

**NORTH FAYETTE
COMMUNITY SCHOOL DISTRICT
WEST UNION, IOWA**

FINANCIAL REPORT

JUNE 30, 2008

TABLE OF CONTENTS

		<u>Page</u>
BOARD OF EDUCATION AND SCHOOL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS		2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)		3
BASIC FINANCIAL STATEMENTS	<u>Exhibit</u>	
District-Wide Financial Statements		
Statement of Net Assets	A	4
Statement of Activities	B	5
Governmental Fund Financial Statements		
Balance Sheet	C	6-7
Statement of Revenues, Expenditures, and Changes in Fund Balances	D	8-9
Proprietary Fund Financial Statements		
Statement of Net Assets	E	10
Statement of Revenues, Expenses, and Changes in Net Assets	F	11
Statement of Cash Flows	G	12
Notes to Financial Statements		13-25
Required Supplementary Information		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		26
Notes to Required Supplementary Information-Budgetary Reporting		27
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION		28
OTHER SUPPLEMENTARY INFORMATION	<u>Schedule</u>	
Nonmajor Governmental Funds		
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	1	29
Nonmajor Special Revenue Funds		
Combining Balance Sheet	2	30
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	3	31
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	4	32
Comparative Schedule of Revenues and Expenditures	5	33
Comparison of General Fund Revenues	6	34
Comparison of General Fund Expenditures	7	35
Operating Fund Financial Solvency	8	36
Spending Authority	9	37
Student Enrollment Data	10	38
General Fund Revenue Analysis	11	39
General Fund Expenditure Analysis	12	40
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 <i>GOVERNMENT AUDITING STANDARDS</i>		41-43
MANAGEMENT LETTER		44-46

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
<u>Board of Education</u> (Before September 2007 Election)			
Tim O'Brien	President	Fayette, Iowa	2009
Eugene Nuss	Vice President	Alpha, Iowa	2007
Roy Guenther	Member	West Union, Iowa	2008
Judy Heyer	Member	West Union, Iowa	2008
Mike Snyder	Member	West Union, Iowa	2008
Karen Michelson	Member	Fayette, Iowa	2009
Raymond Snyder	Member	West Union, Iowa	2007

<u>Board of Education</u> (After September 2007 Election)			
Tim O'Brien	President	Fayette, Iowa	2009
Karen Michelson	Vice President	Fayette, Iowa	2009
Roy Guenther	Member	West Union, Iowa	2008
Judy Heyer	Member	West Union, Iowa	2008
Mike Snyder	Member	West Union, Iowa	2008
Randy Tope	Member	West Union, Iowa	2010
Denise Johnson	Member	Alpha, Iowa	2010

School Officials

Ronald O'Kones – Superintendent
Sue Thoms – District Secretary/Treasurer

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

INDEPENDENT AUDITOR'S REPORT ON THE
THE FINANCIAL STATEMENTS

To the Board of Education
North Fayette Community School District
West Union, Iowa

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 North Fayette Community School District 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 North Fayette Community School District's management. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 the North Fayette Community School District as of June 30, 2008, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2008, on our consideration of North Fayette Community School District's internal control over financial reporting and on 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 important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 3 and pages 26 through 27, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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. However, we did not audit the information and express no opinion on it.

Decorah, Iowa
November 20, 2008

Hacker, Nelson & Co., P.C.

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
WEST UNION, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2008**

Management of North Fayette Community School District provides this Management's Discussion and Analysis of North Fayette Community School District's annual financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008.

The intent of this discussion and analysis is to look at North Fayette Community School District's financial performance as a whole with comparisons to the previous fiscal year activities. Readers should also review the basic financial statements and notes to enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

In total, governmental net assets increased by \$1,019,041. Local option sales tax increased approximately by \$284,991, state grants increased by \$104,492 and investment earnings increased by \$67,599. District program expenses were .5% or approximately \$50,800 more in 2008 than in 2007.

General fund revenues accounted for \$8,923,335 in revenue or 83.7% of all revenues. General fund expenditures accounted for \$8,659,735 in expenditures or 79.8% of all expenditures.

The net assets of the governmental activities were restated to adjust for a correction in recording of construction in progress.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand North Fayette Community School District as a financial whole, or as an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of North Fayette Community School District as a whole and present an overall view of the District's finances and a longer-term view of those 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 North Fayette Community School District's operations in more detail than the District-wide statements by providing information about the most significant funds with all other nonmajor funds presented in total in a single column. For North Fayette Community School District, the general fund and capital projects fund are the more significant funds.

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 special revenue.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The District-wide financial statements report information about the District as a whole using accounting methods similar to the accounting used by most 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 statement of net assets presents all of the District's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District 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.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the statement of net assets and statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities: Most of the District's programs and services are reported here, including instruction, co-curricular activities, support services, (nursing, guidance, media, administration), building and grounds operation and maintenance, and pupil transportation. Property tax and state aid finance most of these activities.

Business-type Activities: These services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. The District's school nutrition program is included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide more detailed information about the District's major funds. The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and capital projects fund.

Governmental Funds

Governmental funds account for most of the District's basic services. These focus on how money flows into and out of those funds, and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps one to 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 governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Services for which the District charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements.

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

A summary reconciliation between the District-wide financial statements and the fund financial statements follows the fund financial statements.

DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net assets of the District as a whole. The North Fayette Community School District's net assets at the end of fiscal year 2008 for governmental activities were \$7,055,981 and for business-type activities were \$45,995.

Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2008	2007	2008	2007	2008	2007	
Current and other assets	\$ 9,554	\$ 8,776	\$ 7	\$ 37	\$ 9,561	\$ 8,813	8.49%
Capital assets	6,696	5,817	58	35	6,754	5,852	15.41%
Total assets	16,250	14,593	65	72	16,315	14,665	11.25%
Long-term debt outstanding	2,368	2,650	-	-	2,368	2,650	-10.64%
Other liabilities	6,826	5,906	19	10	6,845	5,916	15.70%
Total liabilities	9,194	8,556	19	10	9,213	8,566	7.55%
Net assets							
Invested in capital assets, net of related debt	5,097	5,488	58	35	5,155	5,523	-6.66%
Restricted	1,300	420	-	-	1,300	420	209.52%
Unrestricted	659	129	(12)	27	647	156	314.74%
Total net assets	\$ 7,056	\$ 6,037	\$ 46	\$ 62	\$ 7,102	\$ 6,099	16.45%

The following analysis shows the change in net assets for the year ending June 30, 2008:

Changes in Net Assets of Governmental Activities
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total		Percent Change
	2008	2007	2008	2007	2008	2007	
Revenues:							
Program revenue							
Charges for service	\$ 613	\$ 787	\$ 247	\$ 261	\$ 860	\$ 1,048	-17.94%
Operating grants	1,220	1,046	184	178	1,404	1,224	14.71%
General revenue							
Property taxes	3,322	3,408	-	-	3,322	3,408	-2.52%
Sales tax and surtax	850	565	-	-	850	565	50.44%
Unrestricted state grants	4,223	4,118	-	-	4,223	4,118	2.55%
Unrestricted investment earnings	204	137	1	1	205	138	48.55%
Other revenue	199	345	31	-	230	345	-33.33%
Total revenues	10,631	10,406	463	440	11,094	10,846	2.29%
Program expenses:							
Instruction	6,163	6,007	-	-	6,163	6,007	2.60%
Student support	2,673	2,757	-	-	2,673	2,757	-3.05%
Non-instructional programs	-	-	479	447	479	447	7.16%
Other expenses	776	797	-	-	776	797	-2.63%
Total expenses	9,612	9,561	479	447	10,091	10,008	-0.82%
Increase (decrease) in net assets	1,019	845	(16)	(7)	1,003	838	19.69%
Net assets Beginning of Year	6,037	4,947	62	69	6,099	5,016	21.59%
Net assets End of Year	\$ 7,056	\$ 5,792	\$ 46	\$ 62	\$ 7,102	\$ 5,854	21.32%

INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of \$2,738,931, a \$131,356 decrease of the 2007 fiscal year end balance of \$2,870,287. The District spent \$898,312 less than the prior fiscal year.

- The general fund received more revenue during fiscal year 2008 through property taxes and state sources. The general fund expenditures increased in instructional functional area \$294,962 compared to prior year. Overall expenditures increased by \$208,684. The ending fund balance showed an increase of \$206,122 to \$928,097.
- The capital projects fund balance decreased due to not receiving bond proceeds and completing some construction projects. The ending fund balance showed a decrease of \$462,600 to \$1,098,809.

BUDGETARY HIGHLIGHTS

The District's Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute required approval of the budget on or before April 15th of each year. The budget document presents functional expenditures by fund and the legal level of control is at the expense level by total instruction, total support services, total non-instructional programs, total other expenditures and total expenditures. The District amends the budget, as allowed by Iowa law, generally once per year to reflect the additional revenues and expenditures that may occur during the school year.

The following chart shows the original and amended budget for fiscal 2008 as well as the actual revenue and expenditures for the year:

Budgetary Comparison Schedule (Expressed in Thousands)				
	Budget Amounts		Variance	
	Actual	Final		
Revenues				
Local sources	\$ 5,464	\$ 5,167	\$ 297	
Intermediate sources	-	1	(1)	
State sources	5,226	5,171	55	
Federal sources	404	499	(95)	
Total revenues	\$ 11,094	\$ 10,838	\$ 256	
Expenditures				
Instruction	\$ 6,151	\$ 6,330	\$ 179	
Student support	2,663	2,965	302	
Non-instructional programs	479	500	21	
Other expenses	1,948	2,292	344	
Total expenditures	\$ 11,241	\$ 12,087	\$ 846	

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2008, North Fayette Community School District had \$6,696,041 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had \$58,208 invested in equipment in the school nutrition fund.

The District had depreciation expense of \$315,502 for fiscal 2008 and total accumulated depreciation of \$6,765,874 as of June 30, 2008. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the District had approximately \$2,367,000 in bonds and other debt compared to approximately \$2,719,000 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this \$10,701,026 limit.

Other obligations include capital leases and early retirement. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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:

- The District has experienced declining enrollment for the past three years and will continue to see this trend. A significant loss is expected in the next year.
- The District will be utilizing the voted PPEL levy for transportation and technology equipment purchases starting in fiscal 2009.
- Further staff reductions including retirements will assist in keeping the District costs down.
- The District will continue to seek ways to cut transportation and buildings/grounds costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of North Fayette Community School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office, North Fayette Community School District, West Union, Iowa, 52175.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2008

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 3,592,905	\$ -	\$ 3,592,905
ISCAP	2,534,941		2,534,941
Receivables			
Property tax			
Delinquent	55,949		55,949
Succeeding year	3,177,012		3,177,012
Accounts	5,096	-	5,096
Accrued interest	14,580		14,580
Due from other governments	173,302		173,302
Inventories		7,291	7,291
Capital assets, non-depreciable	714,814		714,814
Capital assets, net of accumulated depreciation	5,981,227	58,208	6,039,435
	<u>\$ 16,249,826</u>	<u>\$ 65,499</u>	<u>\$ 16,315,325</u>
Total assets			
LIABILITIES			
Accounts payable	\$ 147,787		\$ 147,787
Salaries and benefits payable	934,358	\$ 3,398	937,756
Interfund payable (receivable)	(11,292)	11,292	-
Accrued interest payable	11,308		11,308
ISCAP accrued interest payable	610		610
ISCAP bond premium	47,378		47,378
Deferred revenue			
Succeeding year property tax	3,177,012		3,177,012
Other		4,814	4,814
ISCAP warrants payable	2,519,000		2,519,000
Long-term liabilities			
Portion due within one year			
Bonds payable	160,000		160,000
Capital leases	52,847		52,847
Early retirement	90,994		90,994
Compensated absences	13,142		13,142
Portion due after one year			
Bonds payable	1,855,000		1,855,000
Capital leases	55,114		55,114
Early retirement	140,587		140,587
	<u>9,193,845</u>	<u>19,504</u>	<u>9,213,349</u>
Total liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	5,096,716	58,208	5,154,924
Restricted for			
Capital projects	1,098,809		1,098,809
Other purposes	200,955		200,955
Unrestricted (deficit)	659,501	(12,213)	647,288
	<u>7,055,981</u>	<u>45,995</u>	<u>7,101,976</u>
Total net assets			
Total liabilities and net assets	<u>\$ 16,249,826</u>	<u>\$ 65,499</u>	<u>\$ 16,315,325</u>

See Notes to Financial Statements.

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

Functions and Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants
Governmental activities			
Instruction			
Regular instruction	\$ 4,026,198	\$ 196,019	\$ 785,636
Special instruction	1,052,349	32,094	15,331
Other instruction	1,084,304	13,309	70,756
	<u>6,162,851</u>	<u>241,422</u>	<u>871,723</u>
Support services			
Student services	290,287	357,770	
Instructional staff services	220,268		
Administration services	902,331		
Operation and maintenance plant services	788,831		
Transportation services	471,904	13,891	
	<u>2,673,621</u>	<u>371,661</u>	
Other			
Long-term debt interest	115,638		
Facilities acquisition	-		
AEA flowthrough	348,651		348,651
Depreciation (unallocated)	311,397		
	<u>775,686</u>		<u>348,651</u>
Total governmental activities	9,612,158	613,083	1,220,374
Business-type activities			
Non-instructional programs			
Nutrition services	478,851	247,188	184,163
Total	\$ 10,091,009	\$ 860,271	\$ 1,404,537
General revenues			
Property taxes levied for			
General purposes			
Management			
PPEL			
Local option sales tax and surtax			
Unrestricted state grants			
Unrestricted investment earnings			
Transfer in (out)			
Other			
Total general revenues			
Change in net assets			
Net assets, beginning of year, restated			
Net assets, end of year			

See Notes to Financial Statements.

EXHIBIT B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (3,044,543)		\$ (3,044,543)
(1,004,924)		(1,004,924)
(1,000,239)		(1,000,239)
<u>(5,049,706)</u>		<u>(5,049,706)</u>
67,483		67,483
(220,268)		(220,268)
(902,331)		(902,331)
(788,831)		(788,831)
(458,013)		(458,013)
<u>(2,301,960)</u>		<u>(2,301,960)</u>
(115,638)		(115,638)
-		-
-		-
(311,397)		(311,397)
<u>(427,035)</u>		<u>(427,035)</u>
(7,778,701)		(7,778,701)
	\$ (47,500)	(47,500)
<u>(7,778,701)</u>	<u>(47,500)</u>	<u>(7,826,201)</u>
2,784,833		2,784,833
251,199		251,199
285,928		285,928
849,870		849,870
4,222,578		4,222,578
204,148	317	204,465
(30,852)	30,852	-
230,038		230,038
<u>8,797,742</u>	<u>31,169</u>	<u>8,828,911</u>
1,019,041	(16,331)	1,002,710
<u>6,036,940</u>	<u>62,326</u>	<u>6,099,266</u>
<u>\$ 7,055,981</u>	<u>\$ 45,995</u>	<u>\$ 7,101,976</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and pooled investments				
Other	\$ 1,742,897	\$ 1,146,984	\$ 703,023	\$ 3,592,904
ISCAP	2,534,941			2,534,941
Receivables				
Property tax				
Delinquent	46,947	-	9,002	55,949
Succeeding year	2,606,636		570,376	3,177,012
Accounts	5,096		-	5,096
Accrued interest	14,580			14,580
Due from other funds	11,292		-	11,292
Due from other governments	100,536	72,766		173,302
Total assets	\$ 7,062,925	\$ 1,219,750	\$ 1,282,401	\$ 9,565,076
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 26,846	\$ 120,941		\$ 147,787
Salaries and benefits payable	934,358			934,358
ISCAP warrants payable	2,519,000			2,519,000
Accrued interest payable	610			610
Bond premium	47,378			47,378
Deferred revenue				
Succeeding year property tax	2,606,636		\$ 570,376	3,177,012
Total liabilities	6,134,828	120,941	570,376	6,826,145
Fund balances				
Unreserved, reported in				
General fund	928,097			928,097
Special revenue funds			712,025	712,025
Capital projects fund		1,098,809		1,098,809
Total fund balances	928,097	1,098,809	712,025	2,738,931
Total liabilities and fund balances	\$ 7,062,925	\$ 1,219,750	\$ 1,282,401	\$ 9,565,076

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$	2,738,931
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, net of accumulated depreciation of		
\$ 6,765,874		6,696,042
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds		
Bonds payable		(2,015,000)
Capital leases		(107,961)
Accrued interest		(11,308)
Compensated absences		(13,142)
Early retirement		(231,581)
Net assets of governmental activities per Exhibit A	\$	<u>7,055,981</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

	General	Capital Projects	Nonmajor Governmental Funds	Total
REVENUES				
Local sources				
Local property tax	\$ 3,037,655		\$ 537,127	\$ 3,574,782
Tuition	185,900			185,900
Other	254,609	\$ 803,548	397,611	1,455,768
State sources	5,219,978		426	5,220,404
Federal sources	225,193			225,193
Total revenues	8,923,335	803,548	935,164	10,662,047
EXPENDITURES				
Current				
Instruction				
Regular instruction	3,963,339		51,846	4,015,185
Special instruction	1,052,349			1,052,349
Other instruction	723,769		360,535	1,084,304
	<u>5,739,457</u>		<u>412,381</u>	<u>6,151,838</u>
Support services				
Student services	290,287		-	290,287
Instructional staff services	222,659			222,659
Administration services	889,189		-	889,189
Operation and maintenance plant services	713,512		75,319	788,831
Transportation services	455,980		15,924	471,904
	<u>2,571,627</u>		<u>91,243</u>	<u>2,662,870</u>
Other				
Long-term debt				
Principal			375,673	375,673
Interest and fiscal charges			104,328	104,328
Facilities acquisition		1,021,105	98,086	1,119,191
AEA flowthrough	348,651			348,651
	<u>348,651</u>	<u>1,021,105</u>	<u>578,087</u>	<u>1,947,843</u>
Total expenditures	8,659,735	1,021,105	1,081,711	10,762,551
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	263,600	(217,557)	(146,547)	(100,504)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,500		480,001	482,501
Operating transfers (out)	(59,978)	(245,043)	(208,332)	(513,353)
	<u>(57,478)</u>	<u>(245,043)</u>	<u>271,669</u>	<u>(30,852)</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	206,122	(462,600)	125,122	(131,356)
FUND BALANCE, beginning of year	721,975	1,561,409	586,903	2,870,287
FUND BALANCE, end of year	\$ 928,097	\$ 1,098,809	\$ 712,025	\$ 2,738,931

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2008

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	(131,356)
 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, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.		
Depreciation	\$	(315,502)
Capital outlays		879,429
		<hr/>
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		375,673
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(11,308)
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.		
Compensated absences		(13,142)
Early retirement		(80,255)
		<hr/>
Change in net assets of governmental activities per Exhibit B	\$	<u>1,019,041</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2008

EXHIBIT E

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
ASSETS		
CURRENT ASSETS		
Cash	\$ -	\$ 10,267
Accounts receivable	-	
Inventories	7,291	
Total current assets	7,291	10,267
NONCURRENT ASSETS		
Furniture and equipment	132,386	
Less accumulated depreciation	(74,178)	
Total noncurrent assets	58,208	-
Total assets	\$ 65,499	\$ 10,267
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Contracts and benefits payable	\$ 3,398	
Due to other funds	11,292	
Deferred revenue	4,814	
Total liabilities	19,504	\$ -
NET ASSETS		
Invested in capital assets, net of related debt	58,208	
Unrestricted deficit	(12,213)	10,267
Total net assets	45,995	10,267
Total liabilities and net assets	\$ 65,499	\$ 10,267

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2008

EXHIBIT F

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
OPERATING REVENUES		
Local sources		
Charges for services	\$ 247,188	\$ 55,424
OPERATING EXPENSES		
Non-instructional programs		
Food service operations		
Salaries and benefits	252,680	
Supplies	218,230	
Depreciation	7,941	
Other		53,949
Total operating expenses	478,851	53,949
Operating (loss) income	(231,663)	1,475
NONOPERATING REVENUES		
Interest income	317	41
State sources	5,589	
Federal sources	178,574	
Transfer in	33,352	
Transfer out	(2,500)	
Total nonoperating revenues	215,332	41
Change in net assets	(16,331)	1,516
Net assets, beginning of year	62,326	8,751
Net assets, end of year	\$ 45,995	\$ 10,267

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2008

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sale of lunches and breakfasts	\$ 248,764	
Cash received from miscellaneous operating activities	124	
Cash payments to employees for services	(243,068)	
Cash payments to suppliers for goods and services	(221,925)	
Cash reimbursed by operating fund		\$ 55,424
Cash payments by operating activities		(53,949)
Net cash (used in) provided by operating activities	(216,105)	1,475
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from other funds	3,161	
Cash payments to other funds	(2,500)	
Net cash provided by noncapital financing activities	661	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
State grants and federal grants received	184,162	
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on investments	317	41
Net (decrease) increase in cash and cash equivalents	(30,965)	1,516
CASH, beginning of year	30,965	8,751
CASH, end of year	\$ -	\$ 10,267
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities		
Operating (loss) income	\$ (231,663)	\$ 1,475
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities		
Depreciation	7,941	
Decrease in accounts receivable	1,996	
(Increase) in inventories	(3,594)	
(Decrease) in contracts and benefits payable	(1,121)	
(Decrease) in deferred revenue	(295)	
Increase due to other funds	10,631	
Net cash (used in) provided by operating activities	\$ (216,105)	\$ 1,475

Non-cash, noncapital financing activities:

During the year ended June 30, 2008, the District received commodities valued at \$22,714.

During the year ended June 30, 2008, the proprietary fund received capital assets with net value of \$30,852 transferred from the physical plant and equipment levy fund.

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The North Fayette Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of West Union, Fayette and Hawkeye, Iowa, and the predominately agricultural territory in a portion of Fayette County. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a seven-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, North Fayette 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Joint Venture

The District participates in a jointly governed organization that provides services to the District and meets the criteria of a joint venture since there is ongoing financial interest or responsibility by the participating governments. The District is a member of the Northeast Iowa Conference Schools 28E Retention Pool Trust.

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 Fayette County Assessor's Conference Board.

District-wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the District. 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 support. For the most part, the effect of interfund activity has been removed from these statements.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

District-wide Financial Statements (Continued)

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

Fund Financial Statements

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund and the capital projects fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The funds of the financial reporting entity are described below:

Governmental

General Fund

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.

Capital Projects Fund

The capital projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Fund

Enterprise Fund

The District's proprietary fund is the school nutrition fund. This fund is used to account for the food service operations of the District.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the financial statements.

On the District-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus as defined below in item b.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

- a. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The School District considers revenues to be available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

- b. The District-wide statements and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized 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.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other 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 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 school nutrition fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as 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.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity

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

Cash, Pooled Investments and Cash Equivalents

The cash balances of most District funds are pooled and invested. All investment activity is carried on by the District in each individual fund. 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 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 taxes in the governmental fund are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 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 1 1/2% 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.

Interfund Transactions

During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2008, balances of interfund amounts receivable or payable have been recorded in the fund financial statements. Most of the interfund transactions have been eliminated on the District-wide statements.

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 purchased or received.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. 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:

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School nutrition fund equipment	1,000
Other furniture and equipment	1,000

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2008 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable, however they are not available. Deferred revenue 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 the succeeding year property tax receivable and unspent grant proceeds. 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 and unspent grant proceeds.

Long-term Obligation

In the District-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. Early retirement liability has been paid primarily by the nonmajor governmental management fund.

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Compensated Absences

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

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. Reserved fund balances are used first when an expenditure is incurred for purposes for both reserved and unreserved fund balances.

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 acquisitions, construction, or improvement of those assets.

Restricted net assets consists 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. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Unrestricted net assets represent the difference between assets and liabilities that are not restricted and can be used for future obligations of the District.

Budgets and Budgetary Accounting

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

2. Deposits 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified portfolio	<u>\$ 2,528,337</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.

NOTES TO FINANCIAL STATEMENTS

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2008:

Governmental		
General fund		
Title I	\$	25,574
Title IIA		42,483
State vocational aid		8,819
Drug Free		3,420
Various programs		20,240
Capital projects		
Local option sales tax		72,766
		72,766
	\$	173,302

4. Capital Assets

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

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities				
Land	\$ 88,450			\$ 88,450
Construction in progress	2,243,227	\$ 626,364	\$ 2,243,227	626,364
	2,331,677	626,364	2,243,227	714,814
Capital assets being depreciated				
Improvements	3,081,909	2,569,618		5,651,527
Buildings	2,279,762	76,908		2,356,670
Furniture and equipment	4,573,637	165,267		4,738,904
	9,935,308	2,811,793	None	12,747,101
Less accumulated depreciation for:				
Improvements	1,881,691	106,611		1,988,302
Buildings	601,935	57,177		659,112
Furniture and equipment	3,966,746	151,714		4,118,460
	6,450,372	315,502	None	6,765,874
Total capital assets being depreciated, net	3,484,936	2,496,291	None	5,981,227
Governmental activities				
Capital assets	\$ 5,816,613	\$ 3,122,655	\$ 2,243,227	\$ 6,696,041
Business-type activities				
Furniture and equipment	\$ 101,534	\$ 30,852		\$ 132,386
Less accumulated depreciation	66,237	7,941	\$ None	74,178
	35,297	22,911	None	58,208
Business-type activities				
Capital assets, net	\$ 35,297	\$ 22,911	\$ None	\$ 58,208

NOTES TO FINANCIAL STATEMENTS

4. **Capital Assets (Continued)**

Depreciation expense was charged to the governmental functions of the District as follows:

Governmental activities		
Instruction		
Regular	\$	3,706
Support services		
Instructional staff support services		399
		4,105
Unallocated depreciation		311,397
Total depreciation expense-governmental activities	\$	315,502
Business-type activities		
Food services	\$	7,941

5. **Long-term Debt Obligations**

Long-term liability activity for the year ended June 30, 2008 was as follows:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 170,000		\$ 170,000	\$ None	
Revenue bonds	2,170,000		155,000	2,015,000	\$ 160,000
	2,340,000		325,000	2,015,000	160,000
Other liabilities					
Capital leases	158,634		50,673	107,961	52,847
Early retirement	220,491	\$ 88,995	77,905	231,581	90,994
	379,125	88,995	128,578	339,542	143,841
Governmental activities					
Long-term liabilities	\$ 2,719,125	\$ 88,995	\$ 453,578	\$ 2,354,542	\$ 303,841

a. **Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay.

Early retirement benefits will be paid in three equal installments beginning in January following the start of retirement. The second payment will be paid the following July, and the third and final payment shall be paid during July of the next year.

At June 30, 2008, the District has obligations to 11 participants with a total liability of \$231,581. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$77,905.

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness

\$865,000 2004 School Infrastructure Local Option Sales and Services Tax Revenue Bonds due annually in varying installments June 1, 2009 through June 1, 2013 plus interest semi-annually with interest rates of the bonds varying from 3.75% to 4.40%.

\$1,150,000 2007 School Infrastructure Local Option Sales and Services Tax Revenue Bonds due annually in varying installments June 1, 2014 through June 1, 2022 plus interest semi-annually with interest rates of the bonds varying from 4.05% to 4.45%.

A summary of the bond principal and interest maturities is as follows:

Year Ending June 30,	Principal	Interest
2009	\$ 160,000	\$ 84,773
2010	165,000	78,772
2011	175,000	72,173
2012	180,000	64,910
2013	185,000	57,170
2014-2018	585,000	198,601
2019-2022	565,000	63,610
	\$ 2,015,000	\$ 620,009

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

The resolution providing for the issuance of the School Infrastructure Local Option Sales and Services Tax Revenue bonds includes the following provisions:

- a) \$217,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account. This amount is accounted for in the capital projects fund.
- b) All proceeds from the local option sales and services tax shall be placed in a revenue account.
- c) Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

At June 30, 2008, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	\$	<u>214,020,514</u>
Debt limit – 5% of total assessed valuation	\$	10,701,026
Debt applicable to debt limit		
Capital leases		(107,961)
Bonded debt outstanding		<u>(2,015,000)</u>
Legal debt margin	\$	<u>8,578,065</u>

c. Capital Leases

The District has leased two buses under capital leases. The following is a schedule of future minimum lease payments under the capital leases, together with the net present value of the minimum lease payments as of June 30, 2008.

	<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
	2009	\$ 57,478
	2010	<u>57,478</u>
		<u>\$ 114,956</u>
Minimum lease payments		\$ 114,956
Less amount representing interest		<u>6,995</u>
Present value of minimum lease payments		<u>\$ 107,961</u>

6. Due to/from Other Funds

As of June 30, 2008, interfund receivables and payables that resulted from various interfund transactions were as follows:

	<u>Due from</u> <u>Other Funds</u>	<u>Due to</u> <u>Other Funds</u>	
General fund	\$ 11,292		
School nutrition fund		\$ 11,292	
	<u>\$ 11,292</u>	<u>\$ 11,292</u>	

The interfund receivables are loans from each respective fund all of which may not be repaid in the next year.

NOTES TO FINANCIAL STATEMENTS

7. Interfund Transfers

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

	Transfers In	Transfers Out
General fund	\$ 2,500	\$ 59,978
Capital projects fund		245,043
Physical plant and equipment levy fund		208,332
Debt service fund	480,001	
Nutrition fund	33,352	2,500
	\$ 515,853	\$ 515,853
Total	\$ 515,853	\$ 515,853

Transfers from the physical plant and equipment levy fund and the capital projects fund to the debt service fund were to move resources from bond issuance to help pay bond expenses. Transfer from the general fund to nutrition fund was to help pay for expenses incurred during the year. Transfer from the physical plant and equipment levy fund to the nutrition fund was to pay for capital assets.

8. Net Assets

The government wide statement of net assets reports \$1,299,764 of restricted net assets, of which \$200,955 is restricted by enabling legislation. The amounts restricted at June 30, 2008 are as follows:

Restricted net assets	
Capital projects fund	\$ 1,098,809
Plant, property and equipment levy fund	200,955
	\$ 1,299,764

9. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program.

A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08B	1/23/08	1/23/09	\$ 931,982	\$ 13,972	\$ 929,000	
2008-09A	6/27/08	6/27/09	1,602,959	608	1,590,000	\$ 610
			\$ 2,534,941	\$ 14,580	\$ 2,519,000	\$ 610

The District pledges its state foundation aid payments and general fund receipts as security for warrants issued. Repayments must be made when general fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its general fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date the warrant proceeds may be used in an amount equal to 25% of the warrant amount.

NOTES TO FINANCIAL STATEMENTS

9. **Iowa School Cash Anticipation Program (ISCAP) (Continued)**

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

Series	Interest Rates On Warrants	Interest Rates On Investments
2007-08B	3.750%	3.451%
2008-09A	3.50%	3.469%

10. **Leases**

The District has entered into a lease agreement for a copier. The agreement is for five years and requires monthly payments until September 2012.

Future minimum lease payments under the lease agreements are as follows:

Year ended June 30,	
2009	\$ 9,984
2010	9,984
2011	9,984
2012	4,992
	\$ 34,944

Total lease expense for the year ended June 30, 2008 was \$9,984.

11. **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%, 3.70% and 3.70% of their annual covered salary and the District is required to contribute 6.05%, 5.75% and 5.75% of annual covered payroll for the years ended June 30, 2008, 2007, and 2006, respectively. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$308,587, \$287,929 and \$284,218 respectively, equal to the required contributions for each year.

12. **Employee Insurance Plan**

The District participates in the Northeast Iowa Conference Schools 28E Retention Pool Trust to provide a medical, dental, life, disability, and welfare plan for its employees and their families. The trust was formed by the District and ten other districts to create a pool to pay insurance costs. The agreement was effective July 1, 2005 and will continue in force until terminated by mutual agreement of the governing board. The trust is administered by Group Benefits Consultants, Inc.

Monthly payments of service fees and plan contributions are recorded as expenditures in the general fund at the time of payment to the trust account maintained by Midwest Group Benefits Consultants, Inc. The trust liability is limited to \$95,000 per individual annually with a \$2,000,000 per individual maximum. Payments from participating members are the sole source for paying claims and establishing reserves for the trust self-funded programs. Stop loss insurance is purchased by the trust to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. The District may be contingently liable for any claims in excess of funds available at June 30, 2008, since the pool arrangement allows the trust to make additional assessments to members. The District's share of the trust's liability for any unreported claim or assessment at June 30, 2008 was \$190,519 which is covered by funds on hand. The District contributed \$940,428 for the year ended June 30, 2008.

12. Employee Insurance Plan (Continued)

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the District's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance company coverage. Audited financial statements of Northeast Iowa Conference Schools 28E Retention Pool Trust are available at the North Fayette Community School District's office located at 105 E. Main Street, West Union, IA 52175.

13. Restatement

Beginning net assets were restated due to correction of increasing buildings of \$382,848 and recording the long-term portion of early retirement benefits of \$151,326 in the governmental funds.

14. Risk Management

North Fayette Community School District is exposed to various risks of loss related to torts; theft; damage to an 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.

15. 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 \$348,651 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.

16. Flexible Fringe Benefit Plan

The District sponsors a flexible fringe benefit plan as a part of its contractual obligation with its employees. The benefit available under the plan is insurance. Each participating employee can choose their deductible as well as having the option to have un-reimbursed medical and dependent care expenses deducted on a pre-tax basis. The District contributes \$600 per month for certified staff at least half time, \$528 for non-certified staff at least half time, and \$1,355 for administration staff. The difference between the District's contribution and the amount of health premium is put into a TSA of the employee's choice or subtracted from the employee's salary. There were 114 participants in the plan for the year ended June 30, 2008.

17. Contingencies

a. 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, 2008 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.

b. Insurance Plan

As discussed in Note 12, the District is contingently liable for any unreported claim or assessment in excess of their balance in the insurance pool.

18. Commitment

The total outstanding construction of the District at June 30, 2008 amount to \$797,197.

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE OF
REVENUES, EXPENDITURES/EXPENSES AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
For the Year Ended June 30, 2008

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual
REVENUES			
Local sources	\$ 5,216,450	\$ 247,505	\$ 5,463,955
Intermediate sources	-	-	-
State sources	5,220,404	5,589	5,225,993
Federal sources	225,193	178,574	403,767
Total revenues	10,662,047	431,668	11,093,715
EXPENDITURES/EXPENSES			
Instruction	6,151,838	-	6,151,838
Support services	2,662,870	-	2,662,870
Non-instructional	-	478,851	478,851
Other	1,947,843	-	1,947,843
Total expenditures/expenses	10,762,551	478,851	11,241,402
DEFICIENCY OF REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(100,504)	(47,183)	(147,687)
OTHER FINANCING SOURCES, NET	(30,852)	30,852	-
DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES/EXPENSES AND OTHER FINANCING USES	(131,356)	(16,331)	(147,687)
FUND BALANCE, beginning of year	2,870,287	62,326	2,932,613
FUND BALANCE, end of year	\$ 2,738,931	\$ 45,995	\$ 2,784,926

See Notes to Required Supplementary Information.

Budget Amounts		Final to Actual Variance- Positive (Negative)
Original	Amended Final	
\$ 5,167,198	\$ 5,167,198	\$ 296,757
750	750	(750)
5,171,202	5,171,202	54,791
499,000	499,000	(95,233)
<u>10,838,150</u>	<u>10,838,150</u>	<u>255,565</u>
6,330,000	6,330,000	178,162
2,965,500	2,965,500	302,630
500,000	500,000	21,149
1,691,812	2,291,812	343,969
<u>11,487,312</u>	<u>12,087,312</u>	<u>845,910</u>
(649,162)	(1,249,162)	1,101,475
<u>-</u>	<u>-</u>	<u>-</u>
(649,162)	(1,249,162)	1,101,475
<u>1,391,803</u>	<u>1,391,803</u>	<u>1,540,810</u>
<u>\$ 742,641</u>	<u>\$ 142,641</u>	<u>\$ 2,642,285</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs, and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$600,000.

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**INDEPENDENT AUDITOR'S REPORT ON THE
SUPPLEMENTARY INFORMATION**

**To the Board of Education
North Fayette Community School District
West Union, Iowa**

Our report on our audit of the basic financial statements of North Fayette Community School District for 2008 appears on page 2. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The basic financial statements of North Fayette Community School District for the years ended June 30, 2007, 2006, and 2005, none of which are presented herein, were audited by other auditors whose report dated September 28, 2007, expressed unqualified opinion on those financial statements. Their report, as of the same date, on the information presented on pages 33-38 state that, in their opinion, such information was fairly stated in all material respects in relation to the basic financial statement for the years ended June 30, 2007, 2006, and 2005, taken as a whole. On page 38, the estimated enrollment for fiscal year 2009 has not been audited, and we express no opinion on it.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
November 20, 2008

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2008

	Special Revenue	Debt Service	Total Nonmajor Funds
REVENUES			
Local sources			
Property taxes	\$ 537,127		\$ 537,127
Other	397,611	\$ -	397,611
State sources	426		426
Total revenues	<u>935,164</u>	<u>-</u>	<u>935,164</u>
EXPENDITURES			
Current			
Instruction			
Regular instruction	51,846		51,846
Other instruction	360,535		360,535
Support services			
Operation and maintenance plant services	75,319		75,319
Transportation services	15,924		15,924
Other			
Facilities acquisition	98,086		98,086
Long-term debt			
Principal		375,673	375,673
Interest and fiscal charges		104,328	104,328
Total expenditures	<u>601,710</u>	<u>480,001</u>	<u>1,081,711</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>333,454</u>	<u>(480,001)</u>	<u>(146,547)</u>
OTHER FINANCING SOURCES			
Transfers in		480,001	480,001
Transfers (out)	(208,332)		(208,332)
	<u>(208,332)</u>	<u>480,001</u>	<u>271,669</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND FINANCING USES	125,122	-	125,122
FUND BALANCE, beginning of year	586,903	-	586,903
FUND BALANCE, end of year	<u>\$ 712,025</u>	<u>\$ -</u>	<u>\$ 712,025</u>

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2008

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS				
Cash and pooled investments	\$ 340,329	\$ 196,188	\$ 166,506	\$ 703,023
Receivables				
Property tax				
Delinquent	4,235	4,767		9,002
Succeeding year	289,813	280,563		570,376
Total assets	<u>\$ 634,377</u>	<u>\$ 481,518</u>	<u>\$ 166,506</u>	<u>\$ 1,282,401</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -		\$ -
Deferred revenue				
Succeeding year property tax	289,813	280,563		570,376
Total liabilities	<u>289,813</u>	<u>280,563</u>	<u>\$ -</u>	<u>570,376</u>
Fund balances				
Unreserved	<u>344,564</u>	<u>200,955</u>	<u>166,506</u>	<u>712,025</u>
Total liabilities and fund balances	<u>\$ 634,377</u>	<u>\$ 481,518</u>	<u>\$ 166,506</u>	<u>\$ 1,282,401</u>

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2008

	Management Levy	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES				
Local sources				
Local property tax	\$ 251,200	\$ 285,927		\$ 537,127
Other	29,281	7,760	\$ 360,570	397,611
State sources	200	226		426
Total revenues	280,681	293,913	360,570	935,164
EXPENDITURES				
Current				
Instruction				
Regular instruction	51,846			51,846
Other instruction			360,535	360,535
Support services				
Operation and maintenance plant services	75,319	-		75,319
Transportation services	15,924			15,924
Other				
Facilities acquisition		98,086		98,086
Total expenditures	143,089	98,086	360,535	601,710
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	137,592	195,827	35	333,454
OTHER FINANCING SOURCES (USES)				
Operating transfers in		(208,332)		(208,332)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	137,592	(12,505)	35	125,122
FUND BALANCE, beginning of year	206,972	213,460	166,471	586,903
FUND BALANCE, end of year	\$ 344,564	\$ 200,955	\$ 166,506	\$ 712,025

See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2008

	Balance June 30, 2007	Revenues and Transfers	Expenditures and Transfers	Balance June 30, 2008
Elementary School Activities:				
Playground	\$ 15,344	\$ 551	\$ 232	\$ 15,663
Fayette attendance	2,193	1,113	1,414	1,892
Hawkeye attendance	2,530	997	699	2,828
West Union attendance	1,621	1,679	1,386	1,914
Interest	592	358	-	950
Middle School Activities:				
Athletics	767	4,412	4,667	512
Steering Committee	275	820	1,029	66
Micro Society	3,618	4,144	5,196	2,566
Science Club	-	-	-	-
Pop machine	3,414	8,863	8,817	3,460
School Store	925	1,928	2,222	631
FRCYSE - at RISK	1,195	-	790	405
High School Activities:				
Athletics	70,065	95,617	99,204	66,478
Interest	3,423	2,290	2,567	3,146
Speech	3,055	36	1,720	1,371
Speech contest	1,095	5,266	3,385	2,976
Speech fall play	1,727	-	190	1,537
Vocal music	1,926	21,099	20,934	2,091
Musical	1,129	6,359	4,659	2,829
Band	5,247	1,864	2,568	4,543
Art club	625	968	810	783
Yearbook	8,360	10,495	12,149	6,706
BPA	724	15,538	14,248	2,014
FFA	9,756	44,270	47,121	6,905
FHA	93	1,521	1,375	239
Honor Society	399	-	(135)	534
Student Council	2,397	6,325	6,013	2,709
Shop and I tech	393	-	-	393
Math/Science	391	9,500	9,358	533
Technology Club	408	772	540	640
German	1,922	2,115	(5,286)	9,323
German bound	-	6,755	6,755	-
British	2,108	330	1,886	552
Spanish	1,150	1,334	983	1,501
Spanish bound	-	-	-	-
Cheerleading	555	4,866	3,483	1,938
Danceline	1,434	2,311	1,132	2,613
Class of:				
2006	1,966	-	1,966	-
2007	1,912	594	1,379	1,127
2008	3,161	574	1,915	1,820
2009	8	6,931	6,434	505
2010	339	485	(1,264)	2,088
2011	-	-	109	(109)
Activity ticket	3,923	4,234	5,915	2,242
Graduation fees	905	4,050	3,532	1,423
STW - Enterprise	1,984	74,535	75,012	1,507
Mini Arts Festival	445	634	95	984
Post Prom	972	4,037	3,331	1,678
	<u>\$ 166,471</u>	<u>\$ 360,570</u>	<u>\$ 360,535</u>	<u>\$ 166,506</u>

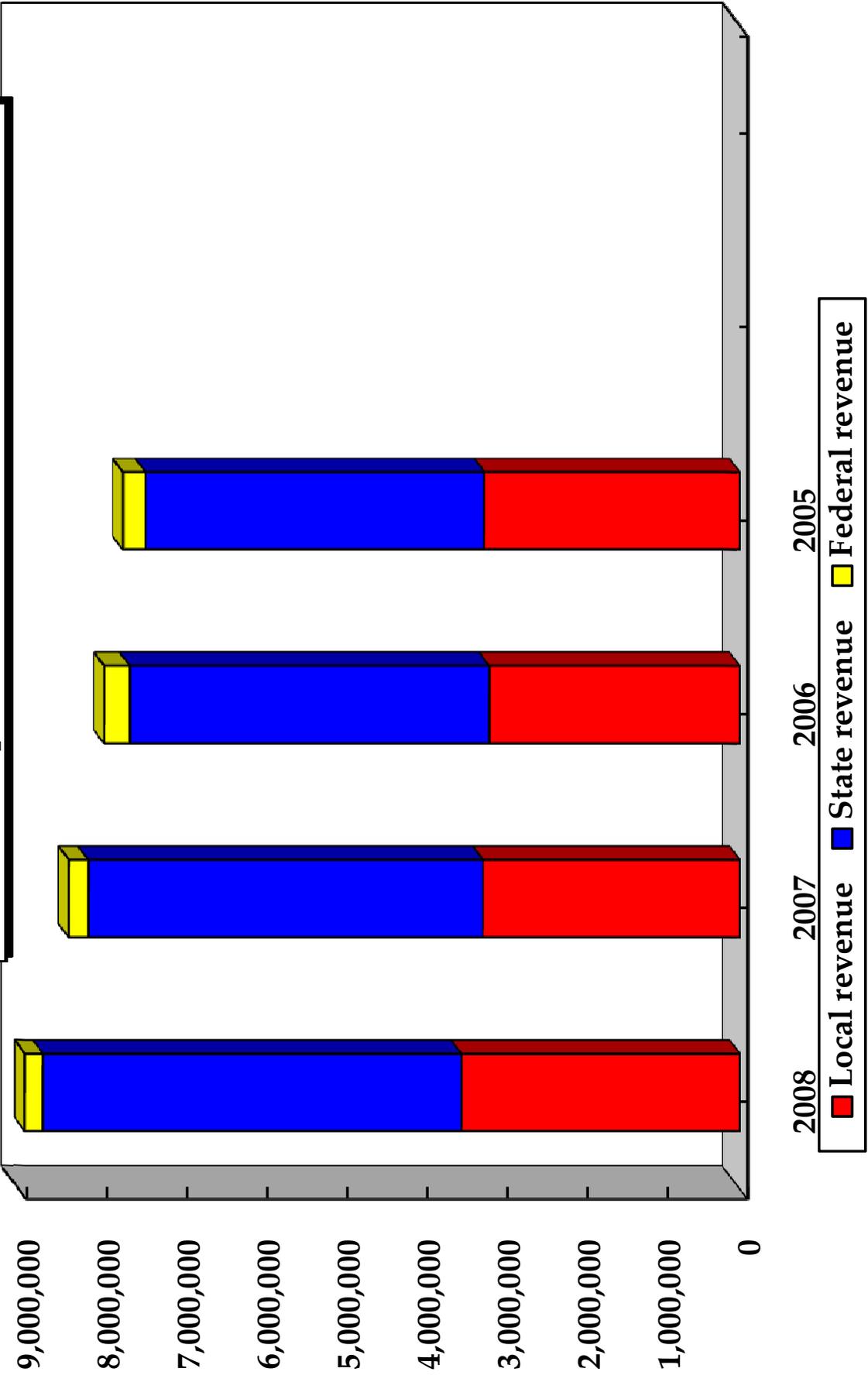
See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GOVERNMENTAL FUNDS
For the Years Ended June 30,

	Modified Accrual			
	2008	2007	2006	2005
REVENUES				
Local sources				
Local tax	\$ 3,574,782	\$ 3,972,590	\$ 3,828,672	\$ 3,871,344
Tuition	185,900	179,932	178,189	168,181
Other	1,455,768	1,020,161	573,398	528,874
Intermediate sources	-	-	750	51,640
State sources	5,220,404	4,926,840	4,488,172	4,231,743
Federal sources	225,193	240,238	315,821	279,263
	<u>\$ 10,662,047</u>	<u>\$ 10,339,761</u>	<u>\$ 9,385,002</u>	<u>\$ 9,131,045</u>
EXPENDITURES				
Current				
Instruction				
Regular instruction	\$ 4,015,185	\$ 3,923,888	\$ 3,737,695	\$ 3,786,343
Special instruction	1,052,349	1,108,027	1,020,967	869,707
Other instruction	1,084,304	975,240	1,114,113	933,325
Support services				
Student services	290,287	279,887	272,124	224,712
Instructional staff services	222,659	182,007	230,290	256,867
Administration services	889,189	815,604	774,339	677,941
Operation and maintenance plant services	788,831	1,015,021	715,398	776,970
Transportation services	471,904	464,843	396,250	401,072
Other				
Facilities acquisition	1,119,191	2,234,761	532,183	105,727
Long-term debt				
Principal	375,673	368,588	362,478	295,000
Interest and fiscal charges	104,328	75,253	71,740	134,404
AEA flowthrough	348,651	339,590	316,945	313,183
	<u>\$ 10,762,551</u>	<u>\$ 11,782,709</u>	<u>\$ 9,544,522</u>	<u>\$ 8,775,251</u>

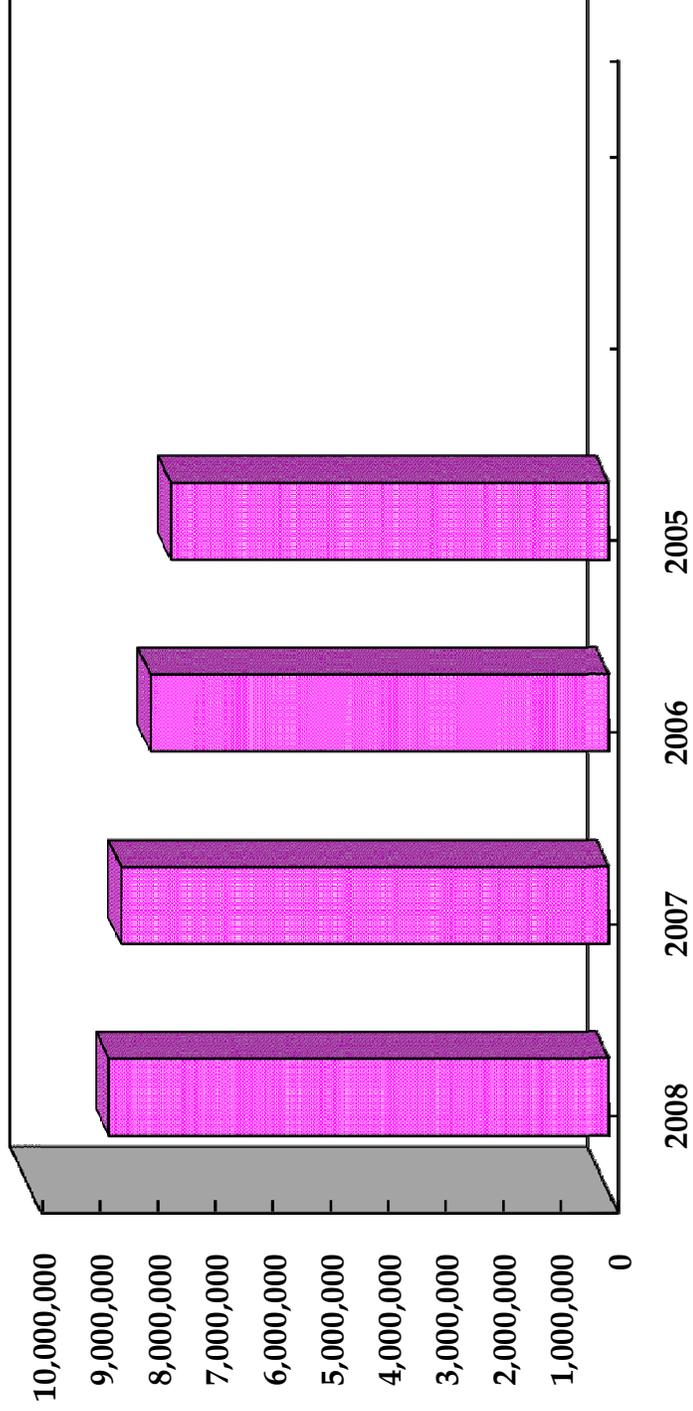
See Independent Auditor's Report on the Supplementary Information.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Comparison of General Fund Revenues

