

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances -Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Nonmajor Enterprise Funds:		
Combining Schedule of Net Assets	3	43
Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets	4	44
Combining Schedule of Cash Flows	5	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	6	46
Schedule of Revenues by Sources and Expenditures by Function	7	47
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>		48-49
Schedule of Findings and Responses		50-53

Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of
Walnut Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated May 1, 2008, on our consideration of Walnut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Walnut Community School District's basic financial statements. We

previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

May 1, 2008

WALNUT MANAGEMENT'S DISCUSSION AND ANALYSIS

Walnut 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 \$2,258,238 in fiscal 2006 to \$2,477,446 in fiscal 2007, while General Fund expenditures increased from \$2,138,602 in fiscal 2006 to \$2,179,871 in fiscal 2007. The District's General Fund increased from \$31,346 in fiscal 2006 to \$335,826 in fiscal 2007
- The increase in General Fund revenues was attributable to sharing incentives created by sharing classes and teachers with a neighboring school district. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

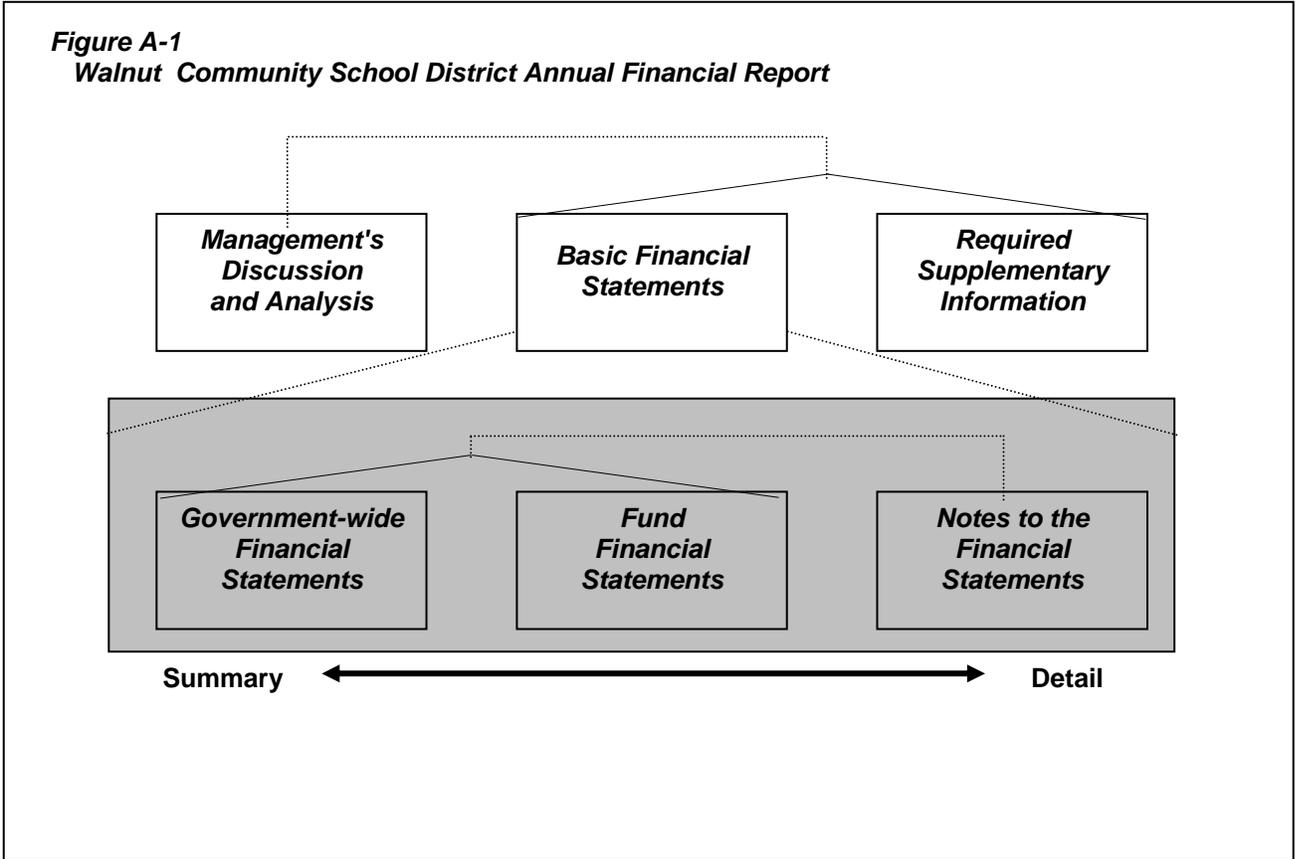


Figure A-2 summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The district has three kinds of funds:

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

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

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

- 1) *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 two Enterprise Funds, the School Nutrition Fund and the Day Care fund.
- 2) The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 3) *Fiduciary funds:* The district is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
 - Private-Purpose Trust Fund – The district accounts for outside donations for scholarships for individual students in this fund.

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

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

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

Government-Wide Financial Analysis

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,924,516	2,907,144	14,228	8,015	2,938,744	2,915,159	1%
Capital assets	2,005,919	1,944,280	38,469	41,419	2,044,388	1,985,699	3%
Total assets	4,930,435	4,851,424	52,697	49,434	4,983,132	4,900,858	2%
Long-term liabilities	1,238,892	1,387,128	11,721	14,160	1,250,613	1,401,288	-11%
Other liabilities	1,966,564	2,237,189	9,514	9,742	1,976,078	2,246,931	-12%
Total liabilities	3,205,456	3,624,317	21,235	23,902	3,226,691	3,648,219	-12%
Net Assets:							
Invested in capital assets, net of related debt	825,919	644,280	26,748	27,259	852,667	671,539	27%
Restricted	523,828	583,672	-	-	523,828	583,672	-10%
Unrestricted	375,232	(845)	4,714	(1,727)	379,946	(2,572)	14,872%
TOTAL NET ASSETS	1,724,979	1,227,107	31,462	25,532	1,756,441	1,252,639	40%

The district's combined net assets increased by nearly 40%, or approximately \$503,802, over the prior year. The largest portion of the district's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. 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 approximately \$59,844 or 10% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$382,518, or 14,872%.

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

Figure A-4

	Change in Net Assets						Percentage Change 2007-2006
	Governmental Activities		Business-type Activities		Total School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Revenues							
Program Revenues:							
Charges for services	258,533	210,110	123,923	105,686	382,456	315,796	21%
Operating grants & contributions	289,278	384,470	67,521	64,738	356,799	449,208	-21%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	1,169,053	1,094,894	-	-	1,169,053	1,094,894	7%
Income Surtax	40,971	44,931	-	-	40,971	44,931	-9%
Local option sales tax	183,609	213,780	-	-	183,609	213,780	-14%
Unrestricted state grants	970,710	901,347	-	-	970,710	901,347	7%
Unrestricted investment earnings	49,501	6,246	142	43	49,643	6,289	689%
Other revenue	122,274	1,000	-	-	122,274	1,000	12,127%
Total Revenues	3,083,929	2,856,778	191,586	170,467	3,275,515	3,027,245	8%
Expenses:							
Instruction	1,525,635	1,491,516	-	-	1,525,635	1,491,516	2%
Support services	690,823	664,491	-	-	690,823	664,491	4%
Non-instructional programs	-	-	185,656	174,831	185,656	174,831	6%
Other expenditures	369,599	276,889	-	-	369,599	276,889	34%
Total expenses	2,586,057	2,432,896	185,656	174,831	2,771,713	2,607,727	6%
Change in net assets before Transfers	497,872	423,882	5,930	(4,364)	503,802	419,518	20%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	497,872	423,882	5,930	(4,364)	503,802	419,518	20%
Net assets beginning of year	1,227,107	803,225	25,532	29,896	1,252,639	833,121	50%
Net assets end of year	1,724,979	1,227,107	31,462	25,532	1,756,441	1,252,639	40%

Property tax and unrestricted state grants account for 65% of the total revenue. The district's expenses primarily relate to instruction and support services, which account for 80% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,083,929 and expenses were \$2,586,057. The district was able to balance the budget by trimming expenses to match available revenues.

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 2007 \$	Total Cost of Services 2006 \$	Net Cost of Services 2007 \$	Net Cost of Services 2006 \$
Instruction	1,525,635	1,491,516	1,076,216	1,009,052
Support Services	690,823	664,491	669,936	626,015
Non-instructional Programs	-	-	-	-
Other Expenses	369,599	276,889	292,094	203,249
TOTAL	2,586,057	2,432,896	2,038,246	1,838,316

- The cost financed by users of the district's programs was \$258,533.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$289,278.
- The net cost of governmental activities was financed with \$1,393,633 in property and other taxes and \$970,710 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$191,586 and expenses were \$185,656. The district's business type activities include the School Nutrition Fund and Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Walnut 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 \$923,291, well above last year's ending fund balances of \$638,876.

Governmental Fund Highlights

- The district's General Fund financial position is the result of many factors. Sharing incentives contributed to a great deal of the growth.
- The General Fund balance increased from \$31,346 to \$335,826.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$4,040 at June 30, 2006 to \$2,835 at June 30, 2007, while the Daycare Fund net assets increased from \$21,492 to \$28,627.

BUDGETARY HIGHLIGHTS

Over the course of the year, Walnut Community School District did amend its budget.

The district's receipts were \$222,034 more than budgeted receipts. The most significant variance resulted from the District receiving more from sharing incentives than originally anticipated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the district had invested \$2.044 million, 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) More detailed information about the district's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$101,131.

The original cost of the district's capital assets was \$5.064 million. Governmental funds account for \$4.984 million, with the remainder of \$.08 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2007-2006
	Activities		Activities		School District		
	2007	2006	2007	2006	2007	2006	
	\$	\$	\$	\$	\$	\$	
Land	40,125	40,125	-	-	40,125	40,125	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,715,152	1,778,966	34,827	36,959	1,749,979	1,815,925	-4%
Improvements	50,735	40,085	-	-	50,735	40,085	27%
Equipment & Furniture	199,907	85,104	3,642	4,460	203,549	89,564	127%
TOTAL	<u>2,005,919</u>	<u>1,944,280</u>	<u>38,469</u>	<u>41,419</u>	<u>2,044,388</u>	<u>1,985,699</u>	<u>3%</u>

Long-Term Debt

At June 30, 2007, the district had \$1,250,613 in general obligation, capital leases, and other long-term debt outstanding. This represents a decrease of approximately 11% from last year. (See Figure A-7) Additional information about the district's long-term debt is presented in Note 7 to the financial statements.

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

	Total School District		Percentage Change
	2007	2006	2007-2006
	\$	\$	
General Obligation Bonds	1,180,000	1,300,000	-9%
Capital Leases	11,721	14,160	-17%
Early Retirement	58,892	87,128	-32%
	1,250,613	1,401,288	-11%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The district's September 2006 enrollment decreased by 16 students. This drop in enrollment will decrease the district's funding for fiscal year 2008.
- Open enrollment out for the district decreased by 2 students next year; open enrollment in decreased by 5 students based upon data from the October 2007 – Certified Enrollment. This change will have a negative impact on school financing in the future.
- The district has evaluated the condition of its transportation vehicles and determined the need to purchase a mini-van in the near future. To pay for a new mini-van, the district may use a combination of resources the Physical Plant and Equipment Levy Fund.
- Annually the district negotiates a new Master Contract with the WISEA. The district will negotiate a new agreement during fiscal year 2008. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the district's General Fund budget and related fund balance.

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 Jeff Kruse, Walnut Superintendent, Walnut Community School District, 415 Antique City Drive, Walnut, Iowa, 51577.

BASIC FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	609,687	-	609,687
Other	933,102	19,516	952,618
Receivables:			
Property tax:			
Delinquent	19,883	-	19,883
Succeeding year	1,207,825	-	1,207,825
Accounts	5,645	626	6,271
Accrued interest:			
ISCAP	8,157	-	8,157
Due from other governments	133,636	-	133,636
Interfund receivable\payable	6,581	(6,581)	-
Inventories	-	667	667
Capital assets, net of accumulated depreciation	2,005,919	38,469	2,044,388
	<u>4,930,435</u>	<u>52,697</u>	<u>4,983,132</u>
Total assets			
Liabilities			
Accounts payable	818	731	1,549
Salaries and benefits payable	132,607	7,968	140,575
Accrued interest payable	4,745	-	4,745
Deferred revenue:			
Succeeding year property tax	1,207,825	-	1,207,825
Other	-	815	815
ISCAP warrants payable	611,000	-	611,000
ISCAP accrued interest payable	6,541	-	6,541
ISCAP premium	3,028	-	3,028
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	125,000	-	125,000
Capital leases	-	1,326	1,326
Termination benefits	25,158	-	25,158
Portion due after one year:			
General obligation bonds payable	1,055,000	-	1,055,000
Capital leases	-	10,395	10,395
Termination benefits	33,734	-	33,734
	<u>3,205,456</u>	<u>21,235</u>	<u>3,226,691</u>
Total liabilities			

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2007

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	825,919	26,748	852,667
Restricted for:			
Management levy	40,424	-	40,424
Physical plant and equipment levy	90,261	-	90,261
Other special revenue purposes	51,784	-	51,784
Local option sales tax capital projects	269,391	-	269,391
Debt service	71,968	-	71,968
Unrestricted	<u>375,232</u>	<u>4,714</u>	<u>379,946</u>
Total net assets	<u><u>1,724,979</u></u>	<u><u>31,462</u></u>	<u><u>1,756,441</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular	1,033,431	179,203	135,480	-
Special	259,215	-	18,940	-
Other	232,989	77,278	38,518	-
	<u>1,525,635</u>	<u>256,481</u>	<u>192,938</u>	<u>-</u>
Support services:				
Student	42,422	-	-	-
Instructional staff	64,883	-	18,835	-
Administration	282,857	-	-	-
Operation and maintenance of plant	206,174	1,500	-	-
Transportation	94,487	552	-	-
	<u>690,823</u>	<u>2,052</u>	<u>18,835</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	157,661	-	-	-
Long-term debt interest	62,772	-	-	-
AEA flowthrough	77,505	-	77,505	-
Depreciation (unallocated)*	71,661	-	-	-
	<u>369,599</u>	<u>-</u>	<u>77,505</u>	<u>-</u>
Total governmental activities	<u>2,586,057</u>	<u>258,533</u>	<u>289,278</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	119,147	50,408	67,521	-
Daycare	66,509	73,515	-	-
Total business-type activities	<u>185,656</u>	<u>123,923</u>	<u>67,521</u>	<u>-</u>
Total	<u>2,771,713</u>	<u>382,456</u>	<u>356,799</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year

Net assets end of year

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

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(718,748)	-	(718,748)
(240,275)	-	(240,275)
(117,193)	-	(117,193)
<u>(1,076,216)</u>	<u>-</u>	<u>(1,076,216)</u>
(42,422)	-	(42,422)
(46,048)	-	(46,048)
(282,857)	-	(282,857)
(204,674)	-	(204,674)
(93,935)	-	(93,935)
<u>(669,936)</u>	<u>-</u>	<u>(669,936)</u>
(157,661)	-	(157,661)
(62,772)	-	(62,772)
-	-	-
(71,661)	-	(71,661)
<u>(292,094)</u>	<u>-</u>	<u>(292,094)</u>
<u>(2,038,246)</u>	<u>-</u>	<u>(2,038,246)</u>
-	(1,218)	(1,218)
-	7,006	7,006
<u>-</u>	<u>5,788</u>	<u>5,788</u>
<u>(2,038,246)</u>	<u>5,788</u>	<u>(2,032,458)</u>
918,200	-	918,200
182,430	-	182,430
68,423	-	68,423
40,971	-	40,971
183,609	-	183,609
970,710	-	970,710
49,501	142	49,643
122,274	-	122,274
<u>2,536,118</u>	<u>142</u>	<u>2,536,260</u>
497,872	5,930	503,802
<u>1,227,107</u>	<u>25,532</u>	<u>1,252,639</u>
<u>1,724,979</u>	<u>31,462</u>	<u>1,756,441</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	609,687	-	609,687
Other	419,981	512,378	932,359
Receivables:			
Property tax:			
Delinquent	14,183	5,700	19,883
Succeeding year	873,209	334,616	1,207,825
Accounts	3,768	1,877	5,645
Accrued interest - ISCAP	8,157	-	8,157
Interfund receivable	-	59,344	59,344
Due from other governments	102,039	31,597	133,636
	<u>2,031,024</u>	<u>945,512</u>	<u>2,976,536</u>
Total assets			
	<u>2,031,024</u>	<u>945,512</u>	<u>2,976,536</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	150	668	818
Salaries and benefits payable	132,607	-	132,607
Interfund payable	30,000	22,763	52,763
ISCAP warrants payable	611,000	-	611,000
ISCAP accrued interest payable	6,541	-	6,541
ISCAP premium	3,028	-	3,028
Deferred revenue:			
Succeeding year property tax	873,209	334,616	1,207,825
Other	38,663	-	38,663
Total liabilities	<u>1,695,198</u>	<u>358,047</u>	<u>2,053,245</u>
Fund balances:			
Reserved for:			
Debt service	-	76,713	76,713
Unreserved reported in:			
General Fund	335,826	-	335,826
Special Revenue Funds	-	241,361	241,361
Capital Projects Fund	-	269,391	269,391
Total fund balances	<u>335,826</u>	<u>587,465</u>	<u>923,291</u>
	<u>2,031,024</u>	<u>945,512</u>	<u>2,976,536</u>
Total liabilities and fund balances			
	<u>2,031,024</u>	<u>945,512</u>	<u>2,976,536</u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2007

	\$
Total fund balances of governmental funds (Exhibit C)	923,291
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,005,919
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	38,663
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.	(4,745)
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	743
Long-term liabilities, including bonds payable, capital leases and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,238,892)</u>
Net assets of governmental activities (Exhibit A)	<u><u>1,724,979</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	881,920	509,405	1,391,325
Tuition	110,488	-	110,488
Other	225,232	87,683	312,915
Intermediate sources	3,712	-	3,712
State sources	1,186,719	182	1,186,901
Federal sources	69,375	-	69,375
Total revenues	<u>2,477,446</u>	<u>597,270</u>	<u>3,074,716</u>
Expenditures:			
Current:			
Instruction:			
Regular	1,041,462	28,236	1,069,698
Special	259,215	-	259,215
Other	156,093	76,896	232,989
	<u>1,456,770</u>	<u>105,132</u>	<u>1,561,902</u>
Support services:			
Student	42,422	-	42,422
Instructional staff	64,883	-	64,883
Administration	282,857	-	282,857
Operation and maintenance of plant	174,185	151,043	325,228
Transportation	81,249	-	81,249
	<u>645,596</u>	<u>151,043</u>	<u>796,639</u>
Other expenditures:			
Facilities acquisition	-	177,857	177,857
Long-term debt:			
Principal	-	120,000	120,000
Interest and fiscal charges	-	63,303	63,303
AEA flowthrough	77,505	-	77,505
	<u>77,505</u>	<u>361,160</u>	<u>438,665</u>
Total expenditures	<u>2,179,871</u>	<u>617,335</u>	<u>2,797,206</u>
Excess (deficiency) of revenues over (under) expenditures	<u>297,575</u>	<u>(20,065)</u>	<u>277,510</u>
Other financing sources (uses):			
Sales of materials and equipment	6,905	-	6,905
Operating transfers in	-	4,100	4,100
Operating transfers out	-	(4,100)	(4,100)
Total other financing sources (uses)	<u>6,905</u>	<u>-</u>	<u>6,905</u>
Net change in fund balances	304,480	(20,065)	284,415
Fund balances beginning of year	<u>31,346</u>	<u>607,530</u>	<u>638,876</u>
Fund balances end of year	<u><u>335,826</u></u>	<u><u>587,465</u></u>	<u><u>923,291</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		284,415
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	159,820	
Depreciation expense	<u>(98,181)</u>	61,639
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		
		2,308
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		120,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		
		531
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		28,236
An internal service fund is used by the District's management to charge the costs of the self-funded health insurance program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		
		<u>743</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>497,872</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2007

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Assets		
Cash and cash equivalents	19,516	743
Accounts receivable	626	-
Inventories	667	-
Capital assets, net of accumulated depreciation	38,469	-
	<u>59,278</u>	<u>743</u>
Total assets		
	<u>59,278</u>	<u>743</u>
Liabilities		
Accounts payable	731	-
Interfund Payable	6,581	-
Salaries and benefits payable	7,968	-
Capital leases	11,721	-
Deferred revenue	815	-
	<u>27,816</u>	<u>-</u>
Total liabilities		
	<u>27,816</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	26,748	743
Unrestricted	4,714	-
	<u>31,462</u>	<u>743</u>
Total net assets		
	<u>31,462</u>	<u>743</u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Operating revenues:		
Local sources:		
Charges for service	123,923	10,961
Operating expenses:		
Non-instructional programs:		
Salaries	84,976	-
Benefits	18,082	10,218
Purchased services	1,471	-
Supplies	77,430	-
Depreciation	2,950	-
Other	747	-
	<u>185,656</u>	<u>10,218</u>
Operating gain (loss)	<u>(61,733)</u>	<u>743</u>
Non-operating revenues:		
State sources	1,543	-
Federal sources	65,978	-
Interest income	142	-
Total non-operating revenues	<u>67,663</u>	<u>-</u>
Change in net assets	5,930	743
Net assets beginning of year	<u>25,532</u>	<u>-</u>
Net assets end of year	<u><u>31,462</u></u>	<u><u>743</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2007

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	50,246	10,961
Cash received from daycare services	73,067	-
Cash payments to employees for services	(103,046)	-
Cash payments to suppliers for goods or services	(71,771)	(10,218)
Net cash used by operating activities	<u>(51,504)</u>	<u>743</u>
Cash flows from non-capital financing activities:		
State grants received	1,543	-
Federal grants received	57,601	-
Net cash provided by non-capital financing activities	<u>59,144</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Payment on capital lease	<u>(2,000)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>142</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	5,782	743
Cash and cash equivalents at beginning of year	<u>13,734</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>19,516</u></u>	<u><u>743</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(61,733)	743
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	8,377	-
Depreciation	2,950	-
Decrease (increase) in inventories	22	-
Decrease (increase) in accounts receivable	(453)	-
(Decrease) increase in accounts payable	731	-
(Decrease) increase in salaries and benefits payable	12	-
(Decrease) increase in deferred revenue	<u>(1,410)</u>	<u>-</u>
Net cash used in operating activities	<u><u>(51,504)</u></u>	<u><u>743</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2007, the District received \$8,377 of federal commodities.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	3,187
Liabilities	
	<u>-</u>
Net assets	
Reserved for scholarships	<u><u>3,187</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2007

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,541
Deductions	
Support services:	
Scholarships awarded	<u>1,450</u>
Change in net assets	91
Net assets beginning of year	<u>3,096</u>
Net assets end of year	<u><u>3,187</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2007

1. Summary of Significant Accounting Policies

Walnut 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 Walnut, Iowa and the predominately agricultural territory in a portion of Pottawattamie, Shelby and Cass Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Walnut Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Walnut Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

The District's proprietary fund consists of the Enterprise, School Nutrition Fund and Day Care Fund. These funds are used to account for the operations of the District's food service and day care operations.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-20 years

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

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

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

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

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

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures did not exceed the amounts budgeted.

2. **Cash and Pooled Investments**

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

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

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	347,810

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

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

3. Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Special Revenue Physical Plant and Equipment Levy Fund	General Fund	30,000
Special Revenue Physical Plant and Equipment Levy Fund	Enterprise: Day Care Fund	6,581

The PPEL Fund has advanced funds to the General Fund and Day Care Fund to help cash flow in those funds. These advances are to be repaid in the next fiscal year.

4. 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>
		\$
Debt Service	Capital Projects	4,100

This transfer reflects funds transferred for payment of debt service obligations.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School 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. N.A. 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>
			\$	\$	\$	\$
2006-07B	01/26/07	01/25/08	358,085	8,082	359,000	6,479
2007-08A	06/27/07	06/27/08	251,602	75	252,000	62
Total			<u>609,687</u>	<u>8,157</u>	<u>611,000</u>	<u>6,541</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In 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:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	180,000	180,000	-

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

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2006-07B	4.250	5.315
2007-08A	4.50	5.455

6. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	40,125	-	-	40,125
Capital assets being depreciated:				
Buildings	4,182,836	-	-	4,182,836
Improvements other than buildings	42,644	11,865	-	54,509
Furniture and equipment	718,111	139,624	(4,644)	862,379
Total capital assets being deprec.	4,943,591	151,489	(4,644)	5,099,724
Less accumulated depreciation for:				
Buildings	2,403,870	63,814	-	2,467,684
Improvements other than buildings	2,559	1,215	-	3,774
Furniture and equipment	633,007	33,152	3,687	662,472
Total accumulated depreciation	3,039,436	98,181	3,687	3,133,930
Total capital assets being depreciated, net	1,904,155	53,308	(8,331)	1,965,794
Governmental activities capital assets, net	1,944,280	53,308	(8,331)	2,005,919

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Capital assets being depreciated:				
Buildings	42,644	-	-	42,644
Furniture and equipment	37,913	-	-	37,913
Total capital assets being deprec.	<u>80,557</u>	<u>-</u>	<u>-</u>	<u>80,557</u>
Less accumulated depreciation for:				
Buildings	5,685	2,132	-	7,817
Furniture and equipment	33,453	818	-	34,271
Total accumulated depreciation	<u>39,138</u>	<u>2,950</u>	<u>-</u>	<u>42,088</u>
Business type activities capital assets, net	<u>41,419</u>	<u>(2,950)</u>	<u>-</u>	<u>38,469</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	12,825
Support services:	
Operation and maintenance of plant	457
Transportation	13,238
	<u>26,520</u>
Unallocated depreciation	<u>71,661</u>
Total depreciation expense – governmental activities	<u>98,181</u>
Business type activities:	
Day Care	2,132
Food services	818
Total depreciation expense - business type activities	<u>2,950</u>

7. 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	1,300,000	-	120,000	1,180,000	125,000
Capital leases	14,160	-	2,439	11,721	1,326
Termination benefits	87,128	-	28,236	58,892	25,158
Total	<u>1,401,288</u>	<u>-</u>	<u>150,675</u>	<u>1,250,613</u>	<u>151,484</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education. At June 30, 2007, the District has obligations to four participants with a total liability of \$58,892. Actual early retirement expenditures for the year ended June 30, 2007 totaled \$28,236.

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2008	4.6	125,000	56,943	181,943
2009	4.6	130,000	51,193	181,193
2010	4.7	135,000	45,213	180,213
2011	4.8	145,000	38,868	183,868
2012	4.875	150,000	31,908	181,908
2012-2015	4.875-5.000	495,000	50,345	545,345
		<u>1,180,000</u>	<u>274,470</u>	<u>1,454,470</u>

Capital Leases

The District has leased a portable building under a capital lease for the Day Care operation. The following is a schedule of future minimum lease payments at 5.75% under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2007.

	Year Ending June 30,	Amount
		\$
	2008	2,000
	2009	2,000
	2010	2,000
	2011	7,942
Minimum lease payments		13,942
Less amount representing interest		2,221
Present value of minimum lease payments		<u>11,721</u>

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$64,905, \$63,328, and \$71,232 respectively, equal to the required contributions for each year.

9. Risk Management

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$77,505 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.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2007

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	1,814,728	124,065	1,938,793	1,708,571	1,708,571	230,222
Intermediate sources	3,712	-	3,712	-	-	3,712
State sources	1,186,901	1,543	1,188,444	1,182,697	1,182,697	5,747
Federal sources	69,375	65,978	135,353	153,000	153,000	(17,647)
Total revenues	<u>3,074,716</u>	<u>191,586</u>	<u>3,266,302</u>	<u>3,044,268</u>	<u>3,044,268</u>	<u>222,034</u>
Expenditures:						
Instruction	1,561,902	-	1,561,902	1,683,588	1,991,346	429,444
Support services	796,639	-	796,639	992,355	1,192,355	395,716
Non-instructional programs	-	185,656	185,656	229,864	330,864	145,208
Other expenditures	438,665	-	438,665	441,631	563,631	124,966
Total expenditures	<u>2,797,206</u>	<u>185,656</u>	<u>2,982,862</u>	<u>3,347,438</u>	<u>4,078,196</u>	<u>1,095,334</u>
Excess (deficiency) of revenues over (under) expenditures	277,510	5,930	283,440	(303,170)	(1,033,928)	1,317,368
Other financing sources (uses) net	<u>6,905</u>	<u>-</u>	<u>6,905</u>	<u>-</u>	<u>-</u>	<u>6,905</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	284,415	5,930	290,345	(303,170)	(1,033,928)	1,324,273
Balance beginning of year	<u>638,876</u>	<u>25,532</u>	<u>664,408</u>	<u>395,423</u>	<u>395,423</u>	<u>268,985</u>
Balance end of year	<u><u>923,291</u></u>	<u><u>31,462</u></u>	<u><u>954,753</u></u>	<u><u>92,253</u></u>	<u><u>(638,505)</u></u>	<u><u>1,593,258</u></u>

See accompanying independent auditor's report.

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2007

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did amend its budget during the year in the amount of \$730,758.

OTHER SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2007

Assets	Special Revenue Funds			Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$	\$	\$
Cash and pooled investments	75,280	50,575	52,475	260,557	73,491	512,378
Receivables:						
Property tax:						
Delinquent	1,273	-	1,205	-	3,222	5,700
Succeeding year	80,000	-	72,673	-	181,943	334,616
Accounts	-	1,877	-	-	-	1,877
Interfund receivable	22,763	-	36,581	-	-	59,344
Due from other governments	-	-	-	31,597	-	31,597
Total assets	179,316	52,452	162,934	292,154	258,656	945,512
Liabilities & Fund Balances						
Liabilities:						
Accounts payable	-	668	-	-	-	668
Interfund payables	-	-	-	22,763	-	22,763
Deferred revenue:						
Succeeding year property tax	80,000	-	72,673	-	181,943	334,616
Total liabilities	80,000	668	72,673	22,763	181,943	358,047
Fund balances:						
Reserved for debt service	-	-	-	-	76,713	76,713
Unreserved fund balance reported in:						
Special Revenue Funds	99,316	51,784	90,261	-	-	241,361
Capital Projects Fund	-	-	-	269,391	-	269,391
Total fund balances	99,316	51,784	90,261	269,391	76,713	587,465
Total liabilities and fund balances	179,316	52,452	162,934	292,154	258,656	945,512

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2007

	Special Revenue Funds			Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	74,943	-	68,423	183,609	182,430	509,405
Other	3,676	77,426	94	1,968	4,519	87,683
State sources	41	-	38	-	103	182
Total revenues	<u>78,660</u>	<u>77,426</u>	<u>68,555</u>	<u>185,577</u>	<u>187,052</u>	<u>597,270</u>
Expenditures:						
Current:						
Instruction:						
Regular	28,236	-	-	-	-	28,236
Other	-	76,896	-	-	-	76,896
Support services:						
Operation and maintenance of plant	42,562	-	106,177	2,304	-	151,043
Other expenditures:						
Facilities acquisition	-	-	601	177,256	-	177,857
Long-term debt:						
Principal	-	-	-	-	120,000	120,000
Interest and fiscal charges	-	-	-	-	63,303	63,303
Total expenditures	<u>70,798</u>	<u>76,896</u>	<u>106,778</u>	<u>179,560</u>	<u>183,303</u>	<u>617,335</u>
Excess (deficiency) of revenues over (under) expenditures	<u>7,862</u>	<u>530</u>	<u>(38,223)</u>	<u>6,017</u>	<u>3,749</u>	<u>(20,065)</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	4,100	4,100
Operating transfers out	-	-	-	(4,100)	-	(4,100)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,100)</u>	<u>4,100</u>	<u>-</u>
Net change in fund balance	7,862	530	(38,223)	1,917	7,849	(20,065)
Fund balances beginning of year	<u>91,454</u>	<u>51,254</u>	<u>128,484</u>	<u>267,474</u>	<u>68,864</u>	<u>607,530</u>
Fund balances end of year	<u>99,316</u>	<u>51,784</u>	<u>90,261</u>	<u>269,391</u>	<u>76,713</u>	<u>587,465</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2007

	<u>Nonmajor Enterprise Funds</u>		
	School		Total
	Nutrition	Daycare	
	\$	\$	\$
Assets			
Cash and cash equivalents	7,242	12,274	19,516
Accounts receivable	178	448	626
Inventories	667	-	667
Capital assets, net of accumulated depreciation	3,642	34,827	38,469
	<u>11,729</u>	<u>47,549</u>	<u>59,278</u>
Total assets			
Liabilities			
Accounts payable	111	620	731
Interfund Payable	-	6,581	6,581
Salaries and benefits payable	7,968	-	7,968
Capital leases	-	11,721	11,721
Deferred revenue	815	-	815
	<u>8,894</u>	<u>18,922</u>	<u>27,816</u>
Total liabilities			
Net assets			
Invested in capital assets, net of related debt	3,642	23,106	26,748
Unrestricted	(807)	5,521	4,714
	<u>2,835</u>	<u>28,627</u>	<u>31,462</u>
Total net assets			

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2007

	Nonmajor Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Operating revenues:			
Local sources:			
Charges for service	50,408	73,515	123,923
Operating expenses:			
Non-instructional programs:			
Salaries	37,848	47,128	84,976
Benefits	12,053	6,029	18,082
Purchased services	-	1,471	1,471
Supplies	68,428	9,002	77,430
Depreciation	818	2,132	2,950
Other	-	747	747
	119,147	66,509	185,656
Operating gain (loss)	(68,739)	7,006	(61,733)
Non-operating revenues:			
State sources	1,543	-	1,543
Federal sources	65,978	-	65,978
Interest income	13	129	142
Total non-operating revenues	67,534	129	67,663
Change in net assets	(1,205)	7,135	5,930
Net assets beginning of year	4,040	21,492	25,532
Net assets end of year	2,835	28,627	31,462

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2007

	Nonmajor Enterprise Funds		
	School Nutrition	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	50,246	-	50,246
Cash received from daycare services	-	73,067	73,067
Cash payments to employees for services	(49,889)	(53,157)	(103,046)
Cash payments to suppliers for goods or services	(59,918)	(11,853)	(71,771)
Net cash used by operating activities	<u>(59,561)</u>	<u>8,057</u>	<u>(51,504)</u>
Cash flows from non-capital financing activities:			
State grants received	1,543	-	1,543
Federal grants received	57,601	-	57,601
Net cash provided by non-capital financing activities	<u>59,144</u>	<u>-</u>	<u>59,144</u>
Cash flows from capital and related financing activities			
Payment on capital lease	-	(2,000)	(2,000)
Cash flows from investing activities:			
Interest on investments	13	129	142
Net increase (decrease) in cash and cash equivalents	(404)	6,186	5,782
Cash and cash equivalents at beginning of year	7,646	6,088	13,734
Cash and cash equivalents at end of year	<u>7,242</u>	<u>12,274</u>	<u>19,516</u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(68,739)	7,006	(61,733)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	8,377	-	8,377
Depreciation	818	2,132	2,950
Decrease (increase) in inventories	22	-	22
Decrease (increase) in accounts receivable	(5)	(448)	(453)
(Decrease) increase in accounts payable	111	620	731
(Decrease) increase in salaries and benefits payable	12	-	12
(Decrease) increase in deferred revenue	(157)	(1,253)	(1,410)
Net cash used in operating activities	<u>(59,561)</u>	<u>8,057</u>	<u>(51,504)</u>

See accompanying independent auditor's report.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2007

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Music	823	3,125	2,904	1,044
Show choir	278	-	-	278
Vocal	-	-	1,713	(1,713)
Drama/Class play	-	-	400	(400)
Athletics	20,457	46,210	37,467	29,200
Cheerleaders	-	359	904	(545)
Student services	1,587	1,342	1,772	1,157
FFA	2,000	4,211	4,157	2,054
FHA	1,498	1,532	2,239	791
Middle school leadership	-	747	437	310
Industrial arts	88	-	-	88
Class of 2007	6,002	111	6,086	27
Class of 2008	797	11,162	7,269	4,690
Class of 2009	1,315	1,631	962	1,984
Class of 2010	-	150	-	150
Class of 2011	30	-	-	30
National Honor Society	204	-	71	133
Student council	2,179	1,002	655	2,526
Annual	-	3,307	6,548	(3,241)
Academic programs	100	200	2,319	(2,019)
Dare	572	-	-	572
PBS program	171	2,147	937	1,381
K-2 classroom	480	-	-	480
Wetlands	10,000	-	-	10,000
AR/Reading	2,320	190	56	2,454
Softball fundraiser	353	-	-	353
Total	51,254	77,426	76,896	51,784

WALNUT COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2007	2006	2005	2004
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,391,325	1,353,605	1,181,776	1,223,342
Tuition	110,488	101,699	103,592	102,756
Other	312,915	136,432	157,984	217,241
Intermediate sources	3,712	-	-	8,653
State sources	1,186,901	1,163,532	1,156,676	947,343
Federal sources	69,375	101,510	96,168	62,578
Total revenues	<u>3,074,716</u>	<u>2,856,778</u>	<u>2,696,196</u>	<u>2,561,913</u>
Expenditures:				
Instruction:				
Regular instruction	1,069,698	985,505	1,047,186	1,068,045
Special instruction	259,215	283,536	214,994	186,190
Other instruction	232,989	241,488	307,833	326,994
Support services:				
Student services	42,422	41,132	7,010	6,922
Instructional staff services	64,883	53,640	61,268	72,740
Administration services	282,857	255,348	316,334	329,441
Operation and maintenance of plant services	325,228	213,562	173,457	182,263
Transportation services	81,249	90,836	57,201	56,063
Central support services	-	-	-	33,251
Non-instructional programs	-	-	35	-
Other expenditures:				
Facilities acquisition	177,857	62,000	41,530	67,185
Long-term debt:				
Principal	120,000	131,310	120,315	114,380
Interest and other charges	63,303	71,108	78,552	84,194
AEA flowthrough	77,505	73,640	74,175	71,495
Total expenditures	<u>2,797,206</u>	<u>2,503,105</u>	<u>2,499,890</u>	<u>2,599,163</u>

Gary E. Horton CPA

902 Central Ave. E.-PO Box 384
Clarion, IA 50525-0384
(515)532-6681 Phone
(515) 532-2405 Fax
BETCO@mchsi.com E-mail

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

To the Board of Education of
Walnut Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Walnut Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated May 1, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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

Compliance and Other Matters

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

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

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

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

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

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

May 1, 2008

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

07-I-B Accounting System: We noted that the bank reconciliations were not completed monthly and had not been completed for the whole fiscal year. We also noted several errors recording revenues in the wrong funds during the year and the accounting system did not reconcile to the cash in bank. Also, some payments were credited to expense accounts when they should have been recorded in revenue accounts.

Recommendation: The District should ensure that the bank reconciles to the District records each month without adjustments and that all receipts are recorded as revenues so the board has a more accurate reporting of actual expenses with which to make decisions and for proper reporting to governmental agencies.

District Response: We will review our procedures and make any necessary changes.

Conclusion: Response accepted.

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

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

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

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

Conclusion: Response accepted.

07-I-D Signature Stamp: We noted that a stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. The Board Secretary prints the checks and uses the stamp to sign the checks.

Recommendation: This practice negates the control established by requiring two signatures on the checks. The board secretary should not have access to or use a stamp with the Board President's signature.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

Part II: Other Findings Related to Statutory Reporting:

07-II-A Certified Budget: Expenditures for the year ended June 30, 2007, did not exceed the amounts budgeted.

07-II-B Questionable Expenditures: We noted a few invoices for expenditures could not be located.

Recommendation: All payments of bills should have supporting invoices or documentation before any payments are made.

District Response: We will ensure that all future bills have supporting documentation.

Conclusion: Response accepted.

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
David Blum, Board member	Parts, supplies and repairs	6,048

Recommendation: District officials are allowed to transact up to \$2,500 of business without bidding on the services to avoid a conflict of interest. The District should consult legal counsel to determine the disposition of this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

07-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

07-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.

07-II-H Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2007

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

07-II-I Certified Annual Report (CAR): The Certified Annual Report was not certified to the Iowa Department of Education by the due date.

Recommendation: The CAR should be filed with Department of Education by its due date.

District Response: We will file by the due date in the future.

Conclusion: Response accepted.

07-II-J Advance Payments: We noted advance payments were made to a computer consultant.

Recommendation: The Code of Iowa does not allow advance payments for services until the services are actually earned.

District Response: We will refrain from making advance payments in the future.

Conclusion: Response accepted.