

TIPTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

TIPTON COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2007

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-14
Basic Financial Statements	<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 Fund 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
Notes to Financial Statements	30-43
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	45
Notes to Required Supplementary Information - Budgetary Reporting	46

TIPTON COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2007

Other Supplementary Information	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds		
Combining Balance Sheet	1	48
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	49
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	50-51
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	52
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	53
 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 <u>Government Auditing Standards</u>		 54-56
 Schedule of Findings		 57-59
 Audit Staff		 60

TIPTON COMMUNITY SCHOOL DISTRICT
 Officials
 June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Ed Pelzer	Board President	2006
Joan Frazier	Board Member	2007
Steve Emrich	Board Member	2007
Bill Schwitzer	Board Member	2006
Duane Webb	Board Member	2008
(After September 2006 Election)		
Ed Pelzer	Board President	2009
Joan Frazier	Board Member	(resigned July 2006) 2007
Sue McGuinty	Board Member	(elected Sept. 2006) 2007
Steve Emrich	Board Member	2007
Duane Webb	Board Member	2008
Bill Schwitzer	Board Member	2009
School Officials		
Richard Grimoskas	Superintendent	2007
Jim Becker	District Secretary/Treasurer	Indefinite
Brian Gruhn	Attorney	Indefinite

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
Tipton 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 Tipton Community School District, Tipton, 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.

Except as discussed in the following paragraph, 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.

The financial statements of the Tipton Community School District Foundation have not been audited, and I was not engaged to audit the Foundation financial statements as part of my audit of the Tipton Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

Because the Foundation's financial statements have not been audited, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit of the Tipton Community School District, as of and for the year ended June 30, 2007.

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 Tipton 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 October 22, 2007 on my consideration of Tipton 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 Tipton Community School District's basic financial statements. 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. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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.



Kay L. Chapman, CPA PC
October 22, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Tipton 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 \$6,450,610 in fiscal 2006 to \$6,559,441 in fiscal 2007, and General Fund expenditures increased from \$6,216,926 in fiscal 2006 to \$6,495,952 in fiscal 2007. The District's General Fund balance increased slightly from \$792,951 in fiscal 2006 to \$794,363 in fiscal 2007, a .2% increase.
- The increase in General Fund revenue was attributable to an increase in teacher quality funding from the State of Iowa and interest income in fiscal 2007. The increase in expenditures was due primarily to the negotiated salary and benefits settlement and teacher quality payments to the certified staff. The increase in expenditures was offset enough by the increase in revenues to allow the district to have a slight increase in the General Fund balance.
- An increase in interest rates during the 2007 along with an increase in the ISCAP investment rate during the year resulted in interest earnings in the General Fund alone increasing from \$84,960 in fiscal 2006 to \$105,267 in fiscal 2007.

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 Tipton 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 Tipton 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 Tipton 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 non-major Governmental Funds.

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

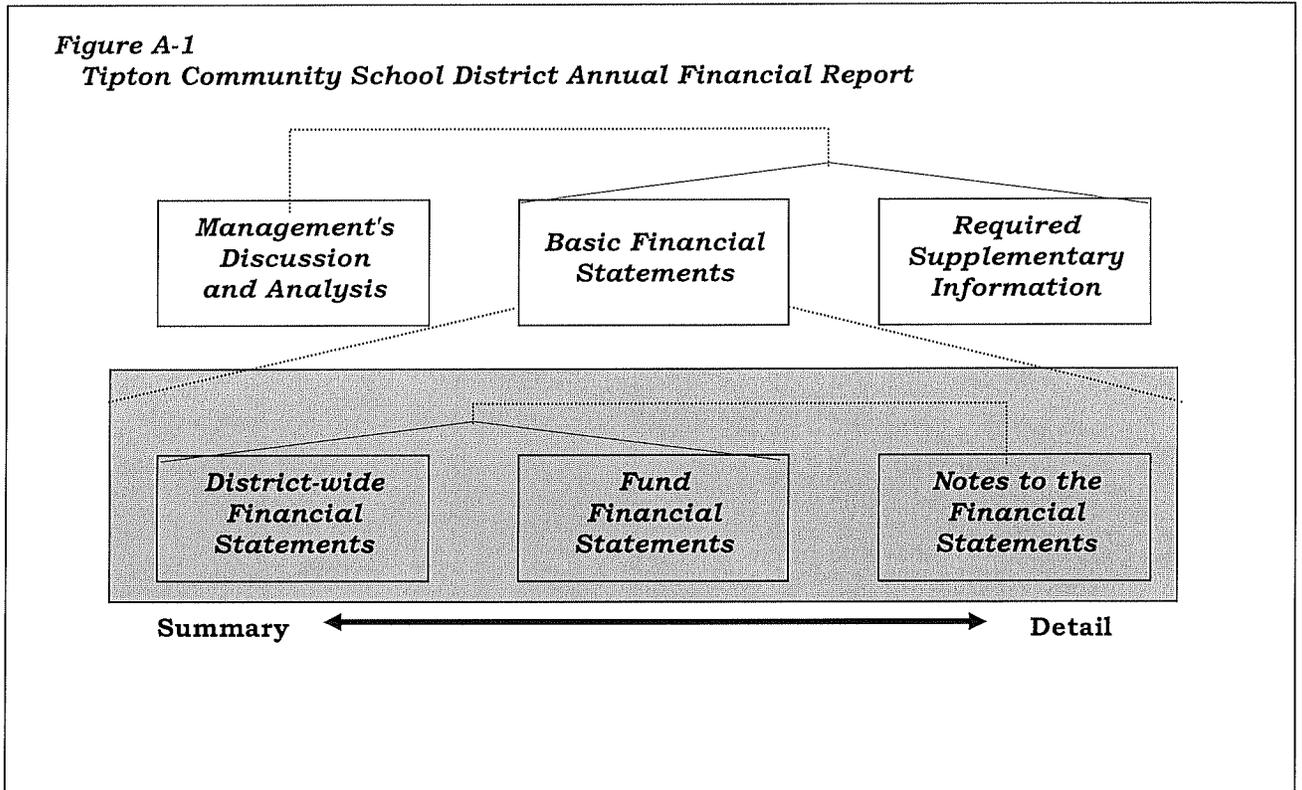


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Fund	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
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 – 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 three 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.
- *Component Unit:* The component unit includes the activities of the Tipton Community School District Foundation. The District is financially accountable for the Foundation although it is legally separate from the District.

