

**TERRIL
COMMUNITY SCHOOL DISTRICT**

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

JUNE 30, 2007

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TERRIL COMMUNITY SCHOOL DISTRICT

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education

(Before September, 2006 Election)

Larry Flaherty	President	2007
Galen Chicoine	Vice President	2008
Jodi Oleson		2006
Craig VenEhwegan		2006
Amy Woodruff	(resigned August, 2006)	

(After September, 2006 Election)

Larry Flaherty	President	2007
Galen Chicoine	Vice President	2008
Eugene Buhr		2009
Craig VenEhwegan		2009
Tim Roth		2007

School Officials

Dan Mart	Superintendent
Karen Oleson	District Secretary/ Treasurer

BRUCE D. FRINK
Certified Public Accountant

Independent Auditor's Report

To the Board of Education of
Terril Community School District:

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Terril 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, we have also issued our report dated March 12, 2008 on our consideration of Terril Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 23 and 42 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Member:

- American Institute of Certified Public Accountants
- Iowa Society of Certified Public Accountants

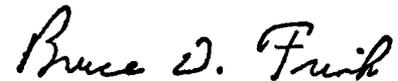
Services:

- Individual & Corporate Tax Preparation, Partnerships, Estate & Trust
- Year Round Tax Planning
- Electronic Filing
- Payroll & Sales Tax Preparation
- I.R.S. Representation
- Monthly/Quarterly Write-Up
- Data Processing Services
- Payroll Preparation
- Computerized Financial Statements
- Business/Personal Financial Planning
- Bank Loan Assistance
- Section 105 Medical Plan Administration

Plus:

- Over 30 years of Expertise and Experience
- Evenings & Saturdays Available by Appointment
- Extended Hours During Tax Season

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Terril Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The financial statements for the two years ended June 30, 2005 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



BRUCE D. FRINK
Certified Public Accountant

March 12, 2008

TERRIL COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Terril 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

- The 2006-07 school year marked the third year of a three year whole grade sharing agreement with Graettinger Community School District. All of Terril's high school students (grades 9 to 12) went to Graettinger. In addition, Terril's third graders went to Graettinger because of the small class size. In turn, all of Graettinger's middle school students (grades 6 to 8) were bussed to Terril. The middle school grades each had two sections again this year. Teachers were again assigned by subject matter.
- The District's overall financial position in the General Fund improved slightly compared to the prior year. The unreserved/undesignated general fund balance increased from \$233,344 to \$334,196. At 15.69 percent the District's solvency ratio continues to be above the target range of 5%-10% that most Districts try to maintain.
- The certified enrollment count taken on October 1, 2006 was 186. This count represents a loss of about one student compared to a loss of twenty-four students when the count was taken in 2005.
- In the 2006-07 school year we had 44 students open enroll out and two students open enroll in. This compares to 47 open enrolled out and four students open enrolled in for the prior year.
- The Special Education Program ended fiscal year 2007 with a positive balance of \$2,272. This is compared to a balance of \$13,549 in the prior year. The program has ended the year with a positive balance in only four of the last fifteen years. In the 2006-07 school year, sixteen students were sent or open enrolled out to other Districts resulting in \$137,746 in tuition paid to other schools for special education.
- 2006-07 marked the first year in many years that health insurance costs did not increase. It also was the first year of the District's self-funding plan. Any cost savings were deposited in a separate fund to cover deductible amounts the District is obligated to cover. In the 2006-07 school year medical costs in the General Fund totaled over \$80,000, down from \$105,000 the prior year. In the Self Insurance fund about \$7,400 was paid out leaving a balance of \$7,000.
- One teacher resigned at the end of the 2007 school year to take advantage of the early retirement plan. Jan Torkelson resigned as high school Spanish and elementary physical education teacher after thirty-three years with the District. This resignation will result in only slight savings for the General Fund since her services were mostly paid by Graettinger.
- Both state and federal income were down from the prior year. Overall, revenue receipts were up about seventeen percent.
- The Day's Net Cash Ration shows the effect of deficit spending. On June 30, 2007, the District had a cash and investment balance of \$356,787. This amount, when divided by fiscal year 2007 average daily expenditures of \$5,549 yields 64 days of operating cash flow. This indicates that the District still has sufficient cash reserves to operate until September, when the first payment of state aid is received.

- Capital project revenue totaled \$212,210 from local option sales tax in Clay, Dickinson and Emmet counties. New vehicles purchased in fiscal year 2007 included a 2008 Bluebird bus for \$61,750, a 2007 Impala for \$16,853 and a 2007 full size van for \$20,306.
- New membrane roofs were installed on the 1952 addition lower decks and the section that connects the two buildings. Cost for roofing was \$33,996.
- Remodeling began on the third floor by replacing the hear registers and installing carpet in those rooms that were not already done. Cost for this work was \$30,221.

The following pages are the District's *Annual Financial Health Report*. It contains different indicators of the District's financial condition.

FINANCIAL INDICATOR SUMMARY SHEET

	2003	2004	2005	2006	2007
Balance Sheet Comparison					
% of Change between years:					
Assets	23.1%	-17.2%	-20.1%	-17.0%	42.3%
Liabilities	27.1%	19.5%	152.1%	-78.5%	7.3%
Fund Balance	23.1%	17.2%	20.1%	17.0%	42.3%
Rev. & Expend. Comparison					
% of Change between years;					
Revenues	10.4%	-3.6%	-1.8%	20.8%	2.9%
Expenditures	6.2%	-4.9%	1.3%	12.3%	-2.1%
Fund Balance	1154.5%	197.8%	74.5%	100.1%	61592.9%
Financial Solvency Ratio ,					
District Equity Position	23.04%	19.84%	12.93%	11.27%	15.69%
Unspent Balance Ratio,					
Unbudgeted Spending Reserves:					
Regular	18.03%	13.44%	12.56%	11.48%	13.68%
Unreserved	17.09%	12.66%	11.99%	11.14%	13.33%
Rev. & Expend. Change Ratio					
Measures Trends	1.7 : 1	.8 : 1	1.2: 1	1.6:1	1.4:1
Rev. (Deficit) Margin Ratio					
Measures Operating Results	4.19%	-4.25%	-7.55%	0.01%	4.92%
Contribution Ratio,					
Measures Local Taxation Effort:					
Property Tax / Income Surtax	50.3%	50.6%	45.2%	36.5%	43.3%
Other Local	8.6%	5.8%	8.8%	21.3%	21.2%
State	37.1%	39.1%	41.6%	39.2%	32.1%
Federal	4.0%	4.5%	4.4%	3.0%	3.3%
Other	0.0%	0.0%	0.0%	0.0%	0.1%
Day's Net Cash Ratio					
Short Term Solvency (Days)	96	76	60	40	56
Assets to Liab. Ratio,					
Measures Short-term Solvency	2294.58%	2433.02%	438.02%	1448.19%	1921.83%

**BALANCE SHEET COMPARISONS
GENERAL FUND ONLY**

	FY03	\$ Change	% Change	FY04	\$ Change	% Change	FY05	\$ Change	% Change	FY06	\$ Change	% Change	FY07	\$ Change	% Change
Assets:															
Cash & Investments	\$409,082	\$111,632	37.5%	\$328,303	\$(80,779)	-19.7%	\$258,297	\$(70,006)	-21.3%	\$191,358	\$(66,939)	-25.9%	\$308,045	\$116,687	61.0%
Receivables	\$47,332	\$(25,989)	-35.4%	\$49,667	\$2,335	4.9%	\$43,859	\$(5,808)	-11.7%	\$59,294	\$15,435	35.2%	\$48,742	\$(10,552)	-17.8%
Inventories	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%
Prepaid Expenses	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%
Other Assets	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%
Total Assets	\$456,414	\$85,643	23.1%	\$377,970	\$(78,444)	-17.2%	\$302,156	\$(75,814)	-20.1%	\$250,652	\$(51,504)	-17.0%	\$356,787	\$106,135	42.3%
Liabilities:															
Payables	\$60	\$(1,544)	-96.3%	\$12,180	\$12,120	20200.0%	\$65,104	\$52,924	434.5%	\$2,220	\$(62,884)	-96.6%	\$6,768	\$4,548	204.9%
Payroll	\$19,831	\$11,463	137.0%	\$3,355	\$(16,476)	-83.1%	\$3,878	\$523	15.6%	\$6,915	\$3,037	78.3%	\$7,413	\$498	7.2%
Deferred Revenues	\$19,835	\$(1,438)	0.0%	\$16,462	\$(3,373)	0.0%	\$11,671	\$(4,791)	0.0%	\$8,173	\$(3,498)	0.0%	\$4,384	\$(3,789)	0.0%
Other Liabilities	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%	\$-	\$-	0.0%
Total Liabilities	\$39,726	\$8,481	27.1%	\$31,997	\$(7,729)	-19.5%	\$80,653	\$48,656	152.1%	\$17,308	\$(63,345)	-78.5%	\$18,565	\$1,257	7.3%
Fund Balance:															
Reserved	\$416,688	\$77,162	22.7%	\$345,973	\$(70,715)	17.0%	\$221,503	\$(124,470)	36.0%	\$233,344	\$11,841	0.0%	\$4,026	\$4,026	0.0%
Unreserved	\$456,414	\$85,643	23.1%	\$377,970	\$(78,444)	17.2%	\$302,156	\$(75,814)	20.1%	\$250,652	\$(51,504)	17.0%	\$356,787	\$106,135	42.3%
Total Fund Balance															

**REVENUE & EXPENDITURES COMPARISON
GENERAL FUND ONLY**

	FY03	\$ Change	% Change	FY04	\$ Change	% Change	FY05	\$ Change	% Change	FY06	\$ Change	% Change	FY07	\$ Change	% Change
Revenues:															
Local sources	\$1,065,758	\$182,806	20.7%	\$983,896	(\$81,862)	-7.7%	\$924,319	(\$59,577)	-6.1%	\$1,196,975	\$272,656	29.5%	\$1,372,289	\$175,314	14.6%
State sources	\$670,145	(\$7,898)	-1.2%	\$682,073	\$11,928	1.8%	\$712,627	\$30,554	4.5%	\$811,290	\$98,663	13.8%	\$684,377	(\$126,913)	-15.6%
Federal sources	\$72,948	(\$4,560)	-5.9%	\$77,758	\$4,810	6.6%	\$76,147	(\$1,611)	-2.1%	\$61,546	(\$14,601)	-19.2%	\$73,662	\$12,116	19.7%
Other sources	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0	0.0%	\$0	\$0	0.0%
Total revenues	\$1,808,851	\$170,348	10.4%	\$1,743,727	(\$65,124)	-3.6%	\$1,713,093	(\$30,634)	-1.8%	\$2,069,811	\$356,718	20.8%	\$2,130,328	\$60,517	2.9%
Expenditures:															
Instruction	\$1,255,924	\$111,743	9.8%	\$1,306,112	\$50,188	4.0%	\$1,266,695	(\$39,417)	-3.0%	\$1,464,288	\$197,593	15.6%	\$1,457,771	(\$6,517)	-0.4%
Support services	\$400,612	(\$5,292)	-1.3%	\$434,739	\$34,127	8.5%	\$502,675	\$67,936	15.6%	\$519,393	\$16,718	3.3%	\$486,689	(\$32,704)	-6.3%
Non-instructional	\$12,376	(\$5,092)	-29.2%	\$15,134	\$2,758	22.3%	\$12,525	(\$2,609)	-17.2%	\$0	(\$12,525)	-100.0%	\$0	\$0	0.0%
Other expenditures	\$64,215	(\$699)	-1.1%	\$61,830	(\$2,385)	-3.7%	\$60,459	(\$1,371)	-2.2%	\$85,960	\$25,501	42.2%	\$80,990	(\$4,970)	-5.8%
Total expenditures	\$1,733,127	\$100,660	6.2%	\$1,817,815	\$84,688	4.9%	\$1,842,354	\$24,539	1.3%	\$2,069,641	\$227,287	12.3%	\$2,025,450	(\$44,191)	-2.1%
Changes in fund balance:															
Excess/(deficiency) of revenues over/(under) expenditures	\$75,724	\$69,688	1154.5%	(\$74,088)	(\$149,812)	197.8%	(\$129,261)	(\$55,173)	74.5%	\$170	\$129,431	100.1%	\$104,878	\$104,708	61592.9%

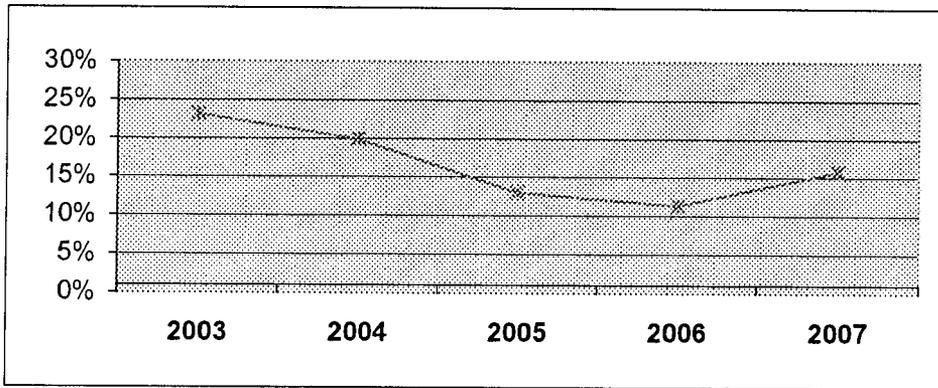
FINANCIAL SOLVENCY RATIO

Formula:
$$\frac{\text{Unreserved Undesignated Fund Balance (UUFB)}}{\text{Total GF Revenue}}$$

Financial Information and Computation:

Year	UUFB	Total Revenue	Ratio
2003	\$416,688	\$1,808,851	23.04%
2004	\$345,973	\$1,743,727	19.84%
2005	\$221,503	\$1,713,093	12.93%
2006	\$233,344	\$2,069,811	11.27%
2007	\$334,196	\$2,130,328	15.69%

P2L54 P5L85



Purpose: Measures the District's Fund Equity position

Trend: Up

Target: Short-term greater than zero
Long-term over 5 percent

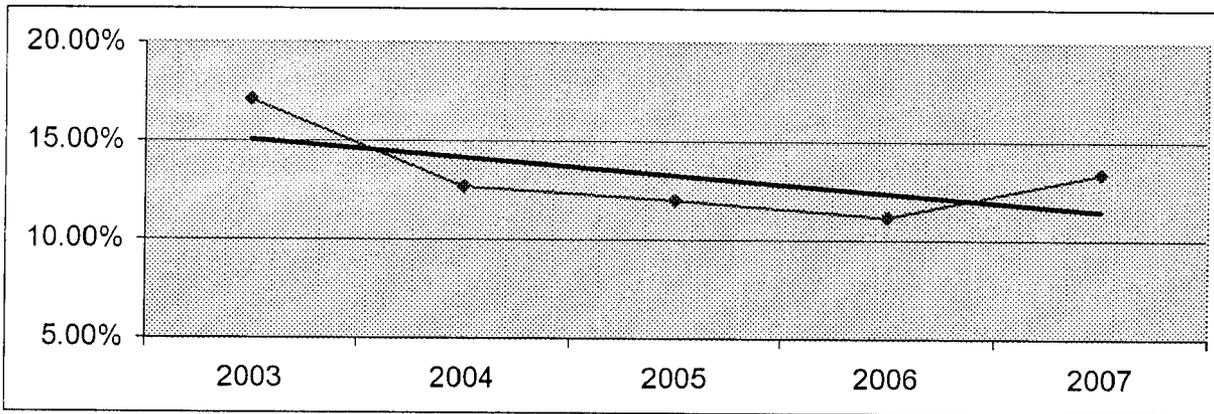
Need/Concern: The district is well above the 5% long-term target and reversed a four year downward trend this year.

UNSPENT BALANCE RATIO

Formula:
$$\frac{\text{Unspent Spending Authority}}{\text{Maximum Budget Authority}}$$

Financial Information and Computation:

Year	Maximum Authorized	Regular Unspent Bal.	Unreserved Unspent Bal.	Regular UB Ratio	Unreserv. UB Ratio
2003	\$2,102,326	\$379,118	\$359,283	18.03%	17.09%
2004	\$2,105,062	\$282,891	\$266,429	13.44%	12.66%
2005	\$2,045,946	\$257,039	\$245,368	12.56%	11.99%
2006	\$2,398,779	\$275,370	\$267,197	11.48%	11.14%
2007	\$2,346,469	\$321,019	\$312,846	13.68%	13.33%



*Estimated

Purpose: Measures the District's unbudgeted spending reserves

Trend: Up

Target: Unreserved unspent for short-term at 5-10 percent
Long-term 5 percent above accrued payroll liabilities

Need/Concern: An adequate level of budget reserves are important so the District can respond to emergencies. Conventional wisdom, when engaged in construction projects, suggests a minimum of 5% of the total project for contingency expenditures. The Operating Fund is no different.

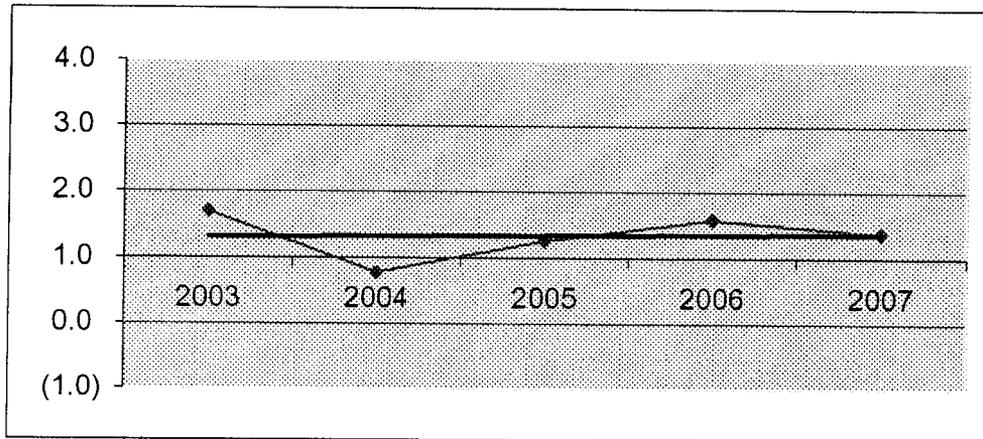
Corrective Action: Spend less than allowed each budget year.

REVENUE & EXPENDITURES CHANGE RATIO

Formula:
$$\frac{\text{Current Year Revenue} - \text{Prior Year Revenue}}{\text{Current Year Expenditures} - \text{Prior Year Expenditures}}$$

Financial Information and Computation:

Year	Revenue	Expenditures	Ratio	
			Rev	Exp
2003	\$1,808,851	\$1,733,127	1.7	1.0
2004	\$1,743,727	\$1,817,815	0.8	1.0
2005	\$1,713,093	\$1,842,354	1.2	1.0
2006	\$2,069,811	\$2,069,641	1.6	1.0
2007	\$2,130,328	\$2,025,450	1.4	1.0



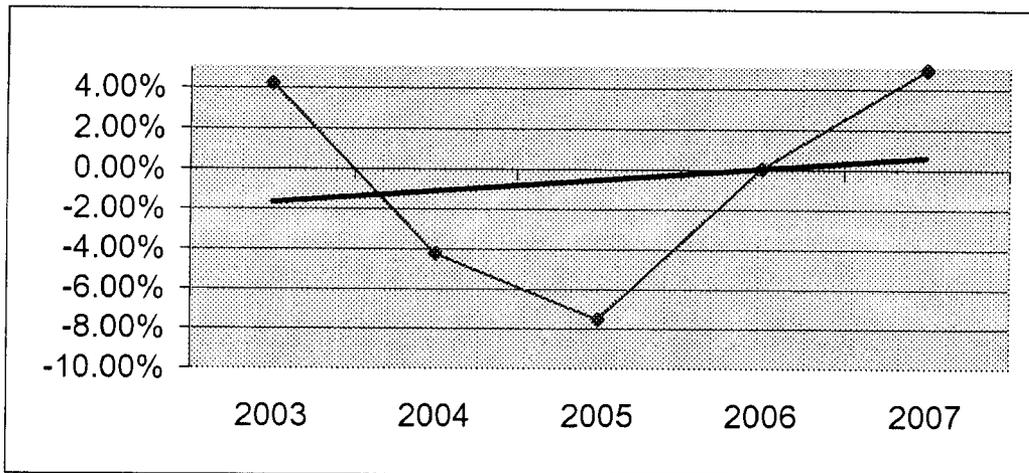
- Purpose:** Measures trends
- Trend:** Down slightly
- Target:** Revenue ratio greater than or equal to expenditure ratio
- Need/Concern:** Cause for concern exists when revenue change is less than the expenditure change from one fiscal year to the next. Long-term this has the effect of eroding the district's fund balance position.
- Corrective Action:** Spend less than revenue received in the year.

REVENUE (DEFICIT) MARGIN RATIO

Formula:
$$\frac{\text{Revenue} - \text{Expenditures (Net Revenue)}}{\text{Total Revenue}}$$

Financial Information and Computation:

Year	Net revenue	Total Revenue	Ratio
2003	\$75,724	\$1,808,851	4.19%
2004	(\$74,088)	\$1,743,727	-4.25%
2005	(\$129,261)	\$1,713,093	-7.55%
2006	\$170	\$2,069,811	0.01%
2007	\$104,878	\$2,130,328	4.92%



- Purpose:** Measures operating results
- Trend:** Up
- Target:** Greater than zero
- Need/Concern:** Full funding needed for budget revenue resources.
- Corrective Action:** Increase revenue sources or reduce expenditures

CONTRIBUTION RATIO

Formula:
$$\frac{\text{Line Source Revenue}}{\text{Total Revenue}}$$

Financial Information and Computation:

	FY 2006	
Line	Amount	Ratio
Source		
Local	\$1,196,975	57.8%
State	\$811,290	39.2%
Federal	\$61,546	3.0%
Other	\$0	0.0%
Total	\$2,069,811	100.0%

	FY 2007	
Line	Amount	Ratio
Source		
Local	\$1,372,289	64.4%
State	\$684,377	32.1%
Federal	\$71,089	3.3%
Other	\$2,573	0.1%
Total	\$2,130,328	100.0%

Year	Property Tax/ Income Surtax	Other Local	State	Federal	Other	
2002	48.5%	5.4%	41.4%	4.7%	0.0%	100.0%
2003	50.3%	8.6%	37.1%	4.0%	0.0%	100.0%
2004	50.6%	5.8%	39.1%	4.5%	0.0%	100.0%
2005	45.2%	8.8%	41.6%	4.4%	0.0%	100.0%
2006	36.5%	21.3%	39.2%	3.0%	0.0%	100.0%
2007	43.3%	21.2%	32.1%	3.3%	0.12%	100.0%

Purpose: Measures local taxation effort

Trend: Income from property and income taxes has continued to decline slightly, offset somewhat by increased state income. Starting in 2006 local income will show a marked increase due to whole grade sharing and new reporting rules which requires districts to show income in for whole grade shared students, offset by an expense for students sent to the partner district.

Target: This is controlled by the state legislature.

Need/Concern: As a district's property tax wealth grows the school aid formula shifts financial responsibility from the state to the local district.

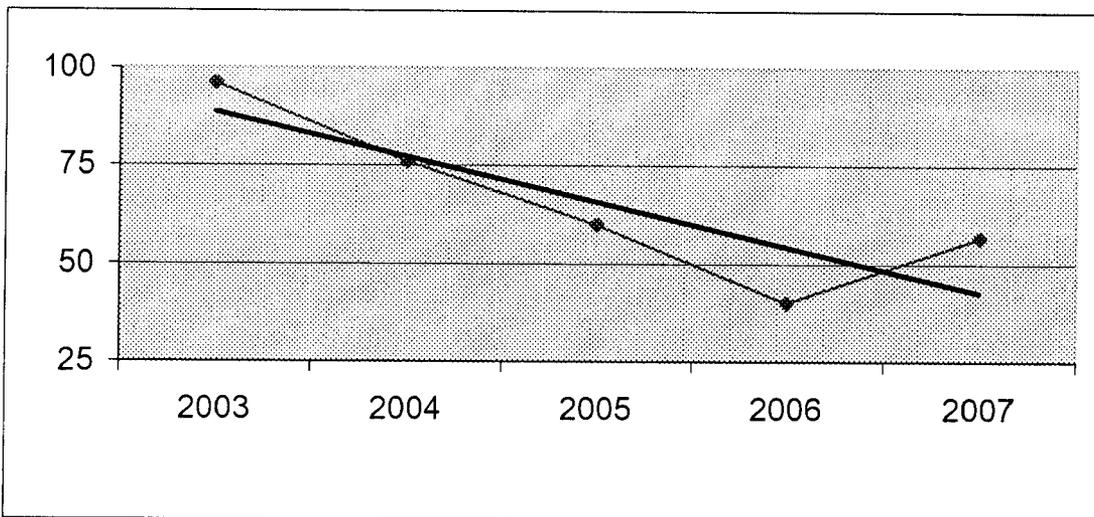
Corrective Action: NA

DAY'S NET CASH RATIO

Formula:
$$\frac{\text{Cash \& Investments}}{\text{Average Daily Cash Expenditures}}$$

Financial Information and Computation:

Year	Cash & Investments	Total Expenditures	Daily (365) Expenditures	Ratio In Days
2003	\$456,414	\$1,733,127	\$4,748	96
2004	\$377,970	\$1,817,815	\$4,980	76
2005	\$302,156	\$1,842,354	\$5,048	60
2006	\$226,410	\$2,069,641	\$5,670	40
2007	\$313,321	\$2,025,450	\$5,549	56



Purpose: Measures short-term solvency and the ability to pay expenditures without receiving additional revenue.

Trend: Down

Target: 90 days

Need/Concern: If the downward trend continues, eventually the district will need to borrow funds to be able to cover expenses during times of minimal cashflow in.

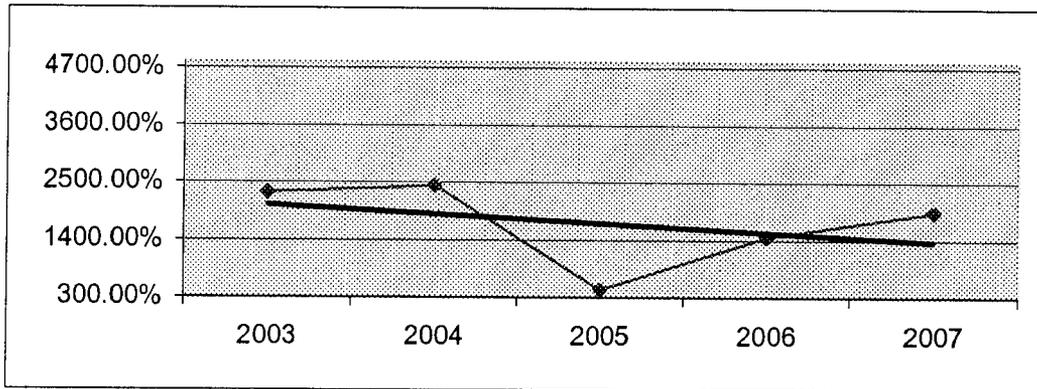
Corrective Action: Levy for cash reserve, increase income and/or decrease expenses.

ASSETS TO LIABILITIES RATIO

Formula:
$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Financial Information and Computation:

Year	Assets	Liabilities	Ratio
2003	\$456,414	\$19,891	2294.58%
2004	\$377,970	\$15,535	2433.02%
2005	\$302,156	\$68,982	438.02%
2006	\$250,652	\$17,308	1448.19%
2007	\$356,787	\$18,565	1921.83%



Purpose: Measures short - term solvency

Trend: Up

Target: Greater than 100%

Need/Concern: When the assets/liabilities ratio is below 100% the district does not have the ability to pay off all current liabilities. Outside financial companies use this as a measure of financial health. Should the district seek a bond issue in the future this ratio needs to be greater than 100% to obtain the best bond rating possible.

Corrective Action: Although the district is in excellent condition in terms of short-term solvency, the downward trend indicates the reserves are shrinking. In 2007 there was a reversal of the downward trend. Every effort will be made to continue the upward trend.

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 Terril 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 Terril Community School District 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 Terril Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

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

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

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

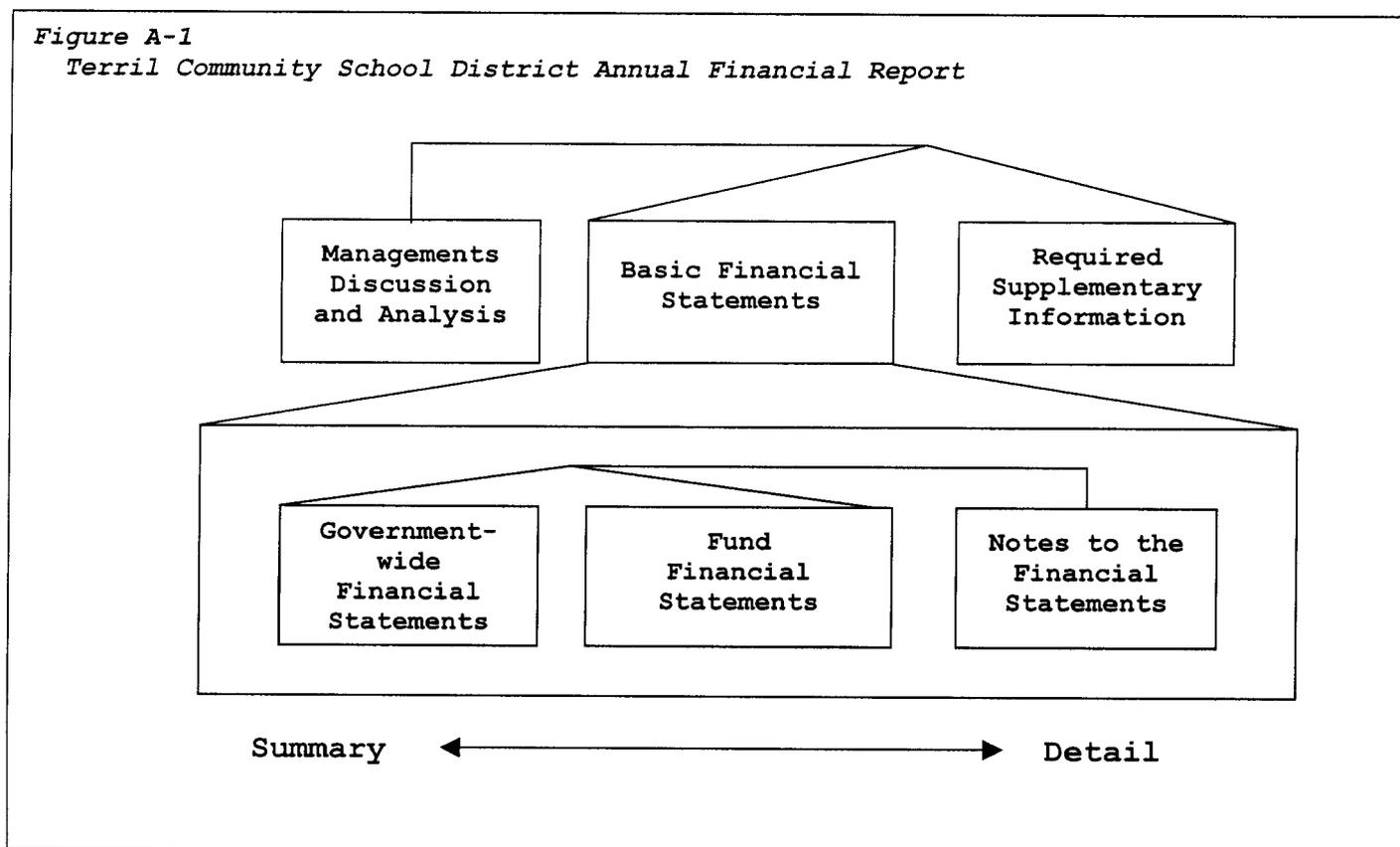


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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 - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets 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 and Capital Projects Fund.

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

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

The required financial statements for proprietary funds include a statement of revenues, expenses, changes in 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.

- Agency Fund - The District accounts for funds held in a custodial capacity.

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
(Expressed in Thousands)

	Governmental		Business type		Total		Total Change June 30, 2006-07
	Activities		Activities		District		
	June 30,		June 30,		June 30,		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current assets	1,434	1,469	3	2	1,437	1,471	-2.31%
Capital assets	1,587	1,515	-	1	1,587	1,516	4.68%
Total assets	<u>3,021</u>	<u>2,984</u>	<u>3</u>	<u>3</u>	<u>3,024</u>	<u>2,987</u>	<u>1.24%</u>
Current liabilities	834	968	1	-	835	968	-13.74%
Non-current liabilities	155	178	-	-	155	178	-12.92%
Total liabilities	<u>989</u>	<u>1,146</u>	<u>1</u>	<u>-</u>	<u>990</u>	<u>1,146</u>	<u>-13.61%</u>
Net Assets							
Invested in capital assets, net of related debt	1,587	1,515	-	1	1,587	1,516	4.68%
Restricted	203	215	-	-	203	215	-5.58%
Unrestricted	242	108	2	2	244	110	121.82%
Total net assets	<u>2,032</u>	<u>1,838</u>	<u>2</u>	<u>3</u>	<u>2,034</u>	<u>1,841</u>	<u>10.48%</u>

The District's combined net assets increased by over 6%, or approximately \$86,000 over the prior year.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$29,000 or 36%.

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

Figure A-4
Change in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	420	317	37	43	457	360	26.94%
Operating grants, contributions and restricted interest	265	251	47	44	312	295	5.76%
General revenues:							
Property tax	951	804	-	-	951	804	18.28%
Income surtax	56	53	-	-	56	53	5.66%
Local option sales tax	213	151	-	-	213	151	41.06%
Unrestricted state grants	525	662	-	-	525	662	-20.69%
Unrestricted investment earnings	21	15	-	-	21	15	40.00%
Other	11	135	-	-	11	135	-91.85%
Total revenues	<u>2,462</u>	<u>2,388</u>	<u>84</u>	<u>87</u>	<u>2,546</u>	<u>2,475</u>	<u>2.87%</u>
Program expenses:							
Governmental activities:							
Instruction	1,527	1,552	-	-	1,527	1,552	-1.61%
Support Services	523	451	-	-	523	451	15.96%
Non-instructional programs	14	10	85	89	99	99	0.00%
Other expenses	203	267	-	-	203	267	-23.97%
Total expenses	<u>2,267</u>	<u>2,280</u>	<u>85</u>	<u>89</u>	<u>2,352</u>	<u>2,369</u>	<u>-0.72%</u>
Change in net assets	<u>195</u>	<u>108</u>	<u>(1)</u>	<u>(2)</u>	<u>194</u>	<u>106</u>	<u>83.02%</u>

Property tax and unrestricted state grants account for 58% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,461,861 and expenses were \$2,267,348.

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
(Expressed in Thousands)

	Total Cost of Services		Net Change	Net Cost of Services		Net Change
	2007	2006	2006-07	2007	2006	2006-07
	\$	\$		\$	\$	
Instruction	1,527	1,552	-1.61%	917	1,070	-14.30%
Support Services	523	451	15.96%	512	428	19.63%
Noninstructional programs	14	10	40.00%	14	10	40.00%
Other expenses	203	267	-23.97%	139	203	-31.53%
Totals	<u>2,267</u>	<u>2,280</u>	<u>-0.57%</u>	<u>1,582</u>	<u>1,711</u>	<u>-7.54%</u>

- The cost financed by users of the District's programs was \$420,490.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$166,783.
- The net cost of governmental activities was financed with \$951,220 in property and other taxes and \$525,012 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$84,381 and expenses were \$85,011. The District's business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Terril 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 \$2,032,637, an eleven percent increase over last year's ending fund balances of \$1,838,124.

Governmental Fund Highlights

- The District's General Fund financial status increased this year. The District carefully monitors discretionary spending to avoid decreases in fund balances. This becomes more difficult every year due to state's decision to remove the budget guarantee.
- The Physical Plant and Equipment Levy (PPEL levy) is no longer levied as a result of the District using sales tax funds for these purposes.
- The Capital Projects fund decreased slightly in the fiscal year ending June 30, 2007. This money is being used for many of the same purposes as the District's PPEL levy.

Proprietary Fund Highlights

The school nutrition fund required a capital contribution of \$13,000 from the General Fund this year.

BUDGETARY HIGHLIGHTS

The District's receipts were \$236,122 more than budgeted receipts, a variance of 11%. The most significant variance resulted from the District receiving more in miscellaneous revenue than originally anticipated. This was partially due to sharing with the Graettinger Community School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$1,587,095, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 5% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$112,801.

The original cost of the District's capital assets was \$2,180,074. Governmental funds account for \$2,129,961, with the remainder of \$50,113 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
	\$	\$	\$	\$	\$	\$	
Land	197	198	-	-	197	198	-0.51%
Buildings and improvements	861	823	-	-	861	823	4.62%
Furniture and equipment	529	494	-	1	529	495	6.87%
Totals	<u>1,587</u>	<u>1,515</u>	<u>-</u>	<u>1</u>	<u>1,587</u>	<u>1,516</u>	<u>4.68%</u>

Long-Term Debt

The District has no long-term debt with the exception of early retirement packages.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Declining enrollment and the effects of the removal of the 100% budget guarantee will require due diligence out the part of the administration and board of education.

- Sharing with Graettinger should allow the District to maintain its facilities without decreasing educational program.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Karen Oleson, District Secretary/Treasurer, Terril Community School District, PO Box 128, Terril, IA 51364-0128.

Basic Financial Statements

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	488,304	423	488,727
Receivables:			
Property tax:			
Current year	13,850	-	13,850
Succeeding year	814,631	-	814,631
Income surtax - succeeding year	52,473	-	52,473
Due from other governments	65,389	-	65,389
Other receivables	-	92	92
Inventories	-	2,301	2,301
Capital assets, net of accumulated depreciation	1,586,814	281	1,587,095
Total assets	<u>3,021,461</u>	<u>3,097</u>	<u>3,024,558</u>
Liabilities			
Accounts payable	6,920	620	7,540
Accrued payroll and benefits	7,413	34	7,447
Deferred revenue:			
Succeeding year property tax	814,631	-	814,631
Federal programs	4,384	-	4,384
Long-term liabilities:			
Portion due within one year:			
Early retirement	65,214	-	65,214
Portion due after one year:			
Early retirement	90,262	-	90,262
Total liabilities	<u>988,824</u>	<u>654</u>	<u>829,618</u>
Net assets			
Invested in capital assets, net of related debt	1,586,814	281	1,587,095
Restricted for:			
Management levy	35,857	-	35,857
Physical plant and equipment levy	132,307	-	132,307
Capital projects	35,902	-	35,902
Unrestricted	241,757	2,162	243,919
Total net assets	<u>2,032,637</u>	<u>2,443</u>	<u>2,035,080</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
	\$	\$	\$	\$	\$	\$
Governmental activities:						
Instruction:	1,526,614	420,290	189,214	(917,110)	-	(917,110)
Support services:						
Student services	1,565	-	-	(1,565)	-	(1,565)
Instructional staff services	20,337	-	-	(20,337)	-	(20,337)
Administration services	258,928	-	-	(258,928)	-	(258,928)
Operation and maintenance of plant services	126,643	-	11,529	(115,114)	-	(115,114)
Transportation services	115,465	-	-	(115,465)	-	(115,465)
	522,938	-	11,529	(511,409)	-	(511,409)
Noninstructional programs:						
Food service operations	14,605	-	-	(14,605)	-	(14,605)
Other expenditures:						
AEA flowthrough	63,716	-	63,716	-	-	-
Facilities acquisition and construction	27,126	-	838	(26,288)	-	(26,288)
Depreciation (unallocated)*	112,349	-	-	(112,349)	-	(112,349)
	203,191	-	64,554	(138,637)	-	(138,637)
Total governmental activities	2,267,348	420,290	265,297	(1,581,761)	-	(1,581,761)

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses				Total
\$	\$	\$	\$	\$
85,011	37,161	47,220	-	(630)
<u>2,352,359</u>	<u>457,451</u>	<u>312,517</u>	<u>(1,581,761)</u>	<u>(1,582,391)</u>
Business type activities:				
Non-instructional programs:				
Nutrition services				
Total				
General revenues:				
Property tax levied for:				
General purposes		866,231		866,231
Management levy		84,989		84,989
Income surtax		55,497		55,497
Local option sales taxes		212,410		212,410
Unrestricted state grants		525,012		525,012
Unrestricted investment earnings		20,720		20,720
Other		11,415		11,415
Total general revenue		<u>1,776,274</u>		<u>1,776,274</u>
Change in net assets		194,513	(630)	193,883
Net assets beginning of year		1,838,124	3,073	1,841,197
Net assets end of year		<u>2,032,637</u>	<u>2,443</u>	<u>2,035,080</u>

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

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Capital <u>Projects</u>	Nonmajor Special <u>Revenue</u>	<u>Total</u>
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	313,321	132,307	1,519	41,157	488,304
Receivables:					
Property tax:					
Current year	12,612	-	-	1,238	13,850
Succeeding year	729,631	-	-	85,000	814,631
Income surtax - succeeding year	52,473	-	-	-	52,473
Due from other governments	30,854	-	34,535	-	65,389
Total assets	<u>1,138,891</u>	<u>132,307</u>	<u>36,054</u>	<u>127,395</u>	<u>1,434,647</u>
Liabilities and Fund Balance					
Liabilities:					
Accounts payable	6,768	-	152	-	6,920
Accrued payroll and benefits	7,413	-	-	-	7,413
Deferred revenue:					
Succeeding year property tax	729,631	-	-	85,000	814,631
Succeeding year income surtax	52,473	-	-	-	52,473
Federal programs	4,384	-	-	-	4,384
Total liabilities	<u>800,669</u>	<u>-</u>	<u>152</u>	<u>85,000</u>	<u>885,821</u>
Fund balances:					
Reserved for capital projects	-	-	35,902	-	35,902
Unreserved	338,222	132,307	-	42,395	512,924
Total fund balances	<u>338,222</u>	<u>132,307</u>	<u>35,902</u>	<u>42,395</u>	<u>548,826</u>
Total liabilities and fund balances	<u>1,138,891</u>	<u>132,307</u>	<u>36,054</u>	<u>127,395</u>	<u>1,434,647</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

Total fund balances of governmental funds (Exhibit C)	\$ 548,826
Amounts reported for governmental activities in the statement of net assets are different because:	
Income surtax receivable at June 30, 2007 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.	52,473
Capital assets used in governmental activities are not assets in the governmental funds.	1,586,814
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Early retirement	<u>(155,476)</u>
Net assets of governmental activities (Exhibit A)	<u>\$ 2,032,637</u>

TERRIL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General	Physical Plant and Equipment Levy	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	921,514	-	212,410	84,989	1,218,913
Tuition	276,920	-	-	-	276,920
Other	176,428	7,026	838	26,011	210,303
State sources	684,377	-	-	45	684,422
Federal sources	71,089	-	-	-	71,089
Total revenues	<u>2,130,328</u>	<u>7,026</u>	<u>213,248</u>	<u>111,045</u>	<u>2,461,647</u>
Expenditures:					
Current:					
Instruction:	<u>1,462,044</u>	<u>-</u>	<u>6,633</u>	<u>80,388</u>	<u>1,549,065</u>
Support services:					
Student services	1,565	-	-	-	1,565
Instructional staff services	22,410	-	-	-	22,410
Administration services	248,051	-	1,195	9,682	258,928
Operation and maintenance of plant services	108,053	-	1,466	17,124	126,643
Transportation services	<u>106,611</u>	<u>-</u>	<u>98,909</u>	<u>8,854</u>	<u>214,374</u>
	<u>486,690</u>	<u>-</u>	<u>101,570</u>	<u>35,660</u>	<u>623,920</u>
Noninstructional programs:					
Food service operations	<u>13,000</u>	<u>-</u>	<u>-</u>	<u>1,605</u>	<u>14,605</u>
Other expenditures:					
AEA flowthrough	63,716	-	-	-	63,716
Facilities acquisition and construction	<u>-</u>	<u>-</u>	<u>109,923</u>	<u>-</u>	<u>109,923</u>
	<u>63,716</u>	<u>-</u>	<u>109,923</u>	<u>-</u>	<u>173,639</u>
Total expenditures	<u>2,025,450</u>	<u>-</u>	<u>218,126</u>	<u>117,653</u>	<u>2,361,229</u>
Net change in fund balance	104,878	7,026	(4,878)	(6,608)	100,418
Fund balances beginning of year	<u>233,344</u>	<u>125,281</u>	<u>40,780</u>	<u>49,003</u>	<u>448,408</u>
Fund balances end of year	<u>338,222</u>	<u>132,307</u>	<u>35,902</u>	<u>42,395</u>	<u>548,826</u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

Net change in fund balances - total governmental funds (Exhibit E) \$ 100,418

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

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities 214

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of depreciation expense in the year are as follows:

Capital outlays	183,779
Depreciation expense	(112,349)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	22,451
------------------	--------

Change in net assets of governmental activities (Exhibit B) \$ 194,513

TERRIL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for services	<u>37,161</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	32,757
Benefits	17,353
Services	731
Supplies	33,718
Depreciation	<u>452</u>
Total operating expenses	<u>85,011</u>
Operating (loss)	<u>(47,850)</u>
Non-operating revenues:	
State sources	850
Federal sources	33,370
Capital contributions	<u>13,000</u>
	<u>47,220</u>
Changes in net assets	(630)
Net assets beginning of year	<u>3,073</u>
Net assets end of year	<u><u>2,443</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2007

	School Nutrition
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	37,069
Cash payments to employees for services	(50,076)
Cash payments to suppliers for goods or services	(29,485)
Net cash (used in) operating activities	<u>(42,492)</u>
Cash flows from non-capital financing activities:	
State grants received	850
Federal grants received	28,898
Net cash provided by non-capital financing activities	<u>29,748</u>
Cash flows from capital financing activities:	
Capital contribution from General Fund	<u>13,000</u>
Net increase in cash and cash equivalents	256
Cash and cash equivalents beginning of year	<u>167</u>
Cash and cash equivalents end of year	<u><u>423</u></u>
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(47,850)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	452
Commodities used	4,472
(Increase) in other receivables	(92)
(Increase) in inventory	(44)
Increase in accounts payable	536
Increase in accrued payroll and benefits	34
	<u>(42,492)</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	<u><u>423</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received federal commodities valued at \$4,472.

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	<u>Agency Funds</u>		
	<u>Self-Insurance</u>	<u>DB Kids</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments	7,026	561	7,587
Liabilities			
Other payables	<u>7,026</u>	<u>561</u>	<u>7,587</u>
Net Assets			
Reserved for special purposes	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Agency Funds		Total
	Self-Insurance	DB Kids	
	\$	\$	\$
Additions:			
Local sources:			
Miscellaneous	14,405	-	14,405
Total additions	14,405	-	14,405
Deductions:			
Support services:			
Other expenses	14,405	-	14,405
Total deductions	14,405	-	14,405
Change in net assets	-	-	-
Net assets beginning of year	-	-	-
Net assets end of year	-	-	-

See notes to financial statements.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

Terril 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 summer recreational activities. The geographic area served includes the City of Terril, Iowa, and agricultural area in Palo Alto, Dickinson, Emmett and Clay Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis. The District also contracts, as explained in Note 6, with the Graettinger Community School District to educate students in grades three and six through twelve.

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, Terril Community School District has included all funds, organizations, account groups, 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. Terril 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 Dickinson 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 attributable 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 that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 that are 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

The Physical Plant and Equipment Levy is used to purchase equipment (over \$500 per item) and for major repairs and improvements to buildings and grounds. It is funded primarily through a combination of property tax and income surtax.

The District reports the following major proprietary fund:

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

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

The Agency Fund is used to account for assets held by the District in a custodial relationship.

C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary 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 and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

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

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

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

D. Assets, Liabilities and Fund Balance

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for 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 three months.

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

Property tax revenue recognized in these funds 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 government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

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

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2007.

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

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

E. Budgeting and Budgetary Control

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

(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 at June 30, 2007.

(3) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 198,249	-	1,585	196,664
Capital assets being depreciated:				
Buildings and improvements	1,127,867	84,382	-	1,212,249
Furniture and equipment	681,293	100,982	61,227	721,048
Total capital assets being depreciated	1,809,160	185,364	61,227	1,933,297
Less accumulated depreciation for:				
Buildings and improvements	304,945	46,043	-	350,988
Furniture and equipment	187,080	66,306	61,227	192,159
Total accumulated depreciation	492,025	112,349	61,227	543,147
Total capital assets being depreciated, net	1,317,135	73,015	-	1,390,150
Governmental activities, capital assets, net	\$ 1,515,384	73,015	1,585	1,586,814
Business type activities:				
Furniture and equipment	50,113	0	-	50,113
Less accumulated depreciation	49,380	452	-	49,832
Business type activities capital assets, net	\$ 733	(452)	-	281
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 112,349
Business Type activities:				
Food service operations				\$ 452

(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll, for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$43,750, \$46,348, and \$44,006 respectively, equal to the required contributions for each year.

(5) 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 \$63,716 for year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) Two-Way Whole Grade Sharing

The District has entered into a contract with Graettinger Community School District to complete the academic and extra-curricular needs of students in grades six through twelve. All regular education students in grades three and nine through twelve attend the Graettinger Community School District. All regular education students in grades six through eight attend the Terril Community School District.

Required Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Types		Proprietary Fund Type		Total Actual	Budgeted Amounts		Final to Actual Variance -
	Actual		Actual			Original	Final	
	\$		\$		\$		\$	\$
Revenues:								
Local sources	1,706,136		50,161		1,756,297	1,511,163	1,511,163	245,134
State sources	684,422		850		685,272	694,843	694,843	(9,571)
Federal sources	71,089		33,370		104,459	103,900	103,900	559
Total revenues	<u>2,461,647</u>		<u>84,381</u>		<u>2,546,028</u>	<u>2,309,906</u>	<u>2,309,906</u>	<u>236,122</u>
Expenditures:								
Instruction	1,549,065		-		1,549,065	1,506,462	1,506,462	(42,603)
Support services	623,920		-		623,920	778,525	778,525	154,605
Non-instructional programs	14,605		85,011		99,616	101,250	101,250	1,634
Other expenditures	173,639		-		173,639	232,277	232,277	58,638
Total expenditures	<u>2,361,229</u>		<u>85,011</u>		<u>2,446,240</u>	<u>2,618,514</u>	<u>2,618,514</u>	<u>172,274</u>
Excess (deficiency) of revenues over (under) expenditures	100,418		(630)		99,788	(308,608)	(308,608)	408,396
Other financing sources (uses)	-		-		-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	100,418		(630)		99,788	(308,608)	(308,608)	408,396
Balance beginning of year	448,408		3,073		451,481	320,672	320,672	130,809
Balance end of year	<u>548,826</u>		<u>2,443</u>		<u>551,269</u>	<u>12,064</u>	<u>12,064</u>	<u>539,205</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

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

During the year ended June 30, 2007, expenditures exceeded the amount budgeted in the instruction function. The District did not exceed its General Fund unspent authorized budget.

Other Supplementary Information

TERRIL COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2007

	<u>Management</u>	<u>Student</u> <u>Activity</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments	34,619	6,538	41,157
Property tax receivable:			
Current year	1,238	-	1,238
Succeeding year	<u>85,000</u>	<u>-</u>	<u>85,000</u>
Total assets	<u>120,857</u>	<u>6,538</u>	<u>127,395</u>
Liabilities and Fund Balance			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	<u>85,000</u>	<u>-</u>	<u>85,000</u>
	<u>85,000</u>	<u>-</u>	<u>85,000</u>
Fund balance:			
Unreserved fund balance	<u>35,857</u>	<u>6,538</u>	<u>42,395</u>
	<u>35,857</u>	<u>6,538</u>	<u>42,395</u>
Total liabilities and fund balances	<u>120,857</u>	<u>6,538</u>	<u>127,395</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	<u>Management</u>	<u>Student Activity</u>	<u>Total</u>
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	84,989	-	84,989
Other	4,458	21,553	26,011
State sources	45	-	45
Total revenues	<u>89,492</u>	<u>21,553</u>	<u>111,045</u>
Expenditures:			
Instruction:	57,057	23,331	80,388
Support services:			
Student support services	-	-	-
Administrative services	9,682		9,682
Plant operation and maintenance	17,124	-	17,124
Student transportation	8,854	-	8,854
Noninstructional programs:			
Food service operations	1,605	-	1,605
Total expenditures	<u>94,322</u>	<u>23,331</u>	<u>117,653</u>
Excess of revenues over expenditures	(4,830)	(1,778)	(6,608)
Fund balances beginning of year	<u>40,687</u>	<u>8,316</u>	<u>49,003</u>
Balance end of year	<u><u>35,857</u></u>	<u><u>6,538</u></u>	<u><u>42,395</u></u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue, Student Activity Accounts

Year ended June 30, 2007

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Drama	443	-	443	-
Athletics	2,424	597	2,794	227
Coed Track	-	90	90	-
Boys Basketball	-	1,407	1,407	-
Football	-	1,552	1,552	-
Uniforms Fund RSRJ	-	565	565	-
Boys Track	-	987	987	-
Boys Wrestling	-	536	536	-
Girls Basketball	-	3,070	3,070	-
Girls Volleyball	-	369	369	-
Girls Softball	(745)	5,150	4,405	-
Girls Track	-	987	897	90
JH Girls Track	-	601	601	-
JH Boys Basketball	(1,679)	3,098	1,419	-
JH Volleyball	-	1,890	1,890	-
MS Track	-	1,207	1,207	-
MS Baseball	-	8	8	-
Middle School Field Trips	2,995	3,377	3,002	3,370
Music	2,740	1,336	4,076	-
Student Council	2,001	8,158	7,361	2,798
Cheerleaders	137	102	186	53
	8,316	35,087	36,865	6,538
Less interaccount transfers		(13,534)	(13,534)	
Total	<u>8,316</u>	<u>21,553</u>	<u>23,331</u>	<u>6,538</u>

See accompanying independent auditor's report.

TERRIL COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,218,913	2,335,740	1,095,780	1,179,848
Tuition	276,920	317,467	78,458	52,315
Other	210,303	130,047	100,979	91,239
State sources	684,422	811,394	737,675	682,192
Federal sources	71,089	68,922	76,147	98,026
Total	<u>2,461,647</u>	<u>3,663,570</u>	<u>2,089,039</u>	<u>2,103,620</u>
Expenditures:				
Instruction	1,549,065	1,533,767	1,388,606	1,374,477
Support services:				
Student	1,565	994	30,246	15,119
Instructional staff	22,410	44,685	10,783	29,658
Administration	258,928	250,018	214,077	182,554
Operation and maintenance of plant	126,643	145,530	114,742	118,167
Transportation	214,374	120,721	183,805	128,703
Noninstructional programs:				
Food service operations	14,605	10,260	28,861	16,440
Other expenditures:				
Facilities acquisition	109,923	116,438	343,903	128,982
Debt service:				
Principal	-	-	-	275,000
Interest and other charges	-	-	-	11,440
AEA flowthrough	63,716	63,577	60,459	61,830
Total	<u>2,361,229</u>	<u>2,285,990</u>	<u>2,375,482</u>	<u>2,342,370</u>

See accompanying independent auditor's report.

BRUCE D. FRINK
Certified Public Accountant

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

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To the Board of Education of the
Terril Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Terril Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 12, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Terril Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Terril Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Terril Community School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Terril 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 Terril Community School District's financial statements that is more than inconsequential will not be prevented or detected by Terril Community School District's internal control. We 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 Terril Community School District's internal control.

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

Compliance and Other Matters

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

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Terril Community School District and other parties to whom Terril Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



BRUCE D. FRINK
Certified Public Accountant

March 12, 2008

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

07-I-A SEGREGATION OF DUTIES

Comment - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

07-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2007.

07-II-B Certified Budget - Expenditures for the year ended June 30, 2007, exceeded the certified budget amount in the instructional function.

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

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

Conclusion - Response accepted.

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

07-II-D 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.

TERRIL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2007

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

- 07-II-E Business Transactions - No business transactions between the District and District officials or employees were noted.
- 07-II-F 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.
- 07-II-G Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- 07-II-H Deposits and Investments - 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 were noted.
- 07-II-I Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 07-II-J Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.