costs incurred and charged to expense on all long-term debt was \$308,688 for the year ended June 30, 2007.

Early Retirement Termination Benefits

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and have completed fifteen years of continuous service to the District. Employees must complete an application, which is required to be approved by the Board of Education.

An employee who is granted voluntary early retirement benefits will be paid an amount equal to a percentage of their salary from the negotiated salary schedule between the District and the Solon Education Association in the last year of employment (exclusive of any extra-duty pay, extended contract pay and fringe benefits). Administrators shall be placed on the lane and step as if their years of experience were as teachers of the District. The percentage shall be calculated as four and two-tenths percent (4.2%) of the salary multiplied by the number of years of service as a professional licensed employee on a regular contract in the District. However, the maximum voluntary early retirement benefit shall be equal to the employee's salary from the salary schedule, exclusive of any extra-duty, extended contract pay and fringe benefits. Part-time employees shall receive a pro rata amount equal to the employee's full-time equivalency during the last year of employment. Early retirement paid during the year ended June 30, 2007 totaled \$151,132.

Bonds

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

| Year<br>Ending | 2-1-06 Issue      |                    |                    |
|----------------|-------------------|--------------------|--------------------|
|                | Interest<br>Rates | Principal          | Interest           |
| June 30,       |                   |                    |                    |
| 2008           | 3.75              | \$ 475,000         | \$ 315,485         |
| 2009           | 3.75              | 495,000            | 297,673            |
| 2010           | 3.75              | 510,000            | 279,110            |
| 2011           | 3.75              | 530,000            | 259,985            |
| 2012           | 3.75              | 825,000            | 240,110            |
| 2013-2017      | 3.75              | 3,165,000          | 816,548            |
| 2018-2021      | 3.85-4            | <u>2,315,000</u>   | <u>197,679</u>     |
| Totals         |                   | <u>\$8,315,000</u> | <u>\$2,406,590</u> |

The bond issue of November 1, 1979 is fully retired except for one bond for \$5,000 which was due on June 1, 1999, which has not been submitted for redemption. Attempts to identify the holder of the bond have been unsuccessful. The District will annually budget for the payment of this bond and its interest, based on the premise that redemption could occur in any fiscal year. The bond is included in the Debt Service Fund liabilities since the bond has matured.

#### Refunded General Obligation Bonds

In a prior year, the District defeased certain general obligation bonds by placing the proceeds of the new bonds in an irrevocable escrow account held by a fiscal agent on behalf of the District. Funds in this escrow account will be used to pay the principal and interest on the refunded general obligation bonds.

Accordingly, the escrow account assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2007 \$6,860,000 of bonds outstanding are considered to be defeased.

The defeased debt was included in the District's financial statements in prior years. Also the matured outstanding bond had not been included in the liabilities of the Debt Service Fund on prior year financial statements. The District discovered this error during the year ended June 30, 2007. Therefore, the beginning fund balance of the Debt Service Fund has been decreased by \$7,508,204 on the financial statements for the year ended June 30, 2007.

#### Capital Loan Notes

On June 1, 2003, the District issued Capital Loan Notes in the amount of \$500,000 for purchasing and implementing energy conservation measures to the buildings. The notes bear interest at varying rates and are scheduled to be repaid as follows:

| Year Ending<br>June 30, | <u>Principal</u>  | <u>Interest</u> | <u>Total</u>      |
|-------------------------|-------------------|-----------------|-------------------|
| 2008                    | \$ 80,000         | \$ 6,120        | \$ 86,120         |
| 2009                    | <u>80,000</u>     | <u>3,120</u>    | <u>83,120</u>     |
| Totals                  | <u>\$ 160,000</u> | <u>\$ 9,240</u> | <u>\$ 169,240</u> |

**Note 8. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$327,899, \$308,619 and \$288,411 respectively, equal to the required contributions for each year.

**Note 9. Risk Management**

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

**Note 10. 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 \$367,758 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.

**Note 11. Restatement of Beginning Balances**

During the year ended June 30, 2007, the District discovered several errors in the ending balances reported at June 30, 2006. Therefore, the beginning balances for the year ended June 30, 2007 have been restated as follows:

| <u>Fund or Net Assets</u>         | <u>Amount</u>   |
|-----------------------------------|-----------------|
| Debt Service                      | \$(7,508,204)   |
| Student Activity                  | (84)            |
| Physical Plant and Equipment Levy | <u>(11,079)</u> |
| Total governmental                | (7,519,367)     |
| <br>                              |                 |
| School Nutrition                  | 11,079          |
| Trust                             | 84              |
| Governmental activities           | ( 264,524)      |

**Note 12. Contingencies**

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2007, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

**Note 13. Subsequent Events**

Voters in Johnson and Linn Counties approved the School Infrastructure Local Option tax, beginning July 1, 2007. The District will receive approximately \$1,400,000 and \$5,000 annually from Johnson and Linn Counties, respectively, beginning in the year ending June 30, 2008. The levy is 1% of taxable sales in each county for a period of 10 years.

**Note 14. Deficit Net Assets**

The District had negative unrestricted net assets of \$554,097 at June 30, 2007, as reported on Exhibit A.

Required Supplementary Information

**SOLON COMMUNITY SCHOOL DISTRICT**  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2007

|   | Governmental Funds |  | Proprietary Funds |  | Total Actual       | Budgeted Amounts   |                   | Final to Actual Variance |
|---|--------------------|--|-------------------|--|--------------------|--------------------|-------------------|--------------------------|
|   | Actual             |  | Actual            |  |                    | Original           | Final             |                          |
| <b>Revenues</b>                         |                    |  |                   |  |                    |                    |                   |                          |
| Local sources                           | \$5,699,064        |  | \$760,139         |  | \$6,459,203        | \$6,217,241        | \$6,217,241       | \$ 241,962               |
| State sources                           | 5,291,614          |  | 4,958             |  | 5,296,572          | 5,278,919          | 5,278,919         | 17,653                   |
| Federal sources                         | 261,185            |  | 64,558            |  | 325,743            | 250,738            | 250,738           | 75,005                   |
| Total revenues                          | <u>11,251,863</u>  |  | <u>829,655</u>    |  | <u>12,081,518</u>  | <u>11,746,898</u>  | <u>11,746,898</u> | <u>334,620</u>           |
| <b>Expenditures</b>                     |                    |  |                   |  |                    |                    |                   |                          |
| Instruction                             | 6,270,581          |  | 60,883            |  | 6,331,464          | 6,137,695          | 6,315,000         | (16,464)                 |
| Support services                        | 3,391,628          |  | 12,486            |  | 3,404,114          | 3,749,273          | 3,925,000         | 520,886                  |
| Non-instructional programs              | -                  |  | 672,906           |  | 672,906            | 775,480            | 861,250           | 188,344                  |
| Other expenditures                      | 1,580,277          |  | -                 |  | 1,580,277          | 1,256,953          | 1,239,876         | (340,401)                |
| Total expenditures                      | <u>11,242,486</u>  |  | <u>746,275</u>    |  | <u>11,988,761</u>  | <u>11,919,401</u>  | <u>12,341,126</u> | <u>352,365</u>           |
| Net change in fund balance              | 9,377              |  | 83,380            |  | 92,757             | (172,503)          | (594,228)         | 686,985                  |
| Balance, beginning of year, as restated | 1,238,594          |  | 320,586           |  | 1,559,180          | 1,406,108          | 1,406,108         | 153,072                  |
| Balance, end of year                    | <u>\$1,247,971</u> |  | <u>\$403,966</u>  |  | <u>\$1,651,937</u> | <u>\$1,233,605</u> | <u>\$ 811,880</u> | <u>\$ 840,057</u>        |

SOLON COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary 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 Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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. During the year, the District adopted one budget amendment increasing expenditures by \$421,725.

During the year ended June 30, 2007, District expenditures exceeded the amount budgeted in the Instruction and Other Expenditures functions, but not in total.

Other Supplementary Information

SOLON COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Governmental Funds  
 June 30, 2007

Schedule 1

|                                      | Special Revenue  |                  |                                    |                 |                  |
|--------------------------------------|------------------|------------------|------------------------------------|-----------------|------------------|
|                                      | Management       | Student          | Physical<br>Plant and<br>Equipment | Capital         | Total            |
|                                      | <u>Levy</u>      | <u>Activity</u>  | <u>Levy</u>                        | <u>Projects</u> | <u> </u>         |
| <b>Assets</b>                        |                  |                  |                                    |                 |                  |
| Cash and pooled investments          | \$ 75,517        | \$104,810        | \$ 28,266                          | \$ 102          | \$208,695        |
| Receivables                          |                  |                  |                                    |                 |                  |
| Property tax                         |                  |                  |                                    |                 |                  |
| Delinquent                           | 1,486            | -                | 2,364                              | -               | 3,850            |
| Succeeding year                      | 200,000          | -                | 427,212                            | -               | 627,212          |
| Total assets                         | <u>\$277,003</u> | <u>\$104,810</u> | <u>\$457,842</u>                   | <u>\$ 102</u>   | <u>\$839,757</u> |
| <b>Liabilities and Fund Balances</b> |                  |                  |                                    |                 |                  |
| Liabilities                          |                  |                  |                                    |                 |                  |
| Accounts payable                     | \$ -             | \$ 4,501         | \$ -                               | \$ -            | \$ 4,501         |
| Deferred revenue                     |                  |                  |                                    |                 |                  |
| Succeeding year property tax         | 200,000          | -                | 427,212                            | -               | 627,212          |
| Total liabilities                    | 200,000          | 4,501            | 427,212                            | -               | 631,713          |
| Fund balances                        |                  |                  |                                    |                 |                  |
| Unreserved fund balances             | 77,003           | 100,309          | 30,630                             | 102             | 208,044          |
| Total liabilities and fund balances  | <u>\$277,003</u> | <u>\$104,810</u> | <u>\$457,842</u>                   | <u>\$ 102</u>   | <u>\$839,757</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
 Nonmajor Governmental Funds  
 For the Year Ended June 30, 2007

Schedule 2

| Revenues   | Special Revenue            |                             |  |                             | <u>Total</u> |
|--|----------------------------|-----------------------------|--|-----------------------------|--------------|
|  | <u>Management<br/>Levy</u> | <u>Student<br/>Activity</u> | <u>Physical<br/>Plant and<br/>Equipment<br/>Levy</u> | <u>Capital<br/>Projects</u> |              |
| Local sources  |                            |                             |  |                             |              |
| Local taxes  | \$262,943                  | \$ -                        | \$412,610  | \$ -                        | \$675,553    |
| Other  | 11,748                     | 305,145                     | 5,713  | 102                         | 322,708      |
| Total revenues   | 274,691                    | 305,145                     | 418,323  | 102                         | 998,261      |
| Expenditures   |                            |                             |  |                             |              |
| Current  |                            |                             |  |                             |              |
| Instruction  |                            |                             |  |                             |              |
| Regular  | 138,435                    | -                           | -  | -                           | 138,435      |
| Other  | -                          | 299,063                     | -  | -                           | 299,063      |
| Total instruction  | 138,435                    | 299,063                     | -  | -                           | 437,498      |
| Support services   |                            |                             |  |                             |              |
| Administration   | 12,697                     | -                           | -  | -                           | 12,697       |
| Operation and maintenance of plant                           | 115,061                    | 7,455                       | 66,862   | -                           | 189,378      |
| Total support services                                       | 127,758                    | 7,455                       | 66,862   | -                           | 202,075      |
| Other expenditures   |                            |                             |  |                             |              |
| Facilities acquisition                                       | -                          | -                           | 340,888  | -                           | 340,888      |
| Total expenditures   | 266,193                    | 306,518                     | 407,750  | -                           | 980,461      |
| Excess (deficiency) of revenues over<br>(under) expenditures | 8,498                      | (1,373)                     | 10,573   | 102                         | 17,800       |
| Other financing uses   |                            |                             |  |                             |              |
| Interfund operating transfers out                            | -                          | (10,335)                    | (83,670)   | -                           | (94,005)     |
| Net change in fund balances                                  | 8,498                      | (11,708)                    | (73,097)   | 102                         | (76,205)     |
| Fund balances, beginning of year, as restated                | 68,505                     | 112,017                     | 103,727  | -                           | 284,249      |
| Fund balances, end of year                                   | \$ 77,003                  | \$100,309                   | \$ 30,630  | \$ 102                      | \$208,044    |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Net Assets  
 Nonmajor Enterprise Funds  
 June 30, 2007

Schedule 3

|   | <u>School</u>    | <u>Before &amp;</u> | <u>Preschool</u> | <u>Total</u>     |
|---|------------------|---------------------|------------------|------------------|
|   | <u>Nutrition</u> | <u>After</u>        |                  |                  |
| <b>Assets</b>                                   |                  |                     |                  |                  |
| Cash and cash equivalents                       | \$280,226        | \$65,787            | \$31,202         | \$377,215        |
| Inventories                                     | 2,885            | -                   | -                | 2,885            |
| Capital assets, net of accumulated depreciation | 50,729           | -                   | -                | 50,729           |
| Total assets                                    | <u>333,840</u>   | <u>65,787</u>       | <u>31,202</u>    | <u>430,829</u>   |
| <b>Liabilities</b>                              |                  |                     |                  |                  |
| Salaries and benefits payable                   | 6,145            | 2,888               | 6,612            | 15,645           |
| Due to other funds                              | 6,402            | 4,816               | -                | 11,218           |
| Total liabilities                               | <u>12,547</u>    | <u>7,704</u>        | <u>6,612</u>     | <u>26,863</u>    |
| <b>Net Assets</b>                               |                  |                     |                  |                  |
| Invested in capital assets                      | 50,729           | -                   | -                | 50,729           |
| Unrestricted                                    | 270,564          | 58,083              | 24,590           | 353,237          |
| Total net assets                                | <u>\$321,293</u> | <u>\$58,083</u>     | <u>\$24,590</u>  | <u>\$403,966</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets  
 Nonmajor Enterprise Funds  
 For the Year Ended June 30, 2007

Schedule 4

|  | <u>School</u>    | <u>Before &amp;</u> | <u>Preschool</u> | <u>Total</u>     |
|--|------------------|---------------------|------------------|------------------|
|  | <u>Nutrition</u> | <u>After</u>        |                  |                  |
| Operating revenue                          |                  |                     |                  |                  |
| Local sources                              |                  |                     |                  |                  |
| Charges for service                        | \$397,960        | \$296,038           | \$64,960         | \$758,958        |
| Operating expenses                         |                  |                     |                  |                  |
| Instruction                                |                  |                     |                  |                  |
| Regular                                    |                  |                     |                  |                  |
| Salaries                                   | -                | -                   | 41,192           | 41,192           |
| Benefits                                   | -                | -                   | 16,800           | 16,800           |
| Purchased services                         | -                | -                   | 8                | 8                |
| Supplies                                   | -                | -                   | 2,472            | 2,472            |
| Miscellaneous                              | -                | -                   | 411              | 411              |
|  | <u>-</u>         | <u>-</u>            | <u>60,883</u>    | <u>60,883</u>    |
| Support services                           |                  |                     |                  |                  |
| Administration                             |                  |                     |                  |                  |
| Purchased services                         | 495              | -                   | -                | 495              |
| Operation and maintenance of plant         |                  |                     |                  |                  |
| Purchased services                         | 11,679           | 312                 | -                | 11,991           |
| Non-instructional programs                 |                  |                     |                  |                  |
| Salaries                                   | 147,494          | 156,424             | -                | 303,918          |
| Benefits                                   | 49,577           | 28,644              | -                | 78,221           |
| Purchased services                         | 130              | 16,684              | -                | 16,814           |
| Supplies                                   | 220,873          | 41,086              | -                | 261,959          |
| Miscellaneous                              | 4,163            | 279                 | -                | 4,442            |
| Depreciation                               | 7,552            | -                   | -                | 7,552            |
|  | <u>429,789</u>   | <u>243,117</u>      | <u>-</u>         | <u>672,906</u>   |
| Total operating expenses                   | 441,963          | 243,429             | 60,883           | 746,275          |
| Operating income (loss)                    | <u>(44,003)</u>  | <u>52,609</u>       | <u>4,077</u>     | <u>12,683</u>    |
| Non-operating revenue                      |                  |                     |                  |                  |
| Interest income                            | 1,181            | -                   | -                | 1,181            |
| State sources                              | 4,958            | -                   | -                | 4,958            |
| Federal sources                            | 64,558           | -                   | -                | 64,558           |
| Total non-operating revenue                | <u>70,697</u>    | <u>-</u>            | <u>-</u>         | <u>70,697</u>    |
| Net income                                 | 26,694           | 52,609              | 4,077            | 83,380           |
| Net assets, beginning of year, as restated | 294,599          | 5,474               | 20,513           | 320,586          |
| Net assets, end of year                    | <u>\$321,293</u> | <u>\$ 58,083</u>    | <u>\$24,590</u>  | <u>\$403,966</u> |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Combining Statement of Cash Flows  
 Nonmajor Enterprise Funds  
 For the Year Ended June 30, 2007

Schedule 5

|  | <u>School</u><br><u>Nutrition</u> | <u>Before &amp;</u><br><u>After</u> | <u>Preschool</u> | <u>Total</u>     |
|--|-----------------------------------|-------------------------------------|------------------|------------------|
| Cash flows from operating activities                     |                                   |                                     |                  |                  |
| Cash received from sale of services                      | \$397,960                         | \$296,233                           | \$64,960         | \$759,153        |
| Cash payments to employees for services                  | (185,119)                         | (188,053)                           | (54,100)         | (427,272)        |
| Cash payments to suppliers for goods and services        | <u>(230,096)</u>                  | <u>(58,890)</u>                     | <u>(2,891)</u>   | <u>(291,877)</u> |
| Net cash provided by (used in) operating activities      | <u>(17,255)</u>                   | <u>49,290</u>                       | <u>7,969</u>     | <u>40,004</u>    |
| Cash flows from non-capital financing activities         |                                   |                                     |                  |                  |
| State grants received                                    | 4,958                             | -                                   | -                | 4,958            |
| Federal grants received                                  | <u>56,885</u>                     | <u>-</u>                            | <u>-</u>         | <u>56,885</u>    |
| Net cash provided by non-capital financing activities    | <u>61,843</u>                     | <u>-</u>                            | <u>-</u>         | <u>61,843</u>    |
| Cash flows from capital and related financing activities |                                   |                                     |                  |                  |
| Acquisition of capital assets                            | <u>(38,205)</u>                   | <u>-</u>                            | <u>-</u>         | <u>(38,205)</u>  |
| Cash flows from investing activities                     |                                   |                                     |                  |                  |
| Interest on investments                                  | <u>1,181</u>                      | <u>-</u>                            | <u>-</u>         | <u>1,181</u>     |
| Net increase in cash and cash equivalents                | 7,564                             | 49,290                              | 7,969            | 64,823           |
| Cash and cash equivalents, beginning of year             | <u>272,662</u>                    | <u>16,497</u>                       | <u>23,233</u>    | <u>312,392</u>   |
| Cash and cash equivalents, end of year                   | <u>\$280,226</u>                  | <u>\$ 65,787</u>                    | <u>\$31,202</u>  | <u>\$377,215</u> |

**Reconciliation of operating income (loss) to net cash provided by (used in) operating activities**

|   |                    |                  |                 |                  |
|---|--------------------|------------------|-----------------|------------------|
| Operating income (loss)   | \$ (44,003)        | \$ 52,609        | \$ 4,077        | \$ 12,683        |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities |                    |                  |                 |                  |
| Depreciation  | 7,552              | -                | -               | 7,552            |
| Commodities used  | 7,673              | -                | -               | 7,673            |
| Decrease in accounts receivable   | -                  | 195              | -               | 195              |
| (Increase) in inventory   | (429)              | -                | -               | (429)            |
| Increase (decrease) in accounts payable   | -                  | (529)            | 3,892           | 3,363            |
| Increase (decrease) in due to other funds   | 6,152              | (2,235)          | -               | 3,917            |
| Increase (decrease) in accrued salaries and benefits  | <u>5,800</u>       | <u>(750)</u>     | <u>-</u>        | <u>5,050</u>     |
| Net cash provided by (used in) operating activities   | <u>\$ (17,255)</u> | <u>\$ 49,290</u> | <u>\$ 7,969</u> | <u>\$ 40,004</u> |

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

During the year ended June 30, 2007, the District received \$7,673 of federal commodities.

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2007

Schedule 6

| Account                        | Balance,<br>Beginning<br>of Year | <u>Revenues</u> | <u>Expenditures</u> | Intrafund<br><u>Transfers</u> | Balance,<br>End of<br>Year |
|--------------------------------|----------------------------------|-----------------|---------------------|-------------------------------|----------------------------|
| Drama                          | \$ 7,667                         | \$ 6,503        | \$ 7,671            | \$ -                          | \$ 6,499                   |
| Yearbook                       | 9,287                            | 6,558           | 6,632               | -                             | 9,213                      |
| MS yearbook                    | 1,974                            | 4,128           | 2,234               | -                             | 3,868                      |
| Fine arts                      | 666                              | 478             | 300                 | -                             | 844                        |
| Honors English                 | 45                               | -               | -                   | -                             | 45                         |
| Win With Reading               | 60                               | -               | -                   | -                             | 60                         |
| Media Center                   | 13                               | -               | 13                  | -                             | -                          |
| Speech                         | 898                              | 464             | 165                 | -                             | 1,197                      |
| All athletics                  | 277                              | 102,869         | 100,181             | 263                           | 3,228                      |
| Athletic director/facilities   | 1                                | -               | -                   | -                             | 1                          |
| Soccer                         | -                                | 3,162           | 3,167               | 5                             | -                          |
| Cross country                  | 1,095                            | 2,796           | 2,592               | -                             | 1,299                      |
| Football                       | -                                | 155             | 458                 | 303                           | -                          |
| Baseball                       | 4,290                            | 33,318          | 36,564              | -                             | 1,044                      |
| Boys track                     | 2,102                            | 3,812           | 4,364               | (60)                          | 1,490                      |
| Wrestling                      | 1,364                            | 4,930           | 5,717               | -                             | 577                        |
| Girls basketball               | 23                               | -               | 60                  | 60                            | 23                         |
| Volleyball                     | 464                              | -               | -                   | -                             | 464                        |
| Girls soccer                   | 521                              | 700             | 731                 | (192)                         | 298                        |
| Softball                       | (1,963)                          | 14,797          | 17,915              | (20)                          | (5,101)                    |
| Girls track                    | 533                              | 3,050           | 3,041               | -                             | 542                        |
| Girls golf                     | -                                | 284             | 329                 | 45                            | -                          |
| Book A Birthday                | 2                                | -               | -                   | -                             | 2                          |
| Registration                   | 1,975                            | -               | 32                  | -                             | 1,943                      |
| High school activities         | 997                              | 811             | 1,130               | -                             | 678                        |
| Padlocks                       | 140                              | 80              | -                   | -                             | 220                        |
| Lakeview activities            | 106                              | 83              | -                   | -                             | 189                        |
| Art for education              | 896                              | -               | -                   | -                             | 896                        |
| Lakeview pictures              | 417                              | 446             | -                   | -                             | 863                        |
| Concessions                    | 6,651                            | 16,285          | 15,867              | -                             | 7,069                      |
| Petty cash                     | 43                               | -               | -                   | -                             | 43                         |
| High school pictures           | 10,774                           | 2,672           | 5,591               | (1,500)                       | 6,355                      |
| Computer training classes      | 1,533                            | -               | 56                  | -                             | 1,477                      |
| Summer enrichment              | 4,547                            | 3,541           | 3,026               | -                             | 5,062                      |
| Middle School band resale      | 463                              | 1,379           | 1,369               | -                             | 473                        |
| Middle school student supplies | 7,384                            | 2,037           | 9,421               | -                             | -                          |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
 For the Year Ended June 30, 2007

Schedule 6

| Account                      | Balance,<br>Beginning<br>of Year | Revenues          | Expenditures      | Intrafund<br>Transfers | Balance,<br>End of<br>Year |
|------------------------------|----------------------------------|-------------------|-------------------|------------------------|----------------------------|
| Middle school activities     | \$ 2,685                         | \$ 5,122          | \$ 7,807          | \$ -                   | \$ -                       |
| District-wide activities     | 2,812                            | 1,078             | 1,814             | -                      | 2,076                      |
| HS Spartan Fund Run          | 2                                | -                 | -                 | -                      | 2                          |
| HS robotics club             | -                                | 3,025             | 4,386             | 1,500                  | 139                        |
| Close-up                     | 245                              | -                 | -                 | -                      | 245                        |
| Spanish club                 | 1,659                            | 4,885             | 2,088             | (235)                  | 4,221                      |
| Flag corps                   | 859                              | 1,627             | 2,406             | (63)                   | 17                         |
| Lakeview student council     | 9                                | -                 | -                 | -                      | 9                          |
| High school student council  | 796                              | 1,922             | 2,124             | -                      | 594                        |
| Junior high student council  | 15,266                           | 20,131            | 12,138            | -                      | 23,259                     |
| School store                 | 40                               | -                 | -                 | -                      | 40                         |
| National Honor Society       | 399                              | 778               | 588               | -                      | 589                        |
| Peer council                 | 320                              | -                 | -                 | -                      | 320                        |
| Band                         | 3,924                            | 9,557             | 9,888             | -                      | 3,593                      |
| HS Cheerleading              | 4,908                            | 6,207             | 9,405             | (324)                  | 1,386                      |
| SADD                         | 334                              | 2,076             | 1,324             | -                      | 1,086                      |
| 30 days to fitness           | 32                               | -                 | -                 | -                      | 32                         |
| Environmental club           | 216                              | 231               | -                 | -                      | 447                        |
| YAC                          | 818                              | -                 | 200               | -                      | 618                        |
| Dance team                   | 1,051                            | 12,380            | 12,223            | 404                    | 1,612                      |
| Vocal music                  | 2,982                            | 6,453             | 6,563             | (24)                   | 2,848                      |
| MS cheerleading              | 384                              | -                 | -                 | -                      | 384                        |
| MS dance team                | 255                              | 1,749             | 1,420             | -                      | 584                        |
| "Stage Fright" club          | 1,005                            | -                 | 71                | -                      | 934                        |
| "You Can Do It" group        | 1,972                            | 726               | 1,338             | -                      | 1,360                      |
| HS show choir                | 543                              | 300               | 733               | -                      | 110                        |
| MS show choir                | -                                | 1,532             | 1,068             | -                      | 464                        |
| GSA gay straight alliance    | -                                | 74                | -                 | -                      | 74                         |
| Senior class                 | 686                              | 1,268             | 1,083             | 411                    | 1,282                      |
| Junior class                 | 1,098                            | 6,533             | 5,965             | (1,235)                | 431                        |
| Cultural enrichment fund     | 1,443                            | 960               | 2,402             | -                      | 1                          |
| Graduate class contributions | 113                              | -                 | -                 | 687                    | 800                        |
| Lakeview water club          | (84)                             | -                 | -                 | (25)                   | (109)                      |
| Joey Kaiser memorial fund    | -                                | 1,193             | 1,193             | -                      | -                          |
| <b>Totals</b>                | <u>\$ 112,017</u>                | <u>\$ 305,145</u> | <u>\$ 316,853</u> | <u>\$ -</u>            | <u>\$ 100,309</u>          |

See accompanying Independent Auditor's Report.

SOLON COMMUNITY SCHOOL DISTRICT  
 Schedule of Revenues by Source and Expenditures by Function  
 All Governmental Fund Types  
 For the Last Four Years

Schedule 7

|                                       | Modified Accrual Basis |                     |                    |                    |
|---------------------------------------|------------------------|---------------------|--------------------|--------------------|
|                                       | <u>2007</u>            | <u>2006</u>         | <u>2005</u>        | <u>2004</u>        |
| Revenues                              |                        |                     |                    |                    |
| Local sources                         |                        |                     |                    |                    |
| Local tax                             | \$ 4,681,730           | \$ 4,284,269        | \$4,168,992        | \$4,016,863        |
| Tuition                               | 455,383                | 369,739             | 414,282            | 460,436            |
| Other                                 | 561,951                | 581,774             | 478,405            | 428,773            |
| State sources                         | 5,291,614              | 5,019,959           | 4,681,941          | 4,367,205          |
| Federal sources                       | 261,185                | 185,326             | 160,999            | 159,255            |
| Total revenues                        | <u>\$11,251,863</u>    | <u>\$10,441,067</u> | <u>\$9,904,619</u> | <u>\$9,432,532</u> |
| Expenditures                          |                        |                     |                    |                    |
| Current                               |                        |                     |                    |                    |
| Instruction                           |                        |                     |                    |                    |
| Regular                               | \$ 4,312,966           | \$ 3,912,378        | \$3,522,375        | \$3,367,391        |
| Special                               | 1,199,336              | 1,161,030           | 968,611            | 955,782            |
| Other                                 | 758,279                | 714,789             | 882,212            | 646,890            |
| Support services                      |                        |                     |                    |                    |
| Student                               | 138,969                | 138,911             | 133,370            | 170,130            |
| Instructional staff                   | 637,501                | 597,467             | 471,260            | 598,890            |
| Administration                        | 1,095,277              | 1,023,438           | 950,958            | 874,969            |
| Operation and maintenance<br>of plant | 1,175,993              | 1,195,883           | 1,196,049          | 945,915            |
| Transportation                        | 343,888                | 427,022             | 414,093            | 467,611            |
| Non-instructional programs            | -                      | -                   | 1,879              | 18,872             |
| Other expenditures                    |                        |                     |                    |                    |
| Facilities acquisition                | 340,888                | 121,754             | -                  | 191,307            |
| Long-term debt                        |                        |                     |                    |                    |
| Principal                             | 530,000                | 1,875,000           | 523,085            | 489,303            |
| Interest and other charges            | 341,631                | 561,060             | 476,575            | 496,359            |
| AEA flowthrough                       | 367,758                | 340,963             | 321,428            | 310,846            |
| Total expenditures                    | <u>\$11,242,486</u>    | <u>\$12,069,695</u> | <u>\$9,861,895</u> | <u>\$9,534,265</u> |

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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  
Solon Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Solon 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 my report thereon dated March 6, 2008. I conducted my 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 my audit, I considered Solon Community School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of Solon Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Solon Community School District's internal control over financial reporting.

My 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 described below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I 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 Solon 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 Solon Community School District's financial statements that is more than inconsequential will not be prevented or detected by Solon Community School District's internal control. I consider the deficiencies in internal control described in Part I of

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

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

My 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, I believe items A, B and C are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Solon Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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 my audit of the financial statements of the District. Since my 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.

Solon Community School District's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions in the District's responses, I did not audit Solon Community School District's responses and, accordingly, I 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 Solon Community School District and other parties to whom Solon Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
March 6, 2008

SOLON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were reported.

SIGINIFICANT DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, 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 I 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 - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- B. Financial Reporting - Reporting financial data reliably in accordance with generally accepted accounting principles (GAAP) requires the business manager or district management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. The business manager is able to perform the duties required in the normal course of business and to prepare the CAR in accordance with the Department of Education requirements. The business manager has a good understanding of GAAP accounting; however, she presently lacks the qualifications and training to appropriately prepare the annual financial statements and footnote disclosures in compliance with GAAP. This is a common situation in small entities where accounting personnel typically do not have a four-year accounting degree and do not receive annual training in order to stay current on new accounting and reporting standards and requirements. The business manager would also have to stay current on all changes in GAAP accounting, reporting and disclosure requirements annually.

SOLON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

Recommendation - The business manager should consider obtaining GAAP knowledge through reading relevant accounting literature and/or attending professional education courses to help her significantly improve in her ability to prepare reliable GAAP financial statements, including footnote disclosures. The district should decide whether this would be an efficient use of district funds or if they should continue to rely on the auditor to prepare the annual financial statements and footnote disclosures.

Response - We believe that the business manager has sufficient knowledge to perform her daily duties and take responsibility for the annual financial statements and footnote disclosure in compliance with GAAP, as prepared by the auditor. We will investigate alternatives to our controls, but believe that it would not be an efficient use of District funds to get the necessary training for the business manager to comply with this recommendation.

Conclusion - Response accepted.

- C. Accounting for Gate Receipts - The District does not use a ticket system to account for the receipts from extracurricular activities that charge an admission nor do they reconcile the number of tickets sold to the cash collected.

Recommendation - A ticket system should be implemented by the district. Tickets should be taken at all district events charging admission. The district should also implement appropriate controls over this procedure. At the end of each event, the cash collected should be counted by two individuals and should be reconciled to the number of tickets sold. This reconciliation should be signed by the individuals responsible for counting the cash. This reconciliation should also match the bank deposit slip.

Response - We will incorporate the recommendation into our accounting procedures.

Conclusion - Response accepted.

- D. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) and financial statements that were not detected by the District's internal controls. The CAR and financial statements contained amounts for assets held in an escrow account and liabilities for defeased debt. These assets and liabilities should have been removed from the District's CAR and financial statements when the debt was defeased in a prior fiscal year. Also, the amounts reported for capital assets and accumulated depreciation were not correct as reported on the District's CAR; however, they are reported correctly on the financial statements.

SOLON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

Recommendation - An effective system of internal control should detect material misstatements in the District's financial records and financial reporting. The District should review their control procedures and consider making appropriate changes to improve their internal controls to help eliminate this deficiency.

Response - The business manager relied upon the advice of the Iowa Department of Education and the auditor to account for the bonds refunded in a prior year. We were not aware that this debt should be removed from the district financial statements. Our capital asset accounting software is not functioning properly. Therefore, the reports compiled by this software are not accurate or reliable. We have attempted to correct the problems (with the help of the software technicians), without success. At the time that the CAR was due, the business manager had not had adequate time to reconstruct the capital asset records. She felt that it was important to file the CAR timely, even if the capital asset information was not correct. After the due date of the CAR, the business manager had adequate time to reconstruct and correct the capital asset reports before the financial statements were prepared at year end.

Conclusion - Response accepted.

**Part II. Other Findings Related to Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amended amounts budgeted in the Instruction and Other Expenditures functions, but not the amount budgeted in total.

Recommendation - The certified budget should have been amended to sufficient amounts, in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - We will be more attentive of this in the future.

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

SOLON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

4. Business Transactions - No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board. However, the maximum deposit amount was not included in the board minutes.

Recommendation - Chapter 12C of the Code of Iowa requires that the financial institutions used by the District be approved by the board, along with the maximum amount to be kept in each depository, and that such be included in the board minutes.

Response - We will make sure that we include the required information in the board minutes in the future.

Conclusion - Response accepted.

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I 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.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely; however, I noted that the amounts reported for the Long-term Governmental Capital Assets were not correct nor in agreement with the District's depreciation schedule.

Recommendation - The District should correct the items affecting beginning balances on the Certified Annual Report for the fiscal year ending June 30, 2008. The District should also ensure that the reports generated by the computer software for fixed assets are accurate before the CAR is certified in future years.

Response - We will correct the necessary balances on our FY08 CAR.

Conclusion - Response accepted.

SOLON COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2007

10. Outstanding Bond Coupon - The District has a 1979 General Obligation Series Bond coupon outstanding for \$5,000 plus accrued interest of 1,350.

Recommendation - The District should consult the Iowa Department of Education regarding disposition of this matter.

Response - We will investigate the situation and contact the Iowa Department of Education regarding this matter.

Conclusion - Response accepted.

SOLON COMMUNITY SCHOOL DISTRICT

Audit Staff

June 30, 2007

This audit was performed by

Kay Chapman, CPA

Tammy Calvert, staff accountant