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 one Enterprise Fund, the School Nutrition 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 and Agency Funds.
- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District 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		Business-type		Total		Total
	Activities		Activities		School District		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	\$ 6,420,845	\$ 6,666,986	\$ 42,777	\$ 39,849	\$6,463,622	\$ 6,706,835	-3.63%
Capital assets	<u>8,012,418</u>	<u>7,276,034</u>	<u>82,196</u>	<u>92,738</u>	<u>8,094,614</u>	<u>7,368,772</u>	9.85%
Total assets	<u>14,433,263</u>	<u>13,943,020</u>	<u>124,973</u>	<u>132,587</u>	<u>14,558,236</u>	<u>14,075,607</u>	3.43%
Long-term obligations	6,153,263	6,589,127	-	-	6,153,263	6,589,127	-6.61%
Other liabilities	<u>4,532,692</u>	<u>4,667,649</u>	<u>18,675</u>	<u>18,289</u>	<u>4,551,367</u>	<u>4,685,938</u>	-2.87%
Total liabilities	<u>10,685,955</u>	<u>11,256,776</u>	<u>18,675</u>	<u>18,289</u>	<u>10,704,630</u>	<u>11,275,065</u>	-5.06%
Net assets							
Invested in capital assets,							
net of related debt	1,866,687	713,265	82,196	92,738	1,948,883	806,003	141.80%
Restricted	929,779	1,186,647	-	-	929,779	1,186,647	-21.65%
Unrestricted	<u>950,842</u>	<u>786,332</u>	<u>24,102</u>	<u>21,560</u>	<u>974,944</u>	<u>807,892</u>	20.68%
Total net assets	<u>\$ 3,747,308</u>	<u>\$ 2,686,244</u>	<u>\$ 106,298</u>	<u>\$ 114,298</u>	<u>\$ 3,853,606</u>	<u>\$ 2,800,542</u>	37.60%

The District's combined net assets increased by approximately 38%, or \$1,053,064, 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 by \$256,868, or approximately 22% from the prior year. The decrease was primarily a result of payments on bond issues.

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 by \$167,052, or approximately 21%. This increase in unrestricted net assets was a result of the District making its regular bond payments.

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

	Figure A-4 Change in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Change <u>2006-</u> <u>2007</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Revenues							
Program revenues							
Charges for service and sales	\$ 837,449	\$ 849,168	\$ 241,689	\$ 228,583	\$ 1,079,138	\$ 1,077,751	0.13%
Operating grants and contributions	798,985	711,191	138,038	126,746	937,023	837,937	11.82%
General revenues							
Property tax	3,343,664	2,958,573	-	-	3,343,664	2,958,573	13.02%
Local option sales and service tax	470,843	391,350	-	-	470,843	391,350	20.31%
Unrestricted state grants	2,902,989	2,891,268	-	-	2,902,989	2,891,268	0.41%
Unrestricted investment earnings	149,453	207,675	207	175	149,660	207,850	-28.00%
Other	<u>25,798</u>	<u>23,417</u>	<u>-</u>	<u>-</u>	<u>25,798</u>	<u>23,417</u>	10.17%
Total revenues	<u>8,529,181</u>	<u>8,032,642</u>	<u>379,934</u>	<u>355,504</u>	<u>8,909,115</u>	<u>8,388,146</u>	6.21%
Program expenses							
Governmental activities							
Instruction	4,536,959	4,235,819	-	-	4,536,959	4,235,819	7.11%
Support services	2,005,167	2,086,413	-	-	2,005,167	2,086,413	-3.89%
Non-instructional programs	-	-	432,524	417,930	432,524	417,930	3.49%
Other expenses	<u>881,401</u>	<u>788,910</u>	<u>-</u>	<u>-</u>	<u>881,401</u>	<u>788,910</u>	11.72%
Total expenses	<u>7,423,527</u>	<u>7,111,142</u>	<u>432,524</u>	<u>417,930</u>	<u>7,856,051</u>	<u>7,529,072</u>	4.34%
Excess (deficiency) before transfers	1,105,654	921,500	(52,590)	(62,426)	1,053,064	859,074	22.58%
Transfers	<u>(44,590)</u>	<u>(40,173)</u>	<u>44,590</u>	<u>40,173</u>	<u>-</u>	<u>-</u>	1.00%
Change in net assets	<u>\$ 1,061,064</u>	<u>\$ 881,327</u>	<u>\$ (8,000)</u>	<u>\$ (22,253)</u>	<u>\$ 1,053,064</u>	<u>\$ 859,074</u>	22.58%

In fiscal 2007, property tax and unrestricted state grants account for 73% of the revenue from governmental activities while charges for services and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$8,909,115 of which \$8,529,181 was for governmental activities and \$379,934 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.2% increase in revenues and a 4.34% increase in expenses. Property tax increased \$385,091. The increase in expenses comes mostly in the Instruction area due to the negotiated salary and benefits settlement with certified and non-certified staff.

Governmental Activities

Revenues for governmental activities were \$8,529,181 and expenses were \$7,423,527. In a difficult budget year, the District was able to balance the budget with increased revenue.

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> <u>2006-2007</u>	<u>2007</u>	<u>2006</u>	<u>Change</u> <u>2006-2007</u>
Instruction	\$ 4,536,959	\$ 4,235,819	7.1%	\$ 3,153,490	\$ 2,919,613	8.0%
Support services	2,005,167	2,086,413	-3.9%	1,999,430	2,079,879	-3.9%
Other expenses	<u>881,401</u>	<u>788,910</u>	11.7%	<u>634,173</u>	<u>551,291</u>	15.0%
Total expenses	<u>\$ 7,423,527</u>	<u>\$ 7,111,142</u>	4.4%	<u>\$ 5,787,093</u>	<u>\$ 5,550,783</u>	4.3%

- The cost financed by users of the District's programs was \$837,449.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$798,985.
- The net cost of governmental activities was financed with \$3,864,321 in property and other taxes and \$2,902,989 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$379,934 representing a 6.9 percent increase over the prior year while expenses totaled \$432,524, a 3.5 percent increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2007, the District's federal revenue increased due to increases in participation of the number of meals served. This increase in revenue was more than offset by salaries and benefits for nutrition staff and the replacement of obsolete kitchen equipment.

INDIVIDUAL FUND ANALYSIS

As previously noted, Tipton 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 \$1,615,971, well below last year's ending fund balances of \$1,999,338. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to the District completing a \$1.5 million project in which bond funds were received in fiscal year 2006 but the majority of expenses were paid out in fiscal year 2007.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of growth during the year in interest income resulting in an increase in revenues. The District's increase in General Fund expenditures was in large part due to personnel salary and benefit settlements.
- The General Fund balance increased from \$792,951 to \$794,363, due to increased interest revenue, which helped revenues increase as a whole. This helped offset increased expenditures enough to slightly increase the General Fund balance.
- The Capital Projects Fund balance decreased from \$934,363 in fiscal 2006 to \$226,936 in fiscal 2007. The District issued bonds for the remodeling of the elementary building in fiscal year 2006. Just over \$580,000 had been expensed by June 30, 2006. The other approximately \$900,000 was expensed in fiscal year 2007 which decreased the Capital Projects Fund balance.
- The Debt Service Fund balance increased from \$11,285 in fiscal 2006 to \$199,780 in fiscal 2007. This was a result of the District holding a reserve for the elementary project bond issue and the first payment on the elementary project bond having a payment date of July 1, 2007

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$114,298 at June 30, 2006 to \$106,298 at June 30, 2007, representing a decrease of approximately 7%. For fiscal 2007, the District's increase in salaries and benefits and equipment expenditures resulted in a decrease in current assets. Depreciation of capital assets also contributed to the overall decrease in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Tipton Community School District amended its annual budget one time to reflect additional expenditures associated with the teacher quality expenditures and additional nutrition expenses.

The District's receipts were \$653,621 more than budgeted receipts, a variance of 8.2%. Receipts were more than budget in several areas. The most significant variances resulted from the District receiving more interest revenue, revenue from other state sources and more local option sales tax revenue than originally budgeted.

Total expenditures were \$594,129 less than the amended budget, 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 \$8,094,614, 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 approximately 10% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$348,885.

The original cost of the District's capital assets was \$12,194,537. Governmental funds account for \$11,960,631, with the remainder of \$233,906 accounted for in the Proprietary, School Nutrition Fund.

The increase in capital assets during the year occurred due to an elementary building project which increased capital assets during the 2007 fiscal year.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>		<u>Change</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Land	\$ 43,300	\$ 43,300	\$ -	\$ -	\$ 43,300	\$ 43,300	0.00%
Construction in progress	21,459	580,076	-	-	21,459	580,076	-96.30%
Buildings and improvements	7,409,474	6,114,849	-	-	7,409,474	6,114,849	21.17%
Improvements other than buildings	179,876	198,866	-	-	179,876	198,866	-9.55%
Furniture and equipment	<u>358,309</u>	<u>338,945</u>	<u>82,196</u>	<u>92,738</u>	<u>440,505</u>	<u>431,683</u>	2.04%
Totals	<u>\$8,012,418</u>	<u>\$7,276,036</u>	<u>\$ 82,196</u>	<u>\$ 92,738</u>	<u>\$8,094,614</u>	<u>\$7,368,774</u>	9.85%

Long-Term Debt

At June 30, 2007, the District had \$6,153,263 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-term Obligations

	Total		Total Change
	School District		
	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
General obligation bonds	\$ 4,680,000	\$ 4,980,000	-6.02%
Revenue bonds	1,340,000	1,400,000	-4.29%
Capital loan notes	90,000	175,000	-48.57%
Capital leases	35,732	7,769	359.93%
Early retirement	<u>7,531</u>	<u>26,358</u>	-71.43%
Total	<u>\$ 6,153,263</u>	<u>\$ 6,589,127</u>	-6.61%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Tipton Community School District has experienced declining certified enrollment in the past. The District expects a decline in enrollment over the next few years, as larger class sizes will be graduating.
- The District will have a slight decline in enrollment for fiscal year 2008, which means the District will not receive the full 4% of allowable growth from the State. Any negotiated package over this amount will have an adverse effect financially on the District.
- Tipton Community School District passed the \$1.34 PPEL levy which will continue for 10 years beginning July 1, 2008. This will assist the District in maintaining district facilities.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jim Becker, District Secretary/Treasurer, Tipton Community School District, 400 East 6th Street, Tipton, Iowa 52772.

Basic Financial Statements

TIPTON COMMUNITY SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2007

Assets	Governmental Activities	Business Type Activities	Total	Component Unit Foundation
Cash and cash equivalents				
ISCAP	\$ 791,747	\$ -	\$ 791,747	\$ -
Other	2,085,788	26,610	2,112,398	37,514
Investments	-	-	-	290,533
Receivables				
Property tax				
Delinquent	38,721	-	38,721	-
Succeeding year	2,810,803	-	2,810,803	-
Accounts receivable	928	-	928	-
Accrued interest				
ISCAP	237	-	237	-
Other	3,972	-	3,972	-
Income surtaxes	312,960	-	312,960	-
Due from other governments	375,689	62	375,751	-
Inventories	-	16,105	16,105	-
Non-depreciable capital assets	64,759	-	64,759	-
Capital assets, net of accumulated depreciation	7,947,659	82,196	8,029,855	-
Total assets	<u>14,433,263</u>	<u>124,973</u>	<u>14,558,236</u>	<u>328,047</u>
Liabilities				
Accounts payable	82,974	-	82,974	-
Salaries and benefits payable	609,268	18,675	627,943	-
Accrued interest payable	40,778	-	40,778	-
Due to other governments	189,790	-	189,790	-
Deferred revenue				
Succeeding year property tax	2,810,803	-	2,810,803	-
ISCAP warrants payable	793,000	-	793,000	-
ISCAP accrued interest payable	195	-	195	-
ISCAP unamortized premium	5,884	-	5,884	-
Long-term liabilities				
Portion due within one year				
General obligation bonds payable	315,000	-	315,000	-
Revenue bonds payable	160,000	-	160,000	-
Notes payable	90,000	-	90,000	-
Capital leases payable	16,492	-	16,492	-
Early retirement payable	7,531	-	7,531	-

See notes to financial statements.

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

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Unit Foundation</u>
Liabilities (continued)				
Long-term liabilities (continued)				
Portion due after one year				
General obligation bonds payable	\$ 4,365,000	\$ -	\$ 4,365,000	\$ -
Revenue bonds payable	1,180,000	-	1,180,000	-
Capital leases payable	19,240	-	19,240	-
Total liabilities	<u>10,685,955</u>	<u>18,675</u>	<u>10,704,630</u>	<u>-</u>
Net Assets				
Invested in capital assets, net of related debt	1,866,687	82,196	1,948,883	-
Restricted for				
Management levy	112,631	-	112,631	-
Physical plant and equipment levy	247,713	-	247,713	-
Debt service	159,002	-	159,002	-
Other special revenue purposes	183,497	-	183,497	-
Capital projects	226,936	-	226,936	1,220
Scholarships	-	-	-	291,033
Unrestricted	950,842	24,102	974,944	35,794
Total net assets	<u>\$ 3,747,308</u>	<u>\$ 106,298</u>	<u>\$ 3,853,606</u>	<u>\$ 328,047</u>

See notes to financial statements.

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

Exhibit B

Functions/Programs Primary Government	Program Revenues			Capital Grants, Contributions and Restricted Interest		Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Foundation	
Governmental activities								
Instruction								
Regular instruction	\$ 2,688,344	\$ 602,132	\$ -	\$ -	\$ (1,718,242)	\$ -	\$ (1,718,242)	
Special instruction	1,133,661	229,580	-	-	(726,475)	-	(726,475)	
Other instruction	714,954	6,181	-	-	(708,773)	-	(708,773)	
	<u>4,536,959</u>	<u>831,712</u>	<u>551,757</u>	<u>-</u>	<u>(3,153,490)</u>	<u>-</u>	<u>(3,153,490)</u>	
Support services								
Student	209,187	-	-	-	(209,187)	-	(209,187)	
Instructional staff	331,834	-	-	-	(331,834)	-	(331,834)	
Administration	665,103	-	-	-	(665,103)	-	(665,103)	
Operation and maintenance of plant	611,101	5,737	-	-	(605,364)	-	(605,364)	
Transportation	187,942	-	-	-	(187,942)	-	(187,942)	
	<u>2,005,167</u>	<u>5,737</u>	<u>-</u>	<u>-</u>	<u>(1,999,430)</u>	<u>-</u>	<u>(1,999,430)</u>	
Other expenditures								
Facilities acquisition	190,224	-	-	-	(190,224)	-	(190,224)	
Long-term debt interest	236,265	-	-	-	(236,265)	-	(236,265)	
AEA flowthrough	247,228	-	247,228	-	-	-	-	
Depreciation (unallocated) *	207,684	-	-	-	(207,684)	-	(207,684)	
	<u>881,401</u>	<u>-</u>	<u>247,228</u>	<u>-</u>	<u>(634,173)</u>	<u>-</u>	<u>(634,173)</u>	
Total governmental activities	<u>7,423,527</u>	<u>837,449</u>	<u>798,985</u>	<u>-</u>	<u>(5,787,093)</u>	<u>-</u>	<u>(5,787,093)</u>	

See notes to financial statements.

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

Exhibit B

Functions/Programs (continued)	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government
Primary Government (continued)					Business Type
Business type activities			Governmental Activities	Activities	Total
Non-instructional programs					Foundation
Food service operations	\$ 432,524	\$ 241,689	\$ 138,038	\$ -	\$ (52,797)
Total primary government	\$ 7,856,051	\$ 1,079,138	\$ 937,023	\$ (5,787,093)	\$ (5,839,890)
Component Unit					
Foundation	\$ 649	\$ -	\$ -	\$ -	\$ (649)
General Revenues					
Property tax levied for					
General purposes			2,399,308	-	2,399,308
Debt service			452,142	-	452,142
Capital outlay			492,214	-	492,214
Local option sales and services tax			470,843	-	470,843
Unrestricted state grants			2,902,989	-	2,902,989
Contributions and donations			18,411	-	18,411
Unrestricted investment earnings			149,453	207	149,660
Other			7,387	-	7,387
Transfers			(44,590)	44,590	-
Total general revenues and transfers			6,848,157	44,797	6,892,954
Change in net assets			1,061,064	(8,000)	1,053,064
Net assets, beginning of year			2,686,244	114,298	2,800,542
Net assets, end of year			\$ 3,747,308	\$ 106,298	\$ 3,853,606

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

See notes to financial statements.

TIPTON COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2007

Assets	<u>General</u>	<u>Capital Projects</u>	<u>Debt Service</u>	Nonmajor Special Revenue <u>Funds</u>	<u>Total</u>
Cash and pooled investments					
ISCAP	\$ 791,747	\$ -	\$ -	\$ -	\$ 791,747
Other	1,423,751	49,705	193,240	419,092	2,085,788
Receivables					
Property tax					
Delinquent	28,578	-	6,540	3,603	38,721
Succeeding year	2,097,548	-	457,563	255,692	2,810,803
Accounts receivable	928	-	-	-	928
Accrued interest					
ISCAP	237	-	-	-	237
Other	-	-	-	3,972	3,972
Income surtax	156,480	-	-	156,480	312,960
Due from other governments	197,044	178,645	-	-	375,689
Total assets	<u>\$4,696,313</u>	<u>\$228,350</u>	<u>\$657,343</u>	<u>\$ 838,839</u>	<u>\$6,420,845</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 53,773	\$ 1,414	\$ -	\$ 27,787	\$ 82,974
Salaries and benefits payable	607,026	-	-	2,242	609,268
Due to other governments	188,044	-	-	1,746	189,790
ISCAP warrants payable	793,000	-	-	-	793,000
ISCAP accrued interest payable	195	-	-	-	195
ISCAP unamortized premium	5,884	-	-	-	5,884
Deferred revenue					
Succeeding year property tax	2,097,548	-	457,563	255,692	2,810,803
Income surtax	156,480	-	-	156,480	312,960
Total liabilities	<u>3,901,950</u>	<u>1,414</u>	<u>457,563</u>	<u>443,947</u>	<u>4,804,874</u>
Fund balances					
Reserved for					
State programs	18,201	-	-	-	18,201
Debt service	-	-	199,780	-	199,780
Unreserved					
Designated for					
Specific school programs	13,421	-	-	-	13,421
Undesignated, governmental funds	762,741	226,936	-	-	989,677
Undesignated, special revenue funds	-	-	-	394,892	394,892
Total fund balances	<u>776,162</u>	<u>226,936</u>	<u>-</u>	<u>394,892</u>	<u>1,397,990</u>
Total liabilities and fund balances	<u>\$4,678,112</u>	<u>\$228,350</u>	<u>\$457,563</u>	<u>\$ 838,839</u>	<u>\$6,202,864</u>

See notes to financial statements.

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

Exhibit D

Total fund balances of governmental funds	\$1,615,971
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	8,012,418
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	312,960
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.	(40,778)
Long-term liabilities, including bonds, notes and capital leases payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(6,153,263)</u>
Net assets of governmental activities	<u><u>\$3,747,308</u></u>

See notes to financial statements.

TIPTON 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>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$2,150,813	\$ 470,843	\$ 451,780	\$ 425,960	\$3,499,396
Tuition	557,699	-	-	-	557,699
Other	147,365	12,831	11,681	283,124	455,001
Intermediate sources	33,830	-	-	-	33,830
State sources	3,492,127	-	362	198	3,492,687
Federal sources	177,607	-	-	-	177,607
Total revenues	<u>6,559,441</u>	<u>483,674</u>	<u>463,823</u>	<u>709,282</u>	<u>8,216,220</u>
Expenditures					
Current					
Instruction					
Regular	2,717,055	-	-	18,827	2,735,882
Special	1,075,925	-	-	-	1,075,925
Other	509,997	-	-	220,119	730,116
	<u>4,302,977</u>	<u>-</u>	<u>-</u>	<u>238,946</u>	<u>4,541,923</u>
Support services					
Student	208,885	-	-	-	208,885
Instructional staff	306,552	-	-	-	306,552
Administration	664,855	-	-	33,231	698,086
Operation and maintenance of plant	572,698	-	-	36,649	609,347
Transportation	192,757	-	-	23,771	216,528
	<u>1,945,747</u>	<u>-</u>	<u>-</u>	<u>93,651</u>	<u>2,039,398</u>
Other expenditures					
Facilities acquisition	-	921,639	-	192,285	1,113,924
Long-term debt					
Principal	-	-	466,512	-	466,512
Interest and fiscal charges	-	-	195,487	-	195,487
AEA flowthrough	247,228	-	-	-	247,228
	<u>247,228</u>	<u>921,639</u>	<u>661,999</u>	<u>192,285</u>	<u>2,023,151</u>
Total expenditures	<u>6,495,952</u>	<u>921,639</u>	<u>661,999</u>	<u>524,882</u>	<u>8,604,472</u>

See notes to financial statements.

