

WEST BRANCH COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2007

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2007

	<u>Page</u>	
Officials	1	
Independent Auditor's Report	2-3	
Management's Discussion and Analysis	4-13	
Basic Financial Statements	<u>Exhibit</u>	
Government-wide Financial Statements		
Statement of Net Assets	A	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	20-21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements		
Statement of Net Assets	G	23
Statement of Revenues, Expenses and Changes in Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets	J	26
Notes to Financial Statements		27-37
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		39
Notes to Required Supplementary Information - Budgetary Reporting		40

WEST BRANCH COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2007

Other Supplementary Information	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds		
Combining Balance Sheet	1	42
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	43
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	44-45
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	46
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	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>		48-50
 Schedule of Findings		51-54
 Audit Staff		55

WEST BRANCH SCHOOL DISTRICT

Officials

June 30, 2007

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2006 Election)		
Kent Stuart	Board President	2006
Jacinta Hart	Board Member	2007
Steve Nash	Board Member	2007
Kathy Knoop	Board Member	2008
Richard Paulus	Board Member	2008
(After September 2006 Election)		
Steve Nash	Board President	2007
Jacinta Hart	Board Member	2007
Kathy Knoop	Board Member	2008
Richard Paulus	Board Member	2008
Mike Owen	Board Member	2009
School Officials		
Craig Artist	Superintendent	2007
Angie Walter	District Secretary/Treasurer	2007
C. Joseph Holland	Attorney	2007

KAY L. CHAPMAN, CPA PC

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

Independent Auditor's Report

To the Board of Education
West Branch Community School District

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

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

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

In accordance with Government Auditing Standards, I have also issued my report dated February 8, 2008 on my consideration of West Branch Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Branch Community School District's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements. In my opinion, the information set forth in the supplementary information for each of the four years in the period ended June 30, 2007, appearing in Schedule 5, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 8, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,015,403 in fiscal 2006 to \$6,461,371 in fiscal 2007, and General Fund expenditures increased from \$6,068,473 in fiscal 2006 to \$6,296,541 in fiscal 2007. The District's General Fund balance increased from \$924,347 in fiscal 2006 to \$1,089,753 in fiscal 2007, a 17% increase.
- The increase in General Fund revenues was attributable to an increase in teacher compensation money from the state and allowable growth in state funding. There was a slight increase in enrollment in 2005-06, thus increasing revenues for 2006-07. The increase in expenditures was primarily due to salary increases and inflation.
- 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 West Branch 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 West Branch 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 West Branch Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

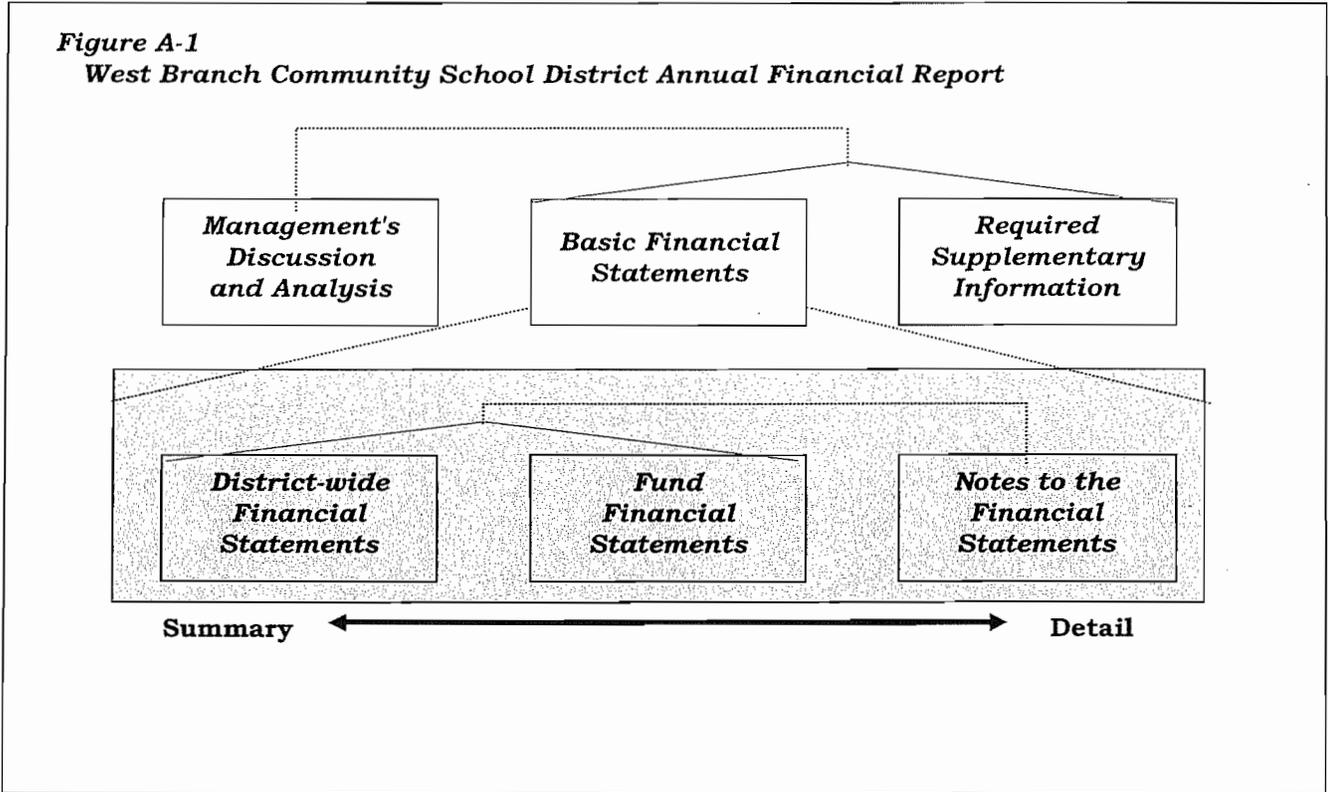


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	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:

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

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

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

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

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include an Agency Fund.

- Agency Funds - These are funds through which the District administers and accounts for a student assistance program and weight room fundraiser.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 5,377,766	\$ 4,402,141	\$ 7,120	\$ 11,328	\$ 5,384,886	\$ 4,413,469	22.01%
Capital assets	<u>2,926,820</u>	<u>2,913,022</u>	<u>28,739</u>	<u>34,001</u>	<u>2,955,559</u>	<u>2,947,023</u>	0.29%
Total assets	<u>8,304,586</u>	<u>7,315,163</u>	<u>35,859</u>	<u>45,329</u>	<u>8,340,445</u>	<u>7,360,492</u>	13.31%
Long-term obligations	17,706	20,069	-	-	17,706	20,069	-11.77%
Other liabilities	<u>2,990,219</u>	<u>2,863,547</u>	<u>-</u>	<u>118</u>	<u>2,990,219</u>	<u>2,863,665</u>	4.42%
Total liabilities	<u>3,007,925</u>	<u>2,883,616</u>	<u>-</u>	<u>118</u>	<u>3,007,925</u>	<u>2,883,734</u>	4.31%
Net assets							
Invested in capital assets,							
net of related debt	2,926,820	2,913,022	28,739	34,001	2,955,559	2,947,023	0.29%
Restricted	1,234,914	609,178	-	-	1,234,914	609,178	102.72%
Unrestricted	<u>1,134,927</u>	<u>909,347</u>	<u>7,120</u>	<u>11,210</u>	<u>1,142,047</u>	<u>920,557</u>	24.06%
Total net assets	<u>\$ 5,296,661</u>	<u>\$ 4,431,547</u>	<u>\$35,859</u>	<u>\$ 45,211</u>	<u>\$ 5,332,520</u>	<u>\$ 4,476,758</u>	19.12%

The District's combined net assets increased by approximately 19%, or \$855,762, 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. There was no debt related to the investment in capital assets; however, if there was, it would be liquidated with resources 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 increased \$625,736, or approximately 103% over the prior year. The increase was primarily a result of an increase in the Management Fund, Physical Plant and Equipment and Capital Projects Fund. The General fund also increased due to the increased revenue in comparison to the expenditures.

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 \$221,490, or approximately 24%.

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

Figure A-4

	Change in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-2007
Revenues							
Program revenues							
Charges for service and sales	\$ 628,207	\$ 623,127	\$ 216,013	\$ 205,312	\$ 844,220	\$ 828,439	1.90%
Operating grants	701,714	621,973	82,570	74,297	784,284	696,270	12.64%
General revenues							
Property tax	3,492,791	2,892,187	-	-	3,492,791	2,892,187	20.77%
Sales and services tax	350,841	314,969	-	-	350,841	314,969	11.39%
Unrestricted state grants	2,768,742	2,618,411	-	-	2,768,742	2,618,411	5.74%
Contributions and donations	7,224	6,000	-	-	7,224	6,000	100.00%
Unrestricted investment earnings	94,065	75,552	1,350	1,005	95,415	76,557	24.63%
Other	<u>8,095</u>	<u>4,759</u>	<u>-</u>	<u>-</u>	<u>8,095</u>	<u>4,759</u>	70.10%
Total revenues	<u>8,051,679</u>	<u>7,156,978</u>	<u>299,933</u>	<u>280,614</u>	<u>8,351,612</u>	<u>7,437,592</u>	12.29%
Program expenses							
Governmental activities							
Instruction	4,484,882	4,283,730	-	-	4,484,882	4,283,730	4.70%
Support services	2,025,663	1,997,851	-	-	2,025,663	1,997,851	1.39%
Non-instructional programs	8,155	-	309,286	281,362	317,441	281,362	12.82%
Other expenses	<u>667,865</u>	<u>793,904</u>	<u>-</u>	<u>-</u>	<u>667,865</u>	<u>793,904</u>	-15.88%
Total expenses	<u>7,186,565</u>	<u>7,075,485</u>	<u>309,286</u>	<u>281,362</u>	<u>7,495,851</u>	<u>7,356,847</u>	1.89%
Change in net assets	<u>\$ 865,114</u>	<u>\$ 81,493</u>	<u>\$ (9,353)</u>	<u>\$ (748)</u>	<u>\$ 855,761</u>	<u>\$ 80,745</u>	959.83%

In fiscal 2007, property tax and unrestricted state grants account for 75% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99% of the revenue from business type activities.

The District's total revenues were \$8,351,612 of which \$8,051,679 was for governmental activities and \$299,933 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 12% increase in revenues and a 2% increase in expenses. Property tax increased \$600,604 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases due to inflation.

Governmental Activities

Revenues for governmental activities were \$8,051,679 and expenses were \$7,186,565. In a difficult budget year, the District was able to balance the budget by keeping the increase in expenditures less than the increase in revenue.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-2007	2007	2006	Change 2006-2007
Instruction	\$ 4,484,882	\$ 4,283,730	4.7%	\$ 3,427,252	\$ 3,301,841	3.8%
Support services	2,025,663	1,997,851	1.4%	1,998,096	1,985,780	0.6%
Non-instructional programs	8,155	-	100.0%	8,155	(28,850)	128.3%
Other expenses	<u>667,865</u>	<u>793,904</u>	<u>-15.9%</u>	<u>423,141</u>	<u>571,614</u>	<u>-26.0%</u>
Total expenses	<u>\$ 7,186,565</u>	<u>\$ 7,075,485</u>	<u>1.6%</u>	<u>\$ 5,856,644</u>	<u>\$ 5,830,385</u>	<u>0.5%</u>

- The cost financed by users of the District's programs was \$628,207.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$701,714.
- The net cost of governmental activities was financed with \$3,843,632, in property and other taxes and \$2,768,742 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$299,933 representing a 6% increase over the prior year while expenses totaled \$309,286, a 9% increase from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Despite an increase in both meal prices and free and reduced percentage, the nutrition fund balance decreased. This was due to increases in salary and benefits as well as an increase in supply costs.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,074,069 slightly more than last year's ending fund balances of \$1,538,594. The primary reason for the increase in combined fund balances in fiscal 2007 is due to an increase in the Capital Projects and Management Fund balances, as well as the increase in the General Fund balance.

Governmental Fund Highlights

- The General Fund balance increased from \$924,347 to \$1,089,753. The district was able to keep the increase in expenditures less than the increase in revenue, thus resulting in the balance increase.
- The Special Revenue, Physical Plant and Equipment Levy Fund balance increased from \$38,896 in fiscal 2006 to \$277,208 in fiscal 2007. The district has several large projects that will be done during the months of July and August. Because these projects had not begun by June 30, the ending balance for the PPEL was larger.

- **Proprietary Fund Highlights**

Enterprise Fund net assets decreased from \$45,212 at June 30, 2006 to \$35,859 at June 30, 2007, representing a decrease of approximately 20%. The District continues to update equipment and labor costs rose significantly in 2006-07. Meal prices were increased for 2006-07 to help offset the increase in expenditures.

BUDGETARY HIGHLIGHTS

The District's revenues were \$672,500 more than budgeted revenues, a variance of approximately 9%. The most significant variance resulted from the District receiving more in state and federal grants than originally anticipated.

Total expenditures were \$706,221 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the Non-instructional Programs function due to changes in the chart of accounts coding mandated by the Iowa Department of Education. Due to the lateness of guidance on the changes, there was not sufficient time to amend the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$2,955,559, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of less than 1% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$178,676.

The original cost of the District's capital assets was \$7,278,039. Governmental funds account for \$7,210,518, with the remainder of \$67,521 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled \$299,373 at June 30, 2007 compared to \$353,967 at June 30, 2006. This decrease resulted from annual depreciation expense.

Figure A-6

	Capital Assets, Net of Depreciation						Total Change <u>2006-</u> <u>2007</u>
	Governmental Activities		Business-type Activities		Total School District		
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	
Land	\$ 116,055	\$ 116,055	\$ -	\$ -	\$ 116,055	\$ 116,055	0.00%
Buildings and improvements	2,431,613	2,365,369	-	-	2,431,613	2,365,369	2.80%
Improvements, other than buildings	108,518	111,632	-	-	108,518	111,632	-2.79%
Furniture and equipment	<u>270,634</u>	<u>319,966</u>	<u>28,739</u>	<u>34,001</u>	<u>299,373</u>	<u>353,967</u>	-15.42%
Totals	<u>\$2,926,820</u>	<u>\$2,913,022</u>	<u>\$28,739</u>	<u>\$34,001</u>	<u>\$2,955,559</u>	<u>\$2,947,023</u>	0.29%

Long-Term Debt

At June 30, 2007, the District had \$17,706 in compensated absences outstanding. This represents a decrease of approximately 12% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The District has no other long term debt outstanding at June 30, 2007.

Figure A-7

	Outstanding Long-term Obligations		
	Total School District		Total Change
	<u>2007</u>	<u>2006</u>	<u>2006-2007</u>
Compensated absences	\$17,706	\$15,000	18.04%
Early retirement	-	5,069	-100.00%
Total	<u>\$17,706</u>	<u>\$20,069</u>	-11.77%

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:

- Enrollment declined in the fall of 2007. This will result in the District receiving less New Money for the 2007-08 school year.
- The District signed a 4 year contract with the WBEA in 2005-06. This will help keep the increases in salary and benefits predictable and under control for the next few years.
- In February of 2007 Johnson County passed the Local Option tax for schools in Johnson county. The District will receive approximately \$1,425,000 over the next ten years for infrastructure and equipment needs.

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 Angie Walter, Business Manager/Board Secretary/Treasurer, West Branch Community School District, 148 North Oliphant Street, West Branch, IA 52358.

Basic Financial Statements

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

Assets	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,946,937	\$ 1,974	\$ 1,948,911
Receivables			
Property tax			
Delinquent	55,210	-	55,210
Succeeding year	2,864,454	-	2,864,454
Accounts receivable	9,849	3,233	13,082
Income surtax	313,478	-	313,478
Due from other governments	187,838	-	187,838
Inventories	-	1,913	1,913
Non-depreciable capital assets	116,055	-	116,055
Capital assets, net of accumulated depreciation	<u>2,810,765</u>	<u>28,739</u>	<u>2,839,504</u>
Total assets	<u>8,304,586</u>	<u>35,859</u>	<u>8,340,445</u>
Liabilities			
Accounts payable	120,039	-	120,039
Salaries and benefits payable	5,726	-	5,726
Deferred revenue			
Succeeding year property tax	2,864,454	-	2,864,454
Long-term liabilities			
Portion due after one year			
Compensated absences	17,706	-	17,706
Total liabilities	<u>3,007,925</u>	<u>-</u>	<u>3,007,925</u>
Net Assets			
Invested in capital assets, net of related debt	2,926,820	28,739	2,955,559
Restricted for			
Non-public textbook aid	1,736	-	1,736
Market factor pay	3,935	-	3,935
Additional teacher comp day	219	-	219
Talented and gifted	87,969	-	87,969
Management levy	203,580	-	203,580
Physical plant and equipment levy	433,947	-	433,947
Other special revenue purposes	111,080	-	111,080
Capital projects	392,448	-	392,448
Unrestricted	<u>1,134,927</u>	<u>7,120</u>	<u>1,142,047</u>
Total net assets	<u>\$ 5,296,661</u>	<u>\$ 35,859</u>	<u>\$ 5,332,520</u>

See notes to financial statements.

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

Exhibit B

Functions/Programs Primary Government	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government
Governmental activities					
Instruction					
Regular instruction	\$ 3,211,473	\$ 600,640	\$ 353,153	\$ -	\$ (2,257,680)
Special instruction	638,373	-	99,583	-	(538,790)
Other instruction	635,036	-	4,254	-	(630,782)
	4,484,882	600,640	456,990	-	(3,427,252)
Support services					
Student	150,431	-	-	-	(150,431)
Instructional staff	174,504	-	-	-	(174,504)
Administration	786,713	-	-	-	(786,713)
Operation and maintenance of plant	604,235	5,124	-	-	(599,111)
Transportation	309,780	22,443	-	-	(287,337)
	2,025,663	27,567	-	-	(1,998,096)
	8,155	-	-	-	(8,155)
Non-instructional programs					
Other expenditures					
Facilities acquisition	276,609	-	-	-	(276,609)
AEA flowthrough	244,724	-	244,724	-	-
Loss on disposal of capital assets	31,646	-	-	-	(31,646)
Depreciation (unallocated) *	114,886	-	-	-	(114,886)
	667,865	-	244,724	-	(423,141)
	7,186,565	628,207	701,714	-	(5,856,644)
Total governmental activities					

See notes to financial statements.

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

Exhibit B

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government
	Expenses for Services	Interest	Governmental Business Type Activities	Activities
	Total	Total	Total	Total
<u>Functions/Programs (continued)</u>				
Primary Government (continued)				
Business type activities				
Non-instructional programs				
Food service operations	\$ 309,286	\$ 82,570	\$ -	\$ (10,703)
Total primary government	\$ 7,495,851	\$ 784,284	\$ -	\$ (5,856,644)
General Revenues				
Property tax levied for				
General purposes				2,948,281
Capital outlay				544,510
Local option sales and services tax				350,841
Unrestricted state grants				2,768,742
Contributions and donations				7,224
Unrestricted investment earnings				95,415
Other				8,095
Total general revenues				6,721,758
Change in net assets				1,350
Net assets, beginning of year				(9,353)
Net assets, end of year				4,476,759
				\$ 5,332,520

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

See notes to financial statements.

WEST BRANCH COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2007

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$1,109,348	\$275,081	\$ 562,508	\$1,946,937
Receivables				
Property tax				
Delinquent	47,983	3,970	3,257	55,210
Succeeding year	2,518,288	216,166	130,000	2,864,454
Accounts receivable	7,318	2,314	217	9,849
Income surtax	156,739	156,739	-	313,478
Due from other governments	46,203	-	141,635	187,838
Total assets and other debits	<u>\$3,885,879</u>	<u>\$654,270</u>	<u>\$ 837,617</u>	<u>\$5,377,766</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 115,373	\$ 4,157	\$ 509	\$ 120,039
Salaries and benefits payable	5,726	-	-	5,726
Deferred revenue				
Succeeding year property tax	2,518,288	216,166	130,000	2,864,454
Income surtax	156,739	156,739	-	313,478
Total liabilities	<u>2,796,126</u>	<u>377,062</u>	<u>130,509</u>	<u>3,303,697</u>
Fund balances				
Reserved for				
Talented and Gifted program	87,969	-	-	87,969
Additional teacher day program	219	-	-	219
Market Factor program	3,935	-	-	3,935
Textbook aid	1,736	-	-	1,736
Student store	1,042	-	-	1,042
Unreserved, governmental funds	994,852	-	392,448	1,387,300
Unreserved, special revenue funds	-	277,208	314,660	591,868
Total fund balances	<u>1,089,753</u>	<u>277,208</u>	<u>707,108</u>	<u>2,074,069</u>
Total liabilities and fund balances	<u>\$3,885,879</u>	<u>\$654,270</u>	<u>\$ 837,617</u>	<u>\$5,377,766</u>

See notes to financial statements.

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

Exhibit D

Total fund balances of governmental funds	\$2,074,069
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,926,820
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	313,478
Long-term liabilities, including compensated absences payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(17,706)</u>
Net assets of governmental activities	<u><u>\$5,296,661</u></u>

See notes to financial statements.

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

Exhibit E

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$2,624,748	\$387,771	\$517,634	\$3,530,153
Tuition	256,336	-	-	256,336
Other	109,830	18,842	352,007	480,679
State sources	3,366,620	-	-	3,366,620
Federal sources	103,837	-	-	103,837
Total revenues	<u>6,461,371</u>	<u>406,613</u>	<u>869,641</u>	<u>7,737,625</u>
Expenditures				
Current				
Instruction				
Regular	3,168,789	-	38,383	3,207,172
Special	638,373	-	-	638,373
Other	328,387	-	305,812	634,199
	<u>4,135,549</u>	<u>-</u>	<u>344,195</u>	<u>4,479,744</u>
Support services				
Student	150,008	-	-	150,008
Instructional staff	169,815	-	-	169,815
Administration	788,900	-	-	788,900
Operation and maintenance of plant	551,071	-	56,203	607,274
Transportation	256,474	11,500	17,514	285,488
	<u>1,916,268</u>	<u>11,500</u>	<u>73,717</u>	<u>2,001,485</u>
Other expenditures				
Facilities acquisition	-	156,801	319,972	476,773
AEA flowthrough	244,724	-	-	244,724
	<u>244,724</u>	<u>156,801</u>	<u>319,972</u>	<u>721,497</u>
Total expenditures	<u>6,296,541</u>	<u>168,301</u>	<u>737,884</u>	<u>7,202,726</u>

See notes to financial statements.

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

Exhibit E

	<u>General</u>	Physical Plant and Equipment <u>Levy</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Excess of revenues over expenditures	\$ 164,830	\$238,312	\$131,757	\$ 534,899
Other financing sources				
Sale of equipment and materials	<u>576</u>	-	-	<u>576</u>
Net change in fund balances	165,406	238,312	131,757	535,475
Fund balance, beginning of year	<u>924,347</u>	<u>38,896</u>	<u>575,351</u>	<u>1,538,594</u>
Fund balance, end of year	<u>\$1,089,753</u>	<u>\$277,208</u>	<u>\$707,108</u>	<u>\$2,074,069</u>

See notes to financial statements.

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

Exhibit F

Net change in fund balances - total governmental funds \$535,475

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

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

Expenditures for capital assets	\$ 218,858	
Loss on disposal of capital assets	(31,646)	
Depreciation expense	<u>(173,414)</u>	13,798

Certain revenues not collected for several months after year-end are not considered available revenue and are deferred in the governmental funds. 313,478

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

Early retirement	5,069	
Compensated absences	<u>(2,706)</u>	<u>2,363</u>

Change in net assets of governmental activities \$865,114

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

Exhibit G

	<u>Nonmajor Enterprise School Nutrition</u>
Assets	
Cash and pooled investments	\$ 1,974
Accounts receivable	3,233
Inventories	1,913
Capital assets, net of accumulated depreciation	<u>28,739</u>
Total assets	<u>35,859</u>
Liabilities	
	<u>-</u>
Net Assets	
Invested in capital assets, net of related debt	28,739
Unrestricted	<u>7,120</u>
Total net assets	<u>\$35,859</u>

See notes to financial statements.

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

Exhibit H

	Nonmajor Enterprise School Nutrition
Operating revenue	
Local sources	
Charges for service	\$ 216,013
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries and benefits	89,433
Benefits	35,232
Purchased services	2,689
Supplies	176,670
Depreciation	5,262
Total operating expenses	309,286
Operating loss	(93,273)
Non-operating revenues	
Interest income	1,350
State sources	3,500
Federal sources	79,070
Total non-operating revenues	83,920
Net loss	(9,353)
Net assets, beginning of year	45,212
Net assets, end of year	\$ 35,859

See notes to financial statements.

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

Exhibit I

	Nonmajor Enterprise School Nutrition
Cash flows from operating activities	
Cash received from sale of services	\$ 212,850
Cash payments to employees for services	(124,665)
Cash payments to suppliers for goods and services	(165,353)
Net cash used in operating activities	(77,168)
Cash flows from non-capital financing activities	
State grants received	3,500
Federal grants received	65,695
Net cash provided by non-capital financing activities	69,195
Cash flows from capital and related financing activities	-
Cash flows from investing activities	
Interest on investments	1,350
Net decrease in cash and cash equivalents	(6,623)
Cash and cash equivalents, beginning of year	8,597
Cash and cash equivalents, end of year	\$ 1,974

**Reconciliation of operating loss to net cash
used in operating activities**

Operating loss	\$ (93,273)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,262
Commodities used	13,375
(Increase) in accounts receivable	(3,163)
Decrease in inventory	749
(Decrease) in accounts payable	(118)
Net cash used in operating activities	\$ (77,168)

Non-cash investing, capital and financing activities

During the year ended June 30, 2007, the District received \$13,375 of federal commodities.

See notes to financial statements.

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

Exhibit J

	<u>Agency</u>
Assets	
Cash and pooled investments	\$2,006
Liabilities	
Due to others	<u>2,006</u>
Net assets	<u><u>\$ -</u></u>

See notes to financial statements.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2007

Note 1. Summary of Significant Accounting Policies

The West Branch Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of West Branch, Iowa, and the agricultural territory in Cedar and Johnson 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, West Branch 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 West Branch Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue, Physical Plant and Equipment Levy Fund is used to account for all resources from the regular and voter-approved levy used for major expenditures related to real property and equipment.

The District reports no major proprietary funds; however, it reports one non-major proprietary fund, the School Nutrition Fund, which is used to account for the food service operations of the District.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-20 years

Salaries and Benefits Payable - Teacher contracts and payroll for hourly employees are paid at June 30, 2007; however, the benefits on these payments are not paid until July. Therefore, these benefits have been accrued as liabilities.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. There was no early retirement liability at June 30, 2007. The early retirement liability attributable to the governmental activities was paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the

related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax and income surtax receivables not collected within sixty days after year end.

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

Compensated Absences - Certain District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2007. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

Restricted net assets consist of net assets with constraints placed on the use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The government-wide statement of net assets reports \$203,580 of restricted net assets which is restricted by enabling legislation.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures exceeded the amounts budgeted in the Non-instructional Programs function. However, the District did not exceed its General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

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

	Amortized Cost
Diversified Portfolio	<u>\$ 2,516</u>

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

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

Note 3. Capital Assets

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

<u>Governmental activities</u>	Balance, Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 116,055	\$ -	\$ -	\$ 116,055
Capital assets being depreciated:				
Buildings and improvements	5,288,956	79,160	-	5,368,116
Improvements other than buildings	468,762	98,000	-	566,762
Furniture and equipment	<u>1,216,643</u>	<u>41,698</u>	<u>(98,756)</u>	<u>1,159,585</u>
Total capital assets being depreciated	<u>6,974,361</u>	<u>218,858</u>	<u>(98,756)</u>	<u>7,094,463</u>

Less accumulated depreciation for:				
Buildings and improvements	2,923,587	12,916	-	2,936,503
Improvements other than buildings	357,130	101,114	-	458,244
Furniture and equipment	896,677	59,384	(67,110)	888,951
Total accumulated depreciation	<u>4,177,394</u>	<u>173,414</u>	<u>(67,110)</u>	<u>4,283,698</u>
Total capital assets being depreciated, net	<u>2,796,967</u>	<u>45,444</u>	<u>(31,646)</u>	<u>2,810,765</u>
Governmental activities capital assets, net	<u>\$ 2,913,022</u>	<u>\$ 45,444</u>	<u>\$(31,646)</u>	<u>\$ 2,926,820</u>

Business type activities

Furniture and equipment	\$ 67,521	\$ -	\$ -	\$ 67,521
Less accumulated depreciation	<u>33,520</u>	<u>5,262</u>	<u>-</u>	<u>38,782</u>
Business type activities capital assets, net	<u>\$ 34,001</u>	<u>\$ (5,262)</u>	<u>\$ -</u>	<u>\$ 28,739</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 4,301
Other	837
Support services	
Instructional staff	4,689
Administration	1,442
Operation and maintenance of plant	3,268
Transportation	35,836
Non-instructional programs	8,155
Unallocated depreciation	<u>114,886</u>
Total governmental activities depreciation expense	<u>\$ 173,414</u>

Business type activities

Food services	<u>\$ 5,262</u>
---------------	-----------------

Note 4. 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
Compensated absences	\$ 15,000	\$ 23,213	\$(20,507)	\$ 17,706	\$ -
Early retirement	<u>5,069</u>	<u>-</u>	<u>(5,069)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 20,069</u>	<u>\$ 23,213</u>	<u>\$(25,576)</u>	<u>\$ 17,706</u>	<u>\$ -</u>

There were no interest costs incurred and charged to expense on long-term debt during the year ended June 30, 2007.

Early Retirement Termination Benefit

District employees who have 14 years of continuous service and are at least 59 years of age by June 30, are eligible for early retirement pay. All employees who apply and are approved will receive a fifty percent benefit based of the criteria below.

For teachers, the benefit shall be based upon the Schedule A salary, longevity and extended contracts. Benefits for all other employees shall be based upon the contracted salary. Benefits for part-time employees shall be prorated as determined by the average of full-time equivalency of the last five years of employment.

Benefits will be paid, as follows:

- A. If the employee wishes to remain on the district's insurance policy, the amount of the benefit will be placed in a Health Care Savings Plan. This contribution will be made on behalf of the employee tax-free. The deposits will grow tax-free and are used at retirement tax-free for eligible medical expenses and premiums.
- B. If the employee waives the district's health insurance policy, the benefit will be placed in a special pay deferral plan (403(b)). The contribution will be made on behalf of the employee tax-deferred. The deposits grow tax-deferred and can be accessed by the retiree at any time. The withdrawals will be taxable at the time of withdrawal to the employee.

The employee must notify the Board by the first of February to receive the early retirement pay. Depending upon the economic impact to the District, the Board may limit the number of employees allowed to take early retirement in any fiscal year. At June 30, 2007, there was no unpaid accumulated retirement pay.

Compensated Absences

District employees accumulate vacation and compensatory hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as expenditures by the District until used or paid. The District's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2007 was \$17,706.

Note 5. Pension and Retirement Benefits

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

writing to IPERS, P.O. Box 9117, Des Moines, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$221,063, \$208,398 and \$198,494 respectively, equal to the required contributions for each year.

Note 6. Risk Management

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

Note 7. 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 \$244,724 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 8. Contingencies

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

Note 9. Restatement of Beginning Balances

During the year ended June 30, 2007, the District re-evaluated the appropriateness of the Trust Fund and determined that these activities would be more appropriately reported as an Agency Fund. Therefore, the June 30, 2006 balance of the Trust Fund was transferred to the Agency Fund. This resulted in the beginning balance of the Agency Fund being increased by \$1,064.

Note 10. Unspent Authorized Budget

The District's unspent authorized budget, as calculated by the Iowa Department of Management, was \$1,448,182 at June 30, 2007.

Note 11. Solvency Ratio

The District's solvency ratio at June 30, 2007 is calculated as follows:

$$\frac{\text{Unreserved General Fund Balance}}{\text{General Fund Revenues}} = \frac{\$994,852}{\$6,461,371} = 15.4\%$$

Note 12. Subsequent Events

The voters in Johnson County passed the School Infrastructure Local Option Tax during the year ended June 30, 2007. The tax, (of 1%) will begin being collected on July 1, 2007 for a 10-year period. The District will receive approximately \$1.3 million over the 10-year period, beginning in the year ending June 30, 2008. The District expects to receive approximately \$160,000 per year for the first 5 years then \$125,000 per year for the remainder of the levy.

The District has entered into contracts to repair and resurface the parking lot during the summer of 2007. The project is estimated to cost \$190,000 and will begin in August 2007 and should be completed before the start of the FY08 school year.

Required Supplementary Information

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

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u>	Final <u>Final</u>	Final to Actual Variance
Revenues						
Local sources	\$ 4,267,168	\$ 217,363	\$ 4,484,531	\$ 4,013,506	\$ 4,013,506	\$ 471,025
State sources	3,366,620	3,500	3,370,120	3,226,552	3,226,552	143,568
Federal sources	103,837	79,070	182,907	125,000	125,000	57,907
Total revenues	<u>7,737,625</u>	<u>299,933</u>	<u>8,037,558</u>	<u>7,365,058</u>	<u>7,365,058</u>	<u>672,500</u>
Expenditures						
Instruction	4,479,744	-	4,479,744	4,567,000	4,567,000	87,256
Support services	2,001,485	-	2,001,485	2,379,050	2,379,050	377,565
Non-instructional programs	-	309,286	309,286	273,000	273,000	(36,286)
Other expenditures	721,497	-	721,497	999,183	999,183	277,686
Total expenditures	<u>7,202,726</u>	<u>309,286</u>	<u>7,512,012</u>	<u>8,218,233</u>	<u>8,218,233</u>	<u>706,221</u>
Excess (deficiency) of revenues over (under) expenditures Net other financing sources	534,899	(9,353)	525,546	(853,175)	(853,175)	1,378,721
	<u>576</u>	<u>-</u>	<u>576</u>	<u>-</u>	<u>-</u>	<u>576</u>
Net change in fund balance Balance, beginning of year Balance, end of year	535,475	(9,353)	526,122	(853,175)	(853,175)	1,379,297
	1,538,594	45,212	1,583,806	867,287	867,287	716,519
	<u>\$ 2,074,069</u>	<u>\$ 35,859</u>	<u>\$ 2,109,928</u>	<u>\$ 14,112</u>	<u>\$ 14,112</u>	<u>\$ 2,095,816</u>

See accompanying Independent Auditor's Report.

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

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

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

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

During the year ended June 30, 2007, District expenditures exceeded the amount budgeted in the Non-instructional Programs function; however, General Fund expenditures did not exceed the District's unspent authorized budget.

Other Supplementary Information

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

Schedule 1

	Special Revenue			<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Capital Projects</u>	
Assets				
Cash and pooled investments	\$200,323	\$111,372	\$250,813	\$562,508
Receivables				
Property tax				
Delinquent	3,257	-	-	3,257
Succeeding year	130,000	-	-	130,000
Accounts receivable	-	217	-	217
Due from other governments	-	-	141,635	141,635
Total assets	<u>\$333,580</u>	<u>\$111,589</u>	<u>\$392,448</u>	<u>\$837,617</u>
 Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 509	\$ -	\$ 509
Deferred revenue				
Succeeding year property tax	130,000	-	-	130,000
Total liabilities	130,000	509	-	130,509
 Fund balances				
Unreserved fund balances	203,580	111,080	392,448	707,108
Total liabilities and fund balances	<u>\$333,580</u>	<u>\$111,589</u>	<u>\$392,448</u>	<u>\$837,617</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

Revenues	Special Revenue			<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Capital Projects</u>	
Local sources				
Local taxes	\$166,793	\$ -	\$350,841	\$517,634
Other	6,255	326,371	19,381	352,007
Total revenues	173,048	326,371	370,222	869,641
Expenditures				
Current				
Instruction				
Regular	38,383	-	-	38,383
Other	-	305,812	-	305,812
Total instruction	38,383	305,812	-	344,195
Support services				
Operation and maintenance of plant	56,203	-	-	56,203
Transportation	17,514	-	-	17,514
Total support services	73,717	-	-	73,717
Other expenditures				
Facilities acquisition	-	-	319,972	319,972
Total expenditures	112,100	305,812	319,972	737,884
Excess of revenues over expenditures	60,948	20,559	50,250	131,757
Fund balances, beginning of year	142,632	90,521	342,198	575,351
Fund balances, end of year	\$203,580	\$111,080	\$392,448	\$707,108

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Drama	\$ 1,127	\$ 1,942	\$ 1,281	\$ 65	\$ 1,853
Arts Angels	-	100	-	-	100
HS art	1,812	25	1,014	-	823
Speech/debate	1,182	-	333	(65)	784
HS vocal music	-	6,144	18,580	13,327	891
HS instrumental music	2,608	2,263	1,289	(268)	3,314
Music Travel Fund Balance	-	37,007	23,680	(13,327)	-
MS instrumental music	1,250	5,826	6,389	(100)	587
Musical	2,190	2,964	1,389	-	3,765
Swing show	3,983	887	1,988	588	3,470
Athletics	8,297	54,733	45,467	(8,148)	9,415
Booster club donation	-	20,000	-	(20,000)	-
Golf fundraiser	-	3,022	635	2,634	5,021
Scoreboard Fund	-	1,300	-	4,100	5,400
Drill team	92	520	577	-	35
Boys basketball	-	-	1,341	1,341	-
Boys basketball camp	2,454	15,930	12,179	(1,500)	4,705
Football	-	-	10,719	10,719	-
Football fundraiser	3,324	25,142	25,178	(2,634)	654
MS football	632	831	1,151	-	312
Baseball	-	-	1,823	1,823	-
Baseball fundraiser	376	5,953	6,403	556	482
Boys track	-	-	1,239	1,239	-
Boys track fundraiser	387	457	574	-	270
Boys golf	-	-	980	980	-
Wrestling	-	-	6,481	6,481	-
Wrestling fundraiser	1,328	4,107	4,943	476	968
Girls basketball	-	-	2,666	2,666	-
Girls basketball camp	1,865	4,779	3,965	-	2,679
Volleyball	-	-	1,453	1,453	-
Volleyball fundraiser	2,742	8,747	8,017	(500)	2,972
Softball	-	-	2,495	2,495	-
Softball captains	340	2,737	2,703	-	374
Girls track fundraiser	-	252	67	-	185

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Girls track	\$ -	\$ -	\$ 2,533	\$ 2,533	\$ -
Girls golf	-	-	385	385	-
Cheerleaders	854	12,403	10,135	1,500	4,622
HS manufacturing	30	707	499	-	238
Industrial tech club	-	1,732	1,572	-	160
Calendar	1,116	1,920	1,044	-	1,992
Spanish club	287	-	-	-	287
High school fund	7,780	15,464	13,541	(76)	9,627
Ecology club	303	-	42	-	261
Elementary school fund	10,939	11,856	13,923	-	8,872
HS yearbook	6,940	4,932	6,780	-	5,092
HS student government	-	1,867	1,556	-	311
Journalism - The Bear	4,780	1,916	2,833	-	3,863
Middle school fund	979	18,759	13,838	-	5,900
Hoover IMC	355	96	76	-	375
MS IMC	222	59	64	-	217
HS media	374	4	-	-	378
MS pop fund	303	242	188	-	357
Journalism - travel	570	-	-	-	570
Band uniforms	53	-	308	255	-
Family and consumer science	646	-	58	-	588
FFA	12,912	20,503	19,510	-	13,905
MS yearbook	817	1,899	2,044	-	672
National Honor Society	164	1,584	1,505	-	243
Central office	325	2,296	2,554	743	810
Economics club	383	499	-	(498)	384
Ski club	707	3,793	2,935	-	1,565
Class of					
2007	353	75	428	-	-
2008	-	9,330	9,765	435	-
Hart Donation	-	-	-	500	500
Interest	1,411	8,767	-	(10,178)	-
Concessions	929	-	697	-	232
Totals	<u>\$ 90,521</u>	<u>\$ 326,371</u>	<u>\$ 305,812</u>	<u>\$ -</u>	<u>\$ 111,080</u>

See accompanying Independent Auditor's Report.

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

Schedule 4

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year
Assets				
Cash	<u>\$1,536</u>	<u>\$705</u>	<u>\$235</u>	<u>\$2,006</u>
 Liabilities				
Due to others	<u>\$1,536</u>	<u>\$705</u>	<u>\$235</u>	<u>\$2,006</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues				
Local sources				
Local tax	\$3,530,153	\$3,207,158	\$3,046,484	\$2,786,886
Tuition	256,336	257,077	233,158	208,726
Other	480,679	452,359	375,715	268,002
Intermediate sources	-	-	4,944	13,706
State sources	3,366,620	3,138,714	3,079,953	2,914,952
Federal sources	103,837	101,670	110,254	140,136
Total revenues	<u>\$7,737,625</u>	<u>\$7,156,978</u>	<u>\$6,850,508</u>	<u>\$6,332,408</u>
Expenditures				
Current				
Instruction				
Regular	\$3,207,172	\$2,986,032	\$2,715,358	\$2,833,913
Special	638,373	695,927	607,288	637,515
Other	634,199	611,646	769,602	572,011
Support services				
Student	150,008	176,789	114,682	106,769
Instructional staff	169,815	168,855	225,587	124,357
Administration	788,900	700,320	637,241	597,660
Operation and maintenance of plant	607,274	631,269	608,420	569,145
Transportation	285,488	335,477	293,685	244,661
Other expenditures				
Facilities acquisition	476,773	490,044	196,359	392,887
Long-term debt				
Interest and other charges	-	-	9,150	-
AEA flowthrough	244,724	222,290	219,163	216,427
Total expenditures	<u>\$7,202,726</u>	<u>\$7,018,649</u>	<u>\$6,396,535</u>	<u>\$6,295,345</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education
West Branch Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of West Branch Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated February 8, 2008. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects West Branch 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 West Branch Community School District's

financial statements that is more than inconsequential will not be prevented or detected by West Branch Community School District's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

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

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

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 8, 2008

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

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

SIGNIFICANT DEFICIENCIES

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

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

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

Conclusion - Response accepted.

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

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

Recommendation - The business manager should consider obtaining GAAP knowledge through reading relevant accounting literature and/or attending professional education courses to help her significantly improve in her ability to prepare reliable GAAP financial statements, including footnote disclosures.

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

Conclusion - Response accepted.

- C. Material Misstatement not Detected - During the course of my audit, I discovered material misstatements on the District's Certified Annual Report (CAR) that were not detected by the District's internal controls. The CAR contained incorrect amounts for commodities received and consumed in the School Nutrition Fund. These misstatements were subsequently corrected before the final CAR was filed with the Iowa Department of Education.

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

Response - We feel that our business manager has the knowledge needed to adequately perform her duties. The superintendent reviews some, but not all of the work performed and reports prepared by the business manager. We would like to hire additional office personnel to help with the business manager's workload and to provide some oversight and cross-checking of her work. However, with a limited budget, it is difficult to hire enough adequately-trained office personnel to review each other's work. We will review our procedures and consider making changes we deem necessary.

Conclusion - Response accepted.

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

Part II. Other Findings Related to Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the Non-instructional Programs function.

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

Response - Expenditures exceeded the budgeted amounts in these functions due to changes in the commodities consumed amount in the School Nutrition Fund. This change was made available too late in the year to amend the budget. We will be more attentive of this in the future.

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

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

10. Competitive Bidding - The District did not comply with the competitive bid requirements of Chapter 26.9 of the Code of Iowa. Chapters 26.3 and 26.9 of the Code of Iowa address various requirements for public improvements exceeding \$100,000. One of these requirements in Chapter 26.9 of the Code of Iowa is that the contract be awarded to the lowest responsive, responsible bidder. The District complied with the other requirements of Chapter 26.3 of the Code of Iowa; however, the contract was not awarded to the lowest bidder as required by Chapter 26.9 of the Code.

Recommendation - The District should review the Code of Iowa chapters relating to competitive bid requirements and ensure that they comply with all such requirements on future projects.

Response - The two lowest bids were within \$1,000 of each other. We awarded the bid to the second lowest bidder because they use local contractors in completing the contract. We believed it was in the best interest of our district residents to use local contractors, even though the bid was slightly higher than the lowest bid. In the future, if we do not accept the lowest bid, when required by the Code of Iowa, we will contact legal counsel to determine disposition of the matter.

Conclusion - Response accepted.

WEST BRANCH COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2007

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant