

IKM COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2008

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IKM COMMUNITY SCHOOL DISTRICT

Officials

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

(Before September 2007 Election)

Richard Wiig	President	2008
Dennis Erb	Vice President	2007
Lynn Barry	Board Member	2008
David Heller	Board Member	2007
Kenny Juhl	Board Member	2007
Dennis Kasparbauer	Board Member	2008
Brian Miller	Board Member	2009

(After September 2007 Election)

Richard Wiig	President	2008
Dennis Kasparbauer	Vice President	2008
Brian Miller	Board Member	2009
Kenny Juhl	Board Member	2009
David Heller	Board Member	2010
Larry Barry	Board Member	2008
Dennis Erb (deceased May 2008)	Board Member	2010
Judy Erb (appointed June 2008)	Board Member	2010

School Officials

Jeff Kruse	Superintendent
Mary Heller	District Secretary/Treasurer

Independent Auditor's Report

To the Board of Education of
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District, Manilla, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of IKM Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated December 2, 2008, on our consideration of IKM Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IKM Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

December 2, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The IKM 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, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,207,511 in fiscal 2007 to \$4,175,545 in fiscal 2008, while General Fund expenditures increased from \$4,045,352 in fiscal 2007 to \$4,106,946 in fiscal 2008. The District's General Fund balance increased from \$790,178 in fiscal 2007 to \$855,836 in fiscal 2008, a 8% increase.
- The decrease in General Fund revenues was attributable to a decrease in tuition and federal resources in fiscal 2008. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of IKM 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 IKM 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 IKM 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 non-major funds.

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

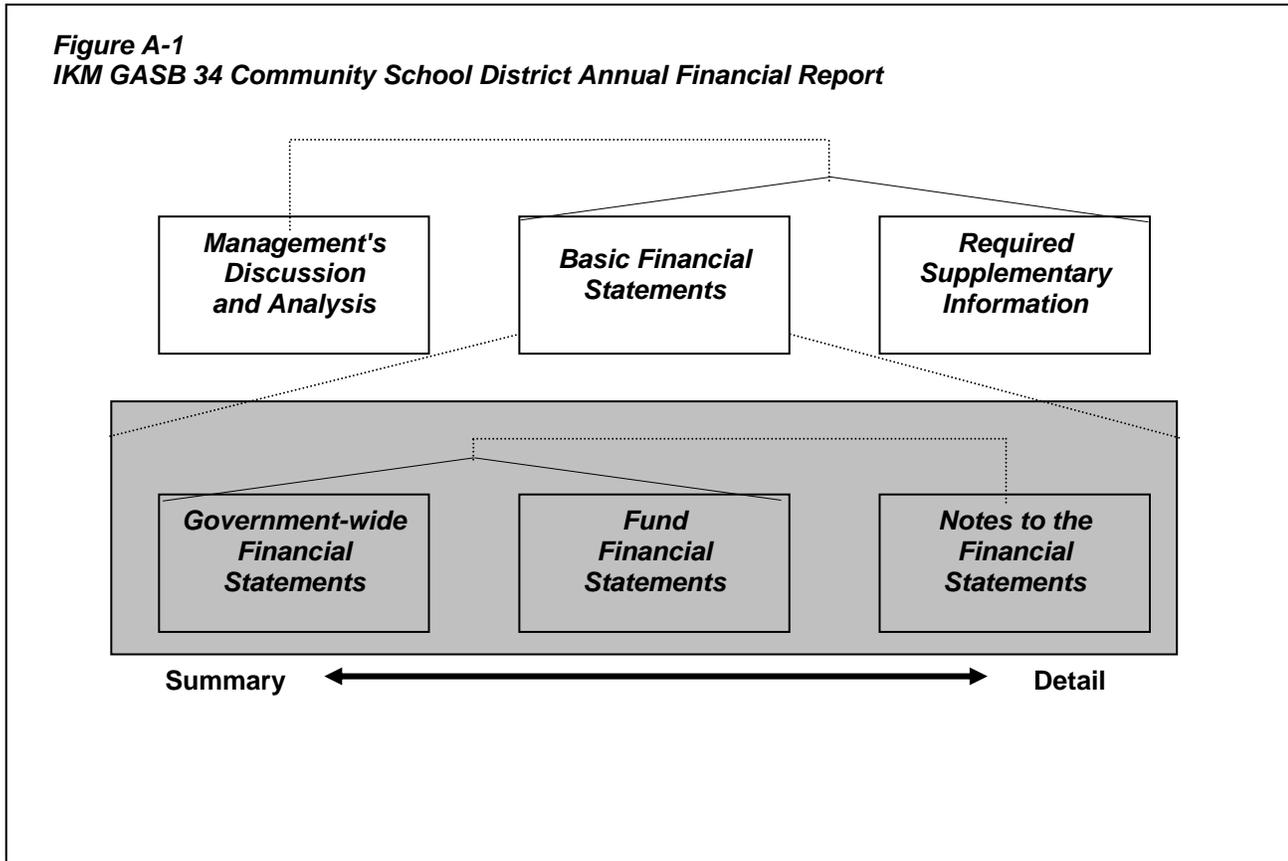


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or financial position. Over time, increases or decreases in the District’s net assets are an indicator of whether financial position is improving or deteriorating. To assess the District’s overall health,

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 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 net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

- Agency Funds – These are funds through which the District administers and accounts for certain monies on behalf of other entities.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2008 compared to June 30, 2007.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2007-2008
	Governmental Activities		Business-type Activities		Total School District		
	2007	2008	2007	2008	2007	2008	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,778,520	4,292,107	59,551	51,327	3,838,071	4,343,434	13.2
Capital assets	682,219	1,630,573	9,320	8,086	691,539	1,638,659	137.0
Total assets	4,460,739	5,922,680	68,871	59,413	4,529,610	5,982,093	32.1
Long-term liabilities	26,072	1,014,906	0	0	26,072	1,014,906	3792.7
Other liabilities	1,595,120	1,777,032	1,303	894	1,596,423	1,777,926	11.4
Total liabilities	1,621,192	2,791,938	1,303	894	1,622,495	2,792,832	72.1
Net Assets:							
Invested in capital assets, net of related debt	679,279	630,573	9,320	8,086	688,599	638,659	-7.3
Restricted	1,185,730	1,469,203	0	0	1,185,730	1,469,203	23.9
Unrestricted	974,538	1,030,966	58,248	50,433	1,032,786	1,081,399	4.7
TOTAL NET ASSETS	2,839,547	3,130,742	67,568	58,519	2,907,115	3,189,261	9.7

The District's combined net assets increased by nearly 9.7%, or \$282,146, over the prior year. The smallest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The district has an approximate equal balance between restricted and unrestricted net 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 \$283,473 or 23.9% over the prior year. The restricted net asset balance is increasing because IKM is saving local option sales tax proceeds and physical plant and equipment property tax levy monies to be used for future building improvements and equipment purchases.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$48,613, or 4.7%. This increase in unrestricted net assets was a result of the District building carryover fund balance to meet its financial obligations during the upcoming years as enrollments decline.

Figure A-4 shows the change in net assets for the years ended June 30, 2008 and 2007.

Figure A-4

	Change in Net Assets						Percentage Change 2007-2008
	Governmental Activities		Business-type Activities		Total School District		
	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	
Revenues							
Program Revenues:							
Charges for services	399,985	340,731	81,596	82,452	481,581	423,183	-12.1
Operating grants & contributions	513,341	555,658	75,179	77,524	588,520	633,182	7.6
Capital grants & contributions	0	27,705	0	0	0	27,705	0.0
General Revenues:							
Property taxes	1,548,684	1,547,139	0	0	1,548,684	1,547,139	0.0
Income Surtax	221,897	236,313	0	0	221,897	236,313	6.5
Local option sales tax	267,460	248,888	0	0	267,460	248,888	-6.9
Unrestricted state grants	1,710,477	1,646,677	0	0	1,710,477	1,646,677	-3.7
Unrestricted investment earnings	62,099	44,747	1,813	1,846	63,912	46,593	-27.1
Other revenue	13,584	26,914	0	0	13,584	26,914	98.1
Total Revenues	4,737,527	4,674,772	158,588	161,822	4,896,115	4,836,594	-1.2
Expenses:							
Instruction	2,744,586	2,904,924	0	0	2,744,586	2,904,924	5.8
Support services	1,339,761	1,265,911	0	0	1,339,761	1,265,911	-5.5
Non-instructional programs	146	149	168,378	170,871	168,524	171,020	1.5
Other expenditures	186,838	212,593	0	0	186,838	212,593	13.8
Total expenses	4,271,331	4,383,577	168,378	170,871	4,439,709	4,554,448	2.6
Change in net assets before transfers	466,196	219,195	(9,790)	(9,049)	456,406	282,146	-38.2
Transfers	(460)	0	460	0	0	0	0.0
CHANGE IN NET ASSETS	465,736	291,195	(9,330)	(9,049)	456,406	282,146	-38.2
Net assets beginning of year	2,373,811	2,839,547	76,898	67,568	2,450,709	2,907,115	18.6
Net assets end of year	2,839,547	3,130,742	67,568	58,519	2,907,115	3,189,261	9.7

Property tax and unrestricted state grants account for 66% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,674,772 and expenses were \$4,383,577. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

	Total Cost of Services			Net Cost of Services		
	2007 \$	2008 \$	Change 2007-2008	2007 \$	2008 \$	Change 2007-2008
Instruction	2,744,586	2,904,924	160,338	2,053,505	2,208,219	154,714
Support Services	1,339,761	1,265,911	-73,850	1,259,379	1,210,496	-48,883
Non-instructional Programs	146	149	3	146	149	3
Other Expenses	186,838	212,593	25,755	44,975	40,619	-4,356
TOTAL	4,271,331	4,383,577	112,246	3,358,005	3,459,483	101,478

- The cost financed by users of the District's programs was \$340,731. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$555,658.
- The net cost of governmental activities was financed with \$2,032,340 in property and local other taxes and \$1,646,677 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$161,822 and expenses were \$170,871. 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.

INDIVIDUAL FUND ANALYSIS

As previously noted, IKM 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 \$2,329,303, well above last year's ending fund balances of \$1,999,040.

Governmental Fund Highlights

- The District's improving General Fund financial position is the result of many factors.
- The General Fund balance increased from \$790,178 to \$855,836. Staff reductions and sharing opportunities in previous years are the main reason for improvement in the general fund.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a \$144,897 to \$173,085 in fiscal 2008. Revenues decreased during the year and expenses remained approximately the same.
- The Capital Projects Fund balance increased from \$786,260 during fiscal year 2007 to \$1,007,531 during fiscal 2008. The district borrowed funds for upgrading of the heating and cooling system in the district.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$67,568 at June 30, 2007 to \$58,519 at June 30, 2008, representing a decrease of approximately 13%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$67,366 more than budgeted receipts, a variance of 1.4%.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$1,630,573, 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 137% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$78,743.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$952,726 at June 30, 2008. The District is updating heating and cooling systems in its school building, which is being financed by the issuance of \$1,000,000 of sales tax revenue bonds and sales tax monies that had accumulated in previous years. The District expects to spent approximately \$810,000 to complete the project in fiscal year 2009.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2007-2008
	2007	2008	2007	2008	2007	2008	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	0	0	10,000	10,000	0
Construction in progress	0	952,726	0	0	0	952,726	0
Buildings	446,504	417,588	0	0	446,504	417,588	-6.5
Improvements	72,944	88,352	0	0	72,944	88,352	21.1
Equipment & Furniture	152,771	161,907	9,320	8,086	162,091	169,993	4.9
TOTAL	682,219	1,630,573	9,320	8,086	691,539	1,638,659	137.0

Long-Term Debt

At June 30, 2008, the District had \$1,014,906 in general obligation and other long-term debt outstanding. This represents a increase of approximately 3792.7% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District issued \$1,000,000 in revenue bonds, which were purchased by a local bank for heating and cooling upgrades. The bonds mature over the next 10 years.

Figure A-7
Outstanding Long-Term Obligations

	<u>Total School District</u>		<u>Percentage</u>
	<u>2007</u>	<u>2008</u>	<u>Change</u>
	<u>\$</u>	<u>\$</u>	<u>2007-2008</u>
Termination benefits	23,132	14,906	-35.6
EPA Asbestos Loan	2,940	0	-100.0
Revenue Bonds	0	1,000,000	0
	<u>26,072</u>	<u>1,014,906</u>	<u>3792.7</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's October 2008 enrollment decreased by approximately 3 students. This drop in enrollment will decrease the District's funding for fiscal year 2009.
- Although the District has experienced declining enrollment for the past several years. The District expects this trend to continue; therefore, whole-grade sharing conversations with a neighboring school district are being planned for fiscal year 2009.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one suburban must be replaced during fiscal 2009 at a cost of \$35,000. To pay for this vehicle, the District will use the Physical Plant and Equipment Levy Fund.
- Annually the District negotiates a new Master Contract with the IKMEA. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jeff Kruse, IKM superintendent, IKM Community School District, 755 Main Street, Manilla, Iowa, 51454.

BASIC FINANCIAL STATEMENTS

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	2,294,200	44,863	2,339,063
Receivables:			
Property tax:			
Delinquent	27,434	-	27,434
Succeeding year	1,652,936	-	1,652,936
Accounts	-	615	615
Accrued interest	4,967	210	5,177
Due from other governments	312,570	-	312,570
Inventories	-	5,639	5,639
Capital assets, net of accumulated depreciation	1,630,573	8,086	1,638,659
Total assets	5,922,680	59,413	5,982,093
Liabilities			
Accounts payable	117,916	-	117,916
Accrued interest payable	6,180	-	6,180
Deferred revenue:			
Succeeding year property tax	1,652,936	-	1,652,936
Other	-	894	894
Long-term liabilities:			
Portion due within one year:			
Termination benefits	8,226	-	8,226
Portion due after one year:			
Revenue bonds payable	1,000,000	-	1,000,000
Termination benefits	6,680	-	6,680
Total liabilities	2,791,938	894	2,792,832
Net assets			
Invested in capital assets, net of related debt	630,573	8,086	638,659
Restricted for:			
State categorical aid	10,642	-	10,642
Management levy	199,894	-	199,894
Physical plant and equipment levy	173,085	-	173,085
Other special revenue purposes	78,051	-	78,051
Local option sales and services tax capital projects	1,007,531	-	1,007,531
Unrestricted	1,030,966	50,433	1,081,399
Total net assets	3,130,742	58,519	3,189,261

See notes to financial statements.

IKM COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular	1,863,951	202,831	330,034	-
Special	493,932	9,057	23,363	-
Other	547,041	74,170	57,250	-
	2,904,924	286,058	410,647	-
Support services:				
Student	42,200	-	-	-
Instructional staff	195,044	-	-	-
Administration	438,556	52,573	-	-
Operation and maintenance of plant	316,667	2,100	-	-
Transportation	273,444	-	742	-
	1,265,911	54,673	742	-
Non-instructional programs				
	149	-	-	-
Other expenditures:				
Facilities acquisition	19,482	-	-	27,705
Long-term debt interest	6,181	-	-	-
AEA flowthrough	144,269	-	144,269	-
Depreciation (unallocated)*	42,661	-	-	-
	212,593	-	144,269	27,705
Total governmental activities	4,383,577	340,731	555,658	27,705
Business type activities:				
Non-instructional programs:				
Food service operations	170,871	82,452	77,524	-
Total	4,554,448	423,183	633,182	27,705
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,331,086)	-	(1,331,086)
(461,512)	-	(461,512)
(415,621)	-	(415,621)
<u>(2,208,219)</u>	<u>-</u>	<u>(2,208,219)</u>
(42,200)	-	(42,200)
(195,044)	-	(195,044)
(385,983)	-	(385,983)
(314,567)	-	(314,567)
(272,702)	-	(272,702)
<u>(1,210,496)</u>	<u>-</u>	<u>(1,210,496)</u>
<u>(149)</u>	<u>-</u>	<u>(149)</u>
8,223	-	8,223
(6,181)	-	(6,181)
-	-	-
(42,661)	-	(42,661)
<u>(40,619)</u>	<u>-</u>	<u>(40,619)</u>
(3,459,483)	-	(3,459,483)
-	(10,895)	(10,895)
<u>(3,459,483)</u>	<u>(10,895)</u>	<u>(3,470,378)</u>
1,507,348	-	1,507,348
39,791	-	39,791
236,313	-	236,313
248,888	-	248,888
1,646,677	-	1,646,677
44,747	1,846	46,593
26,914	-	26,914
<u>3,750,678</u>	<u>1,846</u>	<u>3,752,524</u>
291,195	(9,049)	282,146
<u>2,839,547</u>	<u>67,568</u>	<u>2,907,115</u>
<u>3,130,742</u>	<u>58,519</u>	<u>3,189,261</u>

IKM COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2008

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	822,005	1,009,691	462,504	2,294,200
Receivables:				
Property tax:				
Delinquent	25,310	-	2,124	27,434
Succeeding year	1,452,619	-	200,317	1,652,936
Accrued interest	2,452	1,207	1,308	4,967
Due from other governments	235,778	76,792	-	312,570
Total assets	2,538,164	1,087,690	666,253	4,292,107
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	37,757	80,159	-	117,916
Deferred revenue:				
Succeeding year property tax	1,452,619	-	200,317	1,652,936
Other	191,952	-	-	191,952
Total liabilities	1,682,328	80,159	200,317	1,962,804
Fund balances:				
Reserved for:				
State categorical aid	10,642	-	-	10,642
Unreserved, reported in:				
General fund	845,194	-	-	845,194
Special revenue funds	-	-	465,936	465,936
Capital project fund	-	1,007,531	-	1,007,531
Total fund balances	855,836	1,007,531	465,936	2,329,303
Total liabilities and fund balances	2,538,164	1,087,690	666,253	4,292,107

IKM COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

	\$
Total fund balances of governmental funds (Exhibit C)	2,329,303
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,630,573
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	191,952
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(6,180)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,014,906)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,130,742</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	General Fund	Capital Projects Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,656,068	205,439	119,792	1,981,299
Tuition	126,279	-	-	126,279
Other	190,949	27,705	95,164	313,818
State sources	2,079,509	43,449	86	2,123,044
Federal sources	122,740	-	-	122,740
Total revenues	<u>4,175,545</u>	<u>276,593</u>	<u>215,042</u>	<u>4,667,180</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,861,318	-	-	1,861,318
Special	493,932	-	-	493,932
Other	473,392	-	73,649	547,041
	<u>2,828,642</u>	<u>-</u>	<u>73,649</u>	<u>2,902,291</u>
Support services:				
Student	42,200	-	-	42,200
Instructional staff	151,508	43,536	-	195,044
Administration	408,744	10,425	27,613	446,782
Operation and maintenance of plant	297,353	-	44,898	342,251
Transportation	234,230	-	25,399	259,629
	<u>1,134,035</u>	<u>53,961</u>	<u>97,910</u>	<u>1,285,906</u>
Non-instructional programs	-	-	149	149
Other expenditures:				
Facilities acquisition	-	1,001,361	-	1,001,361
Long-term debt:				
Principal	-	-	2,941	2,941
AEA flowthrough	144,269	-	-	144,269
	<u>144,269</u>	<u>1,001,361</u>	<u>2,941</u>	<u>1,148,571</u>
Total expenditures	<u>4,106,946</u>	<u>1,055,322</u>	<u>174,649</u>	<u>5,336,917</u>
Excess (deficiency) of revenues over (under) expenditures	<u>68,599</u>	<u>(778,729)</u>	<u>40,393</u>	<u>(669,737)</u>
Other financing sources (uses)				
Refunding bonds issued	-	1,000,000	-	1,000,000
Operating transfers in	-	-	2,941	2,941
Operating transfers out	(2,941)	-	-	(2,941)
Total other financing sources (uses)	<u>(2,941)</u>	<u>1,000,000</u>	<u>2,941</u>	<u>1,000,000</u>
Net change in fund balances	65,658	221,271	43,334	330,263
Fund balances beginning of year	<u>790,178</u>	<u>786,260</u>	<u>422,602</u>	<u>1,999,040</u>
Fund balances end of year	<u>855,836</u>	<u>1,007,531</u>	<u>465,936</u>	<u>2,329,303</u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		330,263
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 exceeded depreciation expense in the current year as follows:		
Expenditures for capital assets	1,023,863	
Depreciation expense	<u>(75,509)</u>	948,354
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		7,592
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		2,940
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(6,180)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits		8,226
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(1,000,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>291,195</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Fund

June 30, 2008

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	19,863
Certificate of deposit	25,000
Accounts receivable	615
Interest receivable	210
Inventories	5,639
Capital assets, net of accumulated depreciaton	<u>8,086</u>
Total assets	59,413
Liabilities	
Deferred revenue	<u>894</u>
Net assets	
Invested in capital assets, net of related debt	8,086
Unrestricted	<u>50,433</u>
Total net assets	<u><u>58,519</u></u>

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>82,452</u>
Operating expenses:	
Non-instructional programs:	
Salaries	58,488
Benefits	22,282
Purchased services	783
Supplies	87,934
Depreciation	1,234
Other	150
Total operating expenses	<u>170,871</u>
Operating gain (loss)	<u>(88,419)</u>
Non-operating revenues:	
State sources	2,294
Federal sources	75,230
Interest income	1,846
Total non-operating revenues	<u>79,370</u>
Change in net assets	(9,049)
Net assets beginning of year	<u>67,568</u>
Net assets end of year	<u><u>58,519</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2008

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	81,763
Cash payments to employees for services	(80,770)
Cash payments to suppliers for goods or services	<u>(82,183)</u>
Net cash used by operating activities	<u>(81,190)</u>
Cash flows from non-capital financing activities:	
State grants received	2,294
Federal grants received	<u>69,105</u>
Net cash provided by non-capital financing activities	<u>71,399</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Purchase of CD with maturity exceeding three months	(25,000)
Interest on investments	1,636
	<u>(23,364)</u>
Net increase (decrease) in cash and cash equivalents	(33,155)
Cash and cash equivalents at beginning of year	<u>53,018</u>
Cash and cash equivalents at end of year	<u><u>19,863</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(88,419)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	6,125
Depreciation	1,234
Decrease (increase) in inventories	559
Decrease (increase) in accounts receivable	(280)
(Decrease) increase in deferred revenue	<u>(409)</u>
Net cash used by operating activities	<u><u>(81,190)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$6,125 of federal commodities.

IKM COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

1. Summary of Significant Accounting Policies

IKM Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Irwin, Kirkman and Manilla, Iowa and the predominately agricultural territory in a portion of Crawford and Shelby 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, IKM 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 IKM Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

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

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

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

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources 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 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 not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instruction, support and other costs.

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

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

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the other expenditures functional area exceeded the amount budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board No. 3 as amended by No. 40.

3. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u> \$
Debt Service	General	2,941

This transfer moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	<u>Balance Beginning of Year</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Balance End of Year</u> \$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Construction in progress	-	952,726	-	952,726
Total capital assets not being depr.	<u>10,000</u>	<u>952,726</u>	<u>-</u>	<u>962,726</u>
Capital assets being depreciated:				
Buildings	1,762,271	-	-	1,762,271
Improvements other than buildings	291,090	29,153	-	320,243
Furniture and equipment	846,232	41,984	67,992	820,224
Total capital assets being deprec.	<u>2,899,593</u>	<u>71,137</u>	<u>67,992</u>	<u>2,902,738</u>
Less accumulated depreciation for:				
Buildings	1,315,767	28,916	-	1,344,683
Improvements other than buildings	218,146	13,745	-	231,891
Furniture and equipment	693,461	32,848	67,992	658,317
Total accumulated depreciation	<u>2,227,374</u>	<u>75,509</u>	<u>67,992</u>	<u>2,234,891</u>
Total capital assets being depreciated, net	<u>672,219</u>	<u>(4,372)</u>	<u>-</u>	<u>667,847</u>
Governmental activities capital assets, net	<u>682,219</u>	<u>948,354</u>	<u>-</u>	<u>1,630,573</u>
	<u>Balance Beginning of Year</u> \$	<u>Increases</u> \$	<u>Decreases</u> \$	<u>Balance End of Year</u> \$
Business type activities:				
Furniture and equipment	70,673	-	-	70,673
Less accumulated depreciation	61,353	1,234	-	62,587
Business type activities capital assets, net	<u>9,320</u>	<u>(1,234)</u>	<u>-</u>	<u>8,086</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,633
Support services:	
Transportation	30,215
	<u>32,848</u>
Unallocated depreciation	<u>42,661</u>
Total depreciation expense – governmental activities	<u>77,509</u>
Business type activities:	
Food services	<u>1,234</u>

5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2008, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
EPA asbestos loan payable	2,940	-	2,940	-	-
Revenue bonds	-	1,000,000	-	1,000,000	-
Termination benefits	23,132	-	8,226	14,906	8,226
Total	<u>26,072</u>	<u>1,000,000</u>	<u>11,166</u>	<u>1,014,906</u>	<u>8,226</u>

Termination Benefits

The District offered a voluntary early retirement plan to its employees until October 2004. Eligible employees must have completed at least fifteen years of service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which the employee resigned. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of three years of individual health insurance premiums to be paid by the District. The District's share of the premium will not exceed the premium amount in effect on March 1, of the year in which the employee applied for early retirement.

At June 30, 2008, the District has obligations to two participants with a total liability of \$14,906. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$8,226.

Revenue Bonds

Details of the District's June 30, 2008 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of May 2008			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2009		-	24,718	24,718
2010	3.15	130,000	35,030	165,030
2011	3.25	135,000	30,789	165,789
2012	3.45	140,000	26,181	166,181
2013	3.70	140,000	21,176	161,176
2014-2018	3.80-4.45	405,000	44,039	449,039
2019	4.75	50,000	1,188	51,188
		<u>1,000,000</u>	<u>183,121</u>	<u>1,183,121</u>

The District has pledged future local option sales and services tax revenues to repay the \$1,000,000 bonds issued in May 2008. The bonds were issued for the purpose of financing a portion of the costs of a HVAC system. The bonds are payable solely from the proceeds of the local options sales and services tax revenues received by the District and are payable through 2019. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require nearly 80% of the local option sales and services tax revenues. The total principal and interest remaining to be paid on the notes is \$1,183,121. For the current year, no principal or interest was paid on the bonds and total local option sales and services tax revenues were \$205,439.

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

- Bonds maturing after July 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- Starting July 1, 2008 the District shall establish a sinking fund. Money in the sinking account shall be used to pay the interest and principal on the bonds. Monthly payments to the sinking fund shall not be less than the sum of 1/6 of the next interest payment and 1/12 of the next principal payment.

6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$148,724, \$135,190 and \$133,776 respectively, equal to the required contributions for each year.

7. 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.

8. 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 \$144,269 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

9. Construction Commitment

The District has entered into contracts totaling \$1,610,300 for central air conditioning. As of June 30, 2008, costs of \$801,583 had been incurred against the contract. The balance remaining at June 30, 2008 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,421,396	84,298	2,505,694	2,616,874	2,616,874	(111,180)
State sources	2,123,044	2,294	2,125,338	2,064,762	2,064,762	60,576
Federal sources	122,740	75,230	197,970	80,000	80,000	117,970
Total revenues	<u>4,667,180</u>	<u>161,822</u>	<u>4,829,002</u>	<u>4,761,636</u>	<u>4,761,636</u>	<u>67,366</u>
Expenditures/Expenses:						
Instruction	2,902,291	-	2,902,291	2,947,000	2,947,000	44,709
Support services	1,285,906	-	1,285,906	1,890,749	1,890,749	604,843
Non-instructional programs	149	170,871	171,020	277,961	277,961	106,941
Other expenditures	1,148,571	-	1,148,571	988,120	988,120	(160,451)
Total expenditures/expenses	<u>5,336,917</u>	<u>170,871</u>	<u>5,507,788</u>	<u>6,103,830</u>	<u>6,103,830</u>	<u>596,042</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(669,737)	(9,049)	(678,786)	(1,342,194)	(1,342,194)	663,408
Other financing sources (uses) net	<u>1,000,000</u>	<u>-</u>	<u>1,000,000</u>	<u>6,881</u>	<u>6,881</u>	<u>993,119</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	330,263	(9,049)	321,214	(1,335,313)	(1,335,313)	1,656,527
Balance beginning of year	<u>1,999,040</u>	<u>67,568</u>	<u>2,066,608</u>	<u>1,585,655</u>	<u>1,585,655</u>	<u>480,953</u>
Balance end of year	<u><u>2,329,303</u></u>	<u><u>58,519</u></u>	<u><u>2,387,822</u></u>	<u><u>250,342</u></u>	<u><u>250,342</u></u>	<u><u>2,137,480</u></u>

IKM COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its budget during the year ended June 30, 2008.

During the year ended June 30, 2008, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

IKM COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	
Cash and pooled investments	212,766	77,810	171,928	462,504
Receivables:				
Property tax:				
Delinquent	1,419	-	705	2,124
Succeeding year	160,001	-	40,316	200,317
Accrued interest	615	241	452	1,308
Total assets	374,801	78,051	213,401	666,253
Liabilities & Fund Balances				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	160,001	-	40,316	200,317
Fund balances:				
Unreserved fund balances reported in:				
Special revenue funds	214,800	78,051	173,085	465,936
Total liabilities and fund balances	374,801	78,051	213,401	666,253

IKM COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Special Revenue Funds				Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Debt Service	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	80,001	-	39,791	-	119,792
Other	17,428	72,967	4,769	-	95,164
State sources	58	-	28	-	86
Total revenues	<u>97,487</u>	<u>72,967</u>	<u>44,588</u>	<u>-</u>	<u>215,042</u>
Expenditures:					
Current:					
Instruction:					
Other instruction	-	73,649	-	-	73,649
Support services:					
Administration services	27,613	-	-	-	27,613
Operation and maintenance of plant services	44,898	-	-	-	44,898
Transportation services	8,999	-	16,400	-	25,399
Non-instructional programs	149	-	-	-	149
Other expenditures:					
Long-term debt:					
Principal	-	-	-	2,941	2,941
Total expenditures	<u>81,659</u>	<u>73,649</u>	<u>16,400</u>	<u>2,941</u>	<u>174,649</u>
Excess (deficiency) of revenues over (under) expenditures	15,828	(682)	28,188	(2,941)	40,393
Other financing sources (uses):					
Operating transfers in	-	-	-	2,941	2,941
Net change in fund balance	15,828	(682)	28,188	-	43,334
Fund balances beginning of year	<u>198,972</u>	<u>78,733</u>	<u>144,897</u>	<u>-</u>	<u>422,602</u>
Fund balances end of year	<u>214,800</u>	<u>78,051</u>	<u>173,085</u>	<u>-</u>	<u>465,936</u>

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	2,977	1,578	1,867	-	2,688
Basketball	6,709	5,671	4,203	-	8,177
Basketball/junior high	-	-	1,079	1,079	-
Football/high school	-	10,042	5,602	-	4,440
Football/junior high	-	1,143	2,286	1,143	-
Track	-	783	2,480	1,697	-
Co-ed golf	-	227	1,409	1,182	-
Volleyball	2,079	1,372	1,213	-	2,238
Volleyball/junior high	-	-	416	416	-
Softball	-	6,875	11,135	4,260	-
Activity tickets	10,013	9,341	1,855	(7,386)	10,113
Concessions	12,025	10,244	9,957	(7,453)	4,859
Cross country	-	-	246	246	-
Cheerleaders	255	225	-	-	480
Baseball	-	4,438	9,356	4,918	-
Class of 2009	1,178	40	1,116	1,103	1,205
Class of 2010	-	8,039	6,834	(1,190)	15
Class of 2011	15	-	-	10	25
Class of 2012	-	25	-	(25)	-
Annual	5,439	9,113	8,454	-	6,098
FFA	5,282	-	58	-	5,224
Interest	13,227	2,614	199	-	15,642
Student council-MS	160	1,197	1,316	-	41
Student council-HS	4,157	-	1,468	-	2,689
Student council-Elem.	22	-	-	-	22
Music - instrumental	15,195	-	1,100	-	14,095
Total	78,733	72,967	73,649	-	78,051

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2008

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	-	19,491	19,491	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities				
Other liabilities	-	19,491	19,491	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

IKM COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2008	2007	2006	2005
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,981,299	1,984,089	1,898,510	1,920,010
Tuition	126,279	145,497	110,313	91,920
Other	313,818	329,962	288,687	295,670
State sources	2,123,044	2,134,481	2,113,616	2,001,821
Federal sources	122,740	143,289	160,543	157,422
Total revenues	<u>4,667,180</u>	<u>4,737,318</u>	<u>4,571,669</u>	<u>4,466,843</u>
Expenditures:				
Instruction:				
Regular	1,861,318	1,705,167	1,592,528	1,572,871
Special	493,932	509,778	601,808	549,380
Other	547,041	528,635	520,292	522,559
Support services:				
Student	42,200	89,785	82,763	78,677
Instructional staff	195,044	203,247	138,029	121,378
Administration	446,782	486,407	514,386	502,319
Operation and maintenance of plant	342,251	331,939	342,241	283,145
Transportation	259,629	284,273	279,743	193,675
Non-instructional programs	149	146	142	136
Other expenditures:				
Facilities acquisition	1,001,361	36,095	164,932	93,299
Long-term debt:				
Principal	2,941	5,881	5,881	5,881
AEA flowthrough	144,269	141,863	137,574	136,369
Total expenditures	<u>5,336,917</u>	<u>4,323,216</u>	<u>4,380,319</u>	<u>4,059,689</u>

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

To the Board of Education of
IKM Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of IKM Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items 08-I-A and 08-I-B are material weaknesses.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

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

December 2, 2008

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

District Response: We will continue to review our procedures and implement additional controls where possible

Conclusion: Response accepted.

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

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

IKM COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

08-II-A Certified Budget: Expenditures for the year ended June 30, 2008, exceeded the amount budgeted in the other expenditures 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.

District Response: Year-end construction costs were more than anticipated. Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded

Conclusion: Response accepted.

08-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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

08-II-D Business Transactions: No business transactions between the District and District officials or employees were noted:

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

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

08-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October 2007, was understated by one dual enrolled student at a weighting of .1.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

District Response: We will contact these departments.

Conclusion: Response accepted.

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

08-II-I Certified Annual Report: The Certified Annual Report was certified to the Iowa Department of Education timely.