TIPTON 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>Capital Projects</u>	<u>Debt Service</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 63,489	\$(437,965)	\$(198,176)	\$ 184,400	\$ (388,252)
Other financing sources (uses)					
Proceeds of loans	-	-	-	49,475	49,475
Interfund operating transfers in	-	-	386,671	17,487	404,158
Interfund operating transfers (out)	<u>(62,077)</u>	<u>(269,462)</u>	<u>-</u>	<u>(117,209)</u>	<u>(448,748)</u>
Total other financing sources (uses)	<u>(62,077)</u>	<u>(269,462)</u>	<u>386,671</u>	<u>(50,247)</u>	<u>4,885</u>
Net change in fund balances	1,412	(707,427)	188,495	134,153	(383,367)
Fund balance, beginning of year	<u>792,951</u>	<u>934,363</u>	<u>11,285</u>	<u>260,739</u>	<u>1,999,338</u>
Fund balance, end of year	<u>\$ 794,363</u>	<u>\$ 226,936</u>	<u>\$ 199,780</u>	<u>\$ 394,892</u>	<u>\$ 1,615,971</u>

See notes to financial statements.

TIPTON 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 \$ (383,367)

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	\$1,067,651	
Depreciation expense	<u>(331,266)</u>	736,385

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 312,960

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (49,475)

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. 466,512

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	18,827
------------------	--------

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. (40,778)

Change in net assets of governmental activities \$1,061,064

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2007

Exhibit G

	<u>Nonmajor School Nutrition</u>
Assets	
Cash and pooled investments	\$ 26,610
Due from other governments	62
Inventories	16,105
Capital assets, net of accumulated depreciation	<u>82,196</u>
Total assets	<u>124,973</u>
 Liabilities	
Salaries and benefits payable	<u>18,675</u>
 Net Assets	
Invested in capital assets, net of related debt	82,196
Unrestricted	<u>24,102</u>
Total net assets	<u><u>\$106,298</u></u>

See notes to financial statements.

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

Exhibit H

	<u>Nonmajor School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$241,689</u>
 Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	127,648
Benefits	60,975
Purchased services	7,936
Supplies	218,346
Depreciation	<u>17,619</u>
Total operating expenses	<u>432,524</u>
 Operating loss	<u>(190,835)</u>
 Non-operating revenues	
Interest income	207
State sources	4,521
Federal sources	<u>133,517</u>
Total non-operating revenues	<u>138,245</u>
 Net loss before transfers	(52,590)
Transfers in	<u>44,590</u>
Net loss	(8,000)
Net assets, beginning of year	<u>114,298</u>
 Net assets, end of year	<u><u>\$106,298</u></u>

See notes to financial statements.

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

Exhibit I

	<u>Nonmajor School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 241,689
Cash payments to employees for services	(188,237)
Cash payments to suppliers for goods and services	<u>(192,677)</u>
Net cash (used in) operating activities	<u>(139,225)</u>
Cash flows from non-capital financing activities	
Operating transfers from other funds	44,590
State grants received	4,521
Federal grants received	<u>117,588</u>
Net cash provided by non-capital financing activities	<u>166,699</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(7,077)</u>
Cash flows from investing activities	
Interest on investments	<u>207</u>
Net increase in cash and cash equivalents	20,604
Cash and cash equivalents, beginning of year	6,006
Cash and cash equivalents, end of year	<u><u>\$ 26,610</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$(190,835)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	17,619
Commodities used	27,119
Decrease in inventory	6,486
Increase in accrued salaries and benefits	<u>386</u>
Net cash used in operating activities	<u><u>\$(139,225)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received \$27,119 of federal commodities.

TIPTON COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2007

Exhibit J

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarships</u>	
Assets		
Cash and pooled investments	\$ 769,008	\$12,349
Accrued interest receivable	4,162	-
Accounts receivable	<u>500</u>	<u>-</u>
Total assets	773,670	12,349
Liabilities		
Accounts payable	<u>76</u>	<u>12,349</u>
Net Assets		
Reserved for scholarships	<u>\$ 773,594</u>	<u>\$ -</u>

See notes to financial statements.

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

Exhibit K

	Private Purpose Trust <hr/> Scholarships
Additions	
Local sources	
Gifts and contributions	\$ 500
Interest	<u>41,432</u>
Total additions	41,932
 Deductions	
Instruction, other	
Scholarships	<u>21,042</u>
 Change in net assets	20,890
Net assets, beginning of year	<u>752,704</u>
 Net assets, end of year	<u><u>\$ 773,594</u></u>

See notes to financial statements.

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

Note 1. Summary of Significant Accounting Policies

The Tipton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Tipton, Iowa, and the agricultural territory in Cedar County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Tipton 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.

These financial statements present the Tipton Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit - The Tipton Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements.

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

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 the following nonmajor proprietary fund:

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

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 and claims and judgments and early retirement benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for Enterprise Fund 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 eighteen 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 - 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. The early retirement plan was eliminated by the District as of July 1, 2006.

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 succeeding year property tax receivables and income surtaxes 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.

Designated Fund Balance - The District has designated a portion of its fund balance for specific programs.

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 \$112,631 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

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

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.

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

	Amortized Cost
Diversified Portfolio	<u>\$ 1,919,980</u>

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

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

Component Unit Investments - The Foundation had investments in mutual funds and an annuity as follows:

Mutual funds	\$281,183
Annuity	<u>9,350</u>
Total investments	<u>\$290,533</u>

Note 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Physical Plant and Equipment Levy	General	\$ 17,487
School Nutrition	General	44,590
Debt Service	Physical Plant and Equipment Levy	117,209
Debt Service	Capital Projects	<u>269,462</u>
		<u>\$ 448,748</u>

The transfer from General Fund to the Physical Plant and Equipment Levy Fund and from the Physical Plant and Equipment Levy Fund and the Capital Projects Fund to the Debt Service Fund were to move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfer from General Fund to the School Nutrition Fund was reimbursement for medical insurance paid for the cooks by the School Nutrition Fund.

Note 4. 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>
2007-08A	6/27/07	6/27/08	\$ 791,747	\$ 237	\$ 793,000	\$ 195	\$ 5,884

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 addition, 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	\$ -	\$ 200,000	\$ 200,000	\$ -

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.500%	5.6760%
2007-08A	4.500%	5.4550%

Note 5. Capital Assets

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

<u>Governmental activities</u>	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 43,300	\$ -	\$ -	\$ 43,300
Construction in progress	<u>580,076</u>	<u>21,459</u>	<u>(580,076)</u>	<u>21,459</u>
Total capital assets, not being depreciated	<u>623,376</u>	<u>21,459</u>	<u>(580,076)</u>	<u>64,759</u>
Capital assets being depreciated:				
Buildings and improvements	8,862,206	1,482,315	-	10,344,521
Improvements other than buildings	464,173	-	-	464,173
Furniture and equipment	<u>1,245,591</u>	<u>143,950</u>	<u>(302,363)</u>	<u>1,087,178</u>
Total capital assets being depreciated	<u>10,571,970</u>	<u>1,626,265</u>	<u>(302,363)</u>	<u>11,895,872</u>
Less accumulated depreciation for:				
Buildings and improvements	2,747,357	187,690	-	2,935,047
Improvements other than buildings	265,307	18,990	-	284,297
Furniture and equipment	<u>906,646</u>	<u>124,586</u>	<u>(302,363)</u>	<u>728,869</u>
Total accumulated depreciation	<u>3,919,310</u>	<u>331,266</u>	<u>(302,363)</u>	<u>3,948,213</u>
Total capital assets being depreciated, net	<u>6,652,660</u>	<u>1,294,999</u>	<u>-</u>	<u>7,947,659</u>
Governmental activities capital assets, net	<u>\$ 7,276,036</u>	<u>\$ 1,316,458</u>	<u>\$ (580,076)</u>	<u>\$ 8,012,418</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 226,829	\$ 7,077	\$ -	\$ 233,906
Less accumulated depreciation	<u>134,091</u>	<u>17,619</u>	<u>-</u>	<u>151,710</u>
Business type activities capital assets, net	<u>\$ 92,738</u>	<u>\$ (10,542)</u>	<u>\$ -</u>	<u>\$ 82,196</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 22,947
Support services	
Student support	302
Instructional staff	34,807
Administration	16,492
Operation and maintenance of plant	1,754
Transportation	47,280
Unallocated depreciation	<u>207,684</u>
Total governmental activities depreciation expense	<u>\$ 331,266</u>

Business type activities

Food services

\$ 17,619**Note 6. Long-term Liabilities**

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 4,980,000	\$ -	\$ (300,000)	\$ 4,680,000	\$ 315,000
Revenue bonds	1,400,000	-	(60,000)	1,340,000	160,000
Capital loan notes	175,000	-	(85,000)	90,000	90,000
Capital leases	7,769	49,475	(21,512)	35,732	16,492
Early retirement	26,358	-	(18,827)	7,531	7,531
Totals	<u>\$ 6,589,127</u>	<u>\$ 49,475</u>	<u>\$ (485,339)</u>	<u>\$ 6,153,263</u>	<u>\$ 589,023</u>

Interest costs incurred and charged to expense on all long-term debt was \$236,265 for the year ended June 30, 2007. During the year ended June 30, 2007, the District made principal payments on total long-term debt of \$466,512.

General Obligation Bonds

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

- a) An issue dated March 15, 2005, having interest rates varying from 3.125% to 3.5% and an unpaid balance of \$2,570,000. Payments are due annually in varying installments June 1, 2005 through June 1, 2017 plus interest due semi-annually.
- b) An issue dated January 5, 2005, having interest rates varying from 2.2% to 4.3% and an unpaid balance of \$2,110,000. Payments are due annually in varying installments June 1, 2006 through June 1, 2024 plus interest due semi-annually.

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

Year Ending June 30,	Bond Issue Date		Total
	March 15, 2005	January 5, 2005	
2008	\$ 220,000	\$ 95,000	\$ 315,000
2009	225,000	95,000	320,000
2010	235,000	100,000	335,000
2011	240,000	100,000	340,000
2012	250,000	105,000	355,000
2013-2017	1,400,000	580,000	1,980,000
2018-2022	-	705,000	705,000
2023-2024	-	330,000	330,000
Totals	<u>\$ 2,570,000</u>	<u>\$ 2,110,000</u>	<u>\$ 4,680,000</u>

Details of the general bond interest requirements to maturity as of June 30, 2007, are as follows:

Year Ending June 30,	Bond Issue Date		Total
	March 15, 2005	January 5, 2005	
2008	\$ 84,680	\$ 77,882	\$ 162,562
2009	77,750	75,508	153,258
2010	70,663	72,943	143,606
2011	63,260	69,943	133,203
2012	55,340	66,793	122,133
2013-2017	146,060	277,967	424,027
2018-2022	-	159,550	159,550
2023-2024	-	21,420	21,420
Totals	<u>\$ 497,753</u>	<u>\$ 822,006</u>	<u>\$ 1,319,759</u>

Revenue Bonds

Details of the District's June 30, 2007 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Interest			Total
	Rates	Interest	Principal	
2008	4.00%	52,000	160,000	212,000
2009	4.00%	45,600	160,000	205,600
2010	4.00%	39,100	170,000	209,100
2011	4.00%	32,300	175,000	207,300
2012	4.00%	25,200	185,000	210,200
2013-2015	4.00%	29,700	490,000	519,700
Totals		<u>\$ 223,900</u>	<u>\$ 1,340,000</u>	<u>\$ 1,563,900</u>

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

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

- a) Commencing August 1, 2006 monthly deposits of \$4,545 were made to the Reserve Fund. The Reserve Fund is used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account.
- b) All proceeds from the local option sales and services tax shall be placed in the Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Fund to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) All monies remaining in the Revenue Account after the required transfer to the Sinking Fund may be transferred to the Project Fund to be used for any lawful purpose.

Capital Loan Notes

On October 4, 2000 the District issued capital loan notes in the amount of \$625,000 for the purpose of building remodeling and construction. The notes bear interest at 5.75% and are scheduled to be repaid as follows:

Year Ending <u>June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2008	\$ 5,175	\$ 90,000	\$ 95,175

Capital Leases

The District has entered into a contractual agreement to lease copiers. This agreement represents a lease-purchase agreement and, in substance, is a capital lease as ownership of the property transfers to the District at the end of the lease term. A schedule of future minimum lease payments and the present value of net minimum lease payments as of June 30, 2007 is as follows:

Year Ending <u>June 30,</u>	<u>Payments</u>
2008	\$ 17,105
2009	17,105
2010	<u>2,852</u>
Total	37,062
Less amount representing interest	<u>(1,330)</u>

Present value of net minimum lease payments \$ 35,732

Early Retirement Termination Benefit

The District offered a voluntary early retirement plan to its certified employees. Eligible employees were required to be at least 55 years of age and have completed 15 years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was 100 days per diem of the applicant's contract in effect for the year in which the employee applied for early retirement. The retiree could request a lump sum payment or elect to take the benefit annually (paid with the District's July payroll) over a two or three year period. The early retirement plan was eliminated as of July 1, 2006. Currently enrolled participants will continue to receive their benefits; however, additional employees will not be able to enroll unless the plan is reinstated by the Board of Education.

At June 30, 2007, the District had obligations to one participant with a total liability of \$7,531. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$18,827.

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, 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 \$224,846, \$211,705 and \$220,844 respectively, equal to the required contributions for each year.

Note 8. 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 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$247,228 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 10. Related Party Transactions

The District had business transactions between the District and a board member, totaling \$861 during the year ended June 30, 2007.

Note 11. 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.

Required Supplementary Information

TIPTON 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
 For the Year Ended June 30, 2007

	Governmental Funds		Proprietary Fund		Total <u>Actual</u>	Budgeted Amounts		Final to Actual <u>Variance</u>
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Original</u>		<u>Final</u>		
Revenues								
Local sources	\$4,512,096	\$241,896	\$4,753,992	\$3,994,353	\$3,994,353	\$ 759,639		
Intermediate sources	33,830	-	33,830	200	200	33,630		
State sources	3,492,687	4,521	3,497,208	3,768,859	3,768,859	(271,651)		
Federal sources	177,607	133,517	311,124	179,121	179,121	132,003		
Total revenues	<u>8,216,220</u>	<u>379,934</u>	<u>8,596,154</u>	<u>7,942,533</u>	<u>7,942,533</u>	<u>653,621</u>		
Expenditures								
Instruction	4,541,923	-	4,541,923	4,383,407	4,583,407	41,484		
Support services	2,039,398	-	2,039,398	2,223,970	2,223,970	184,572		
Non-instructional programs	-	432,524	432,524	386,665	446,665	14,141		
Other expenditures	2,023,151	-	2,023,151	2,377,083	2,377,083	353,932		
Total expenditures	<u>8,604,472</u>	<u>432,524</u>	<u>9,036,996</u>	<u>9,371,125</u>	<u>9,631,125</u>	<u>594,129</u>		
Deficiency of revenues under expenditures	(388,252)	(52,590)	(440,842)	(1,428,592)	(1,688,592)	1,247,750		
Net other financing sources	<u>4,885</u>	<u>44,590</u>	<u>49,475</u>	<u>115,063</u>	<u>115,063</u>	<u>(65,588)</u>		
Deficiency of revenues and other financing sources under expenditures	(383,367)	(8,000)	(391,367)	(1,313,529)	(1,573,529)	1,182,162		
Balance, beginning of year	1,999,338	114,298	2,113,636	2,919,027	2,919,027	(805,391)		
Balance, end of year	<u>\$1,615,971</u>	<u>\$106,298</u>	<u>\$1,722,269</u>	<u>\$1,605,498</u>	<u>\$1,345,498</u>	<u>\$ 376,771</u>		

See accompanying Independent Auditor's Report.

TIPTON 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 and Agency 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 budgeted expenditures by \$260,000.

Other Supplementary Information

TIPTON COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2007

Schedule 1

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$118,834	\$195,344	\$104,914	\$419,092
Receivables				
Property tax				
Current year delinquent	1,328	-	2,275	3,603
Succeeding year	90,000	-	165,692	255,692
Accrued interest receivable	-	3,972	-	3,972
Income surtax	-	-	156,480	156,480
Total assets	<u>\$210,162</u>	<u>\$199,316</u>	<u>\$429,361</u>	<u>\$838,839</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 11,831	\$ 15,956	\$ 27,787
Salaries and benefits payable	-	2,242	-	2,242
Due from other governments	-	1,746	-	1,746
Deferred revenue				
Succeeding year property tax	90,000	-	165,692	255,692
Income surtax	-	-	156,480	156,480
Total liabilities	90,000	15,819	338,128	443,947
 Fund balances				
Unreserved fund balances	<u>120,162</u>	<u>183,497</u>	<u>91,233</u>	<u>394,892</u>
Total liabilities and fund balances	<u>\$210,162</u>	<u>\$199,316</u>	<u>\$429,361</u>	<u>\$838,839</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ 90,352	\$ -	\$335,608	\$425,960
Other	10,706	266,565	5,853	283,124
State sources	73	-	125	198
Total revenues	<u>101,131</u>	<u>266,565</u>	<u>341,586</u>	<u>709,282</u>
Expenditures				
Current				
Instruction				
Regular	18,827	-	-	18,827
Other	-	220,119	-	220,119
	<u>18,827</u>	<u>220,119</u>	<u>-</u>	<u>238,946</u>
Support services				
Administration	31,738	291	1,202	33,231
Operation and maintenance of plant	36,448	201	-	36,649
Transportation	7,505	16,266	-	23,771
	<u>75,691</u>	<u>16,758</u>	<u>1,202</u>	<u>93,651</u>
Other expenditures				
Facilities acquisition	-	-	192,285	192,285
Total expenditures	<u>94,518</u>	<u>236,877</u>	<u>193,487</u>	<u>524,882</u>
Excess of revenues over expenditures	<u>6,613</u>	<u>29,688</u>	<u>148,099</u>	<u>184,400</u>
Other financing sources (uses)				
Issuance of capital leases	-	-	49,475	49,475
Interfund operating transfers in	-	-	17,487	17,487
Interfund operating transfers (out)	-	-	(117,209)	(117,209)
Total other financing (uses)	<u>-</u>	<u>-</u>	<u>(50,247)</u>	<u>(50,247)</u>
Excess of revenues over expenditures and other financing uses	6,613	29,688	97,852	134,153
Fund balances, beginning of year	113,549	153,809	(6,619)	260,739
Fund balances, end of year	<u>\$120,162</u>	<u>\$183,497</u>	<u>\$ 91,233</u>	<u>\$394,892</u>

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
Drama club	\$ 2,788	\$ 3,971	\$ 4,060	\$ 2,699
Forensics	4,350	5,309	4,620	5,039
Choir	3,486	7,083	6,579	3,990
Instrumental music	3,727	1,798	1,349	4,176
Middle school music	2,475	-	565	1,910
High school band color guard	960	306	726	540
High school athletics	16,228	67,644	56,816	27,056
Cross country special	3,116	4,759	5,638	2,237
Golf special	358	1,057	1,183	232
Boys basketball special	2,011	10,669	6,552	6,128
Football special	3,555	4,267	4,661	3,161
Baseball special	1,022	9,158	9,186	994
Boys track special	2,047	2,716	1,986	2,777
Wrestling special	39	7,888	5,483	2,444
Girls basketball special	4,203	4,747	6,431	2,519
Volleyball special	5,543	4,812	4,778	5,577
Softball special	1,974	2,835	2,455	2,354
Girls track special	2,560	1,243	1,916	1,887
Special S&C	2,258	1,590	1,925	1,923
Girls swimming special	1,332	1,326	1,745	913
Academic decathlon	100	608	1,269	(561)
Art club	302	-	-	302
Thespians	310	1,245	987	568
Honor Society	-	190	142	48
Football cheerleaders	2,011	1,450	1,214	2,247
Basketball cheerleaders	420	-	-	420
Wrestling cheerleaders	916	1,739	1,063	1,592
High school student council	6,440	7,502	6,064	7,878
FFA	2,992	28,596	24,571	7,017
Yearbook	1,066	12,019	12,100	985
Spanish	216	-	-	216
Elementary grade fund	5,926	9,748	8,289	7,385
Invention Convention	31	125	62	94

See accompanying Independent Auditor's Report.

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

Schedule 3

	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
Account (continued)				
Middle school yearbook	\$ -	\$ 1,313	\$ 111	\$ 1,202
Middle school activity fund	(1,520)	5,282	5,303	(1,541)
Middle school athletics fund	(1,325)	17,068	19,410	(3,667)
MDT fund	276	2,123	1,221	1,178
Middle school lifeskills	220	383	223	380
Jump Rope for Heart	702	-	-	702
Elementary library	198	-	-	198
Middle school student council	3,497	990	4,226	261
Gifted and talented	199	-	-	199
Elementary TAG	321	-	-	321
Class of 2006	50	-	-	50
Class of 2007	139	10	149	-
Class of 2008	1,076	13,572	13,799	849
Class of 2009	262	1,697	352	1,607
Class of 2010	-	215	86	129
Tigerette dance squad	3,422	7,102	6,913	3,611
Investment account interest	60,997	9,729	70	70,656
Special projects	533	681	599	615
Totals	<u>\$ 153,809</u>	<u>\$ 266,565</u>	<u>\$ 236,877</u>	<u>\$ 183,497</u>

See accompanying Independent Auditor's Report.

TIPTON COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
 For the Year Ended June 30, 2007

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 13,383</u>	<u>\$ 53,898</u>	<u>\$ 54,932</u>	<u>\$12,349</u>
 Liabilities				
Due to others	<u>\$ 13,383</u>	<u>\$ 53,898</u>	<u>\$ 54,932</u>	<u>\$12,349</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$3,499,396	\$ 3,347,746	\$3,141,934	\$2,921,860
Tuition	557,699	575,238	418,697	374,366
Other	455,001	505,022	345,796	303,341
Intermediate sources	33,830	-	-	-
State sources	3,492,687	3,418,405	3,282,078	3,133,521
Federal sources	177,607	186,231	215,590	188,166
Total revenues	<u>\$8,216,220</u>	<u>\$ 8,032,642</u>	<u>\$7,404,095</u>	<u>\$6,921,254</u>
Expenditures				
Current				
Instruction				
Regular	2,735,882	2,536,866	2,636,249	2,719,327
Special	1,075,925	1,026,530	1,034,977	878,801
Other	730,116	697,298	658,313	664,135
Support services				
Student	208,885	198,545	186,142	175,088
Instructional staff	306,552	399,113	438,747	407,272
Administration	698,086	712,732	668,015	654,132
Operation and maintenance of plant	609,347	571,910	562,547	573,476
Transportation	216,528	207,774	156,664	149,043
Central support	-	-	-	5,002
Non-instructional programs	-	-	39,178	39,068
Other expenditures				
Facilities acquisition	1,113,924	981,799	2,468,005	137,044
Long-term debt				
Principal	466,512	3,053,645	268,645	270,946
Interest and other charges	195,487	402,845	263,245	178,573
AEA flowthrough	247,228	237,619	231,345	232,780
Total expenditures	<u>\$8,604,472</u>	<u>\$ 11,026,676</u>	<u>\$9,612,072</u>	<u>\$7,084,687</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
Tipton 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 Tipton 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 October 22, 2007. 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 Tipton 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 Tipton Community School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Tipton 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 Tipton 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 Tipton Community School District's financial statements that is more than inconsequential will not be prevented or detected by Tipton 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 Tipton 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 I-A and I-B are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tipton 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.

Tipton 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 Tipton 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 Tipton Community School District and other parties to whom Tipton Community School District may reports. 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 Tipton 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.

A handwritten signature in black ink that reads "Kay L. Chapman, CPA PC". The signature is written in a cursive style.

Kay L. Chapman, CPA PC
October 22, 2007

TIPTON 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.

SIGNIFICANT 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 performed 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 their operating procedures to obtain the maximum internal control possible under the circumstances.

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

Conclusion - Response accepted.

- B. Controls Over Financial Reporting - During the audit of the financial statements, I discovered that the accrued interest payable on long-term debt was recorded as a liability and expenditure in the governmental fund financial statements. According to U.S. generally accepted accounting standards, interest should only be recorded in the governmental fund financial statements when the interest is due and unpaid. The District corrected these amounts before the final CAR was submitted to the Iowa Department of Education and before the financial statements were prepared. However, the District's control procedures did not detect this material misstatement in the financial statements.

Recommendation - The District should provide the necessary training to personnel responsible for preparation of the financial statements to ensure that the financial statements comply with U.S. generally accepted accounting standards.

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

Response - We will review our procedures and provide the resources necessary to properly prepare our financial statements in compliance with U.S. generally accepted accounting principles.

Conclusion - Response accepted.

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2007 did not exceed the amounts budgeted.
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.
4. Business Transactions - Business transactions between the District and District officials are noted below:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Emrich, Board Member owner Main Street Café	Refreshments and supplies	\$ 861

These transactions with the Board Member do not appear to represent a conflict of interest since the total did not exceed \$2,500 for the fiscal year, as allowed by Chapter 279.7A of the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will review the situation.

Conclusion - Response accepted.

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.

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

6. Board Minutes - I noted no transactions requiring Board approval, which had not been approved by the Board.
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 and I noted no significant deficiencies in the amounts reported.
10. Images of Checks - The District does not receive cancelled checks from the bank. The bank provides images of the district checks. However, the bank does not provide images of the backs of the checks, only images of the front of the checks.

Recommendation - Chapter 554D.114 of the Code of Iowa requires districts to retain cancelled checks or electronic records of the information contained on the front and back of each check. The District should ensure that it receives images of both the front and back of each check from the bank in order to comply with the Code of Iowa.

Response - We began receiving the images of front and back of checks from the bank in July 2007.

Conclusion - Response accepted.

11. General Fund Subsidy of School Nutrition Fund - It was noted during the audit that the General Fund is subsidizing the School Nutrition Fund by paying for the employees' health insurance and certain other employee benefits. During the year ended June 30, 2007 the General Fund transferred \$44,590 to the School Nutrition Fund to reimburse for employee benefits. This is considered to be a permanent transfer since the School Nutrition Fund is not expected to repay the General Fund for these benefits.

Recommendation - The School Nutrition Fund is supposed to support its own operations through the collection of fees for meals served, without subsidy from other District funds. The District should consider alternatives so to make the School Nutrition Fund entirely self-sufficient.

Response - We will investigate alternatives to eliminate future subsidizing of the School Nutrition Fund by other District funds.

Conclusion - Response accepted.

TIPTON COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2007

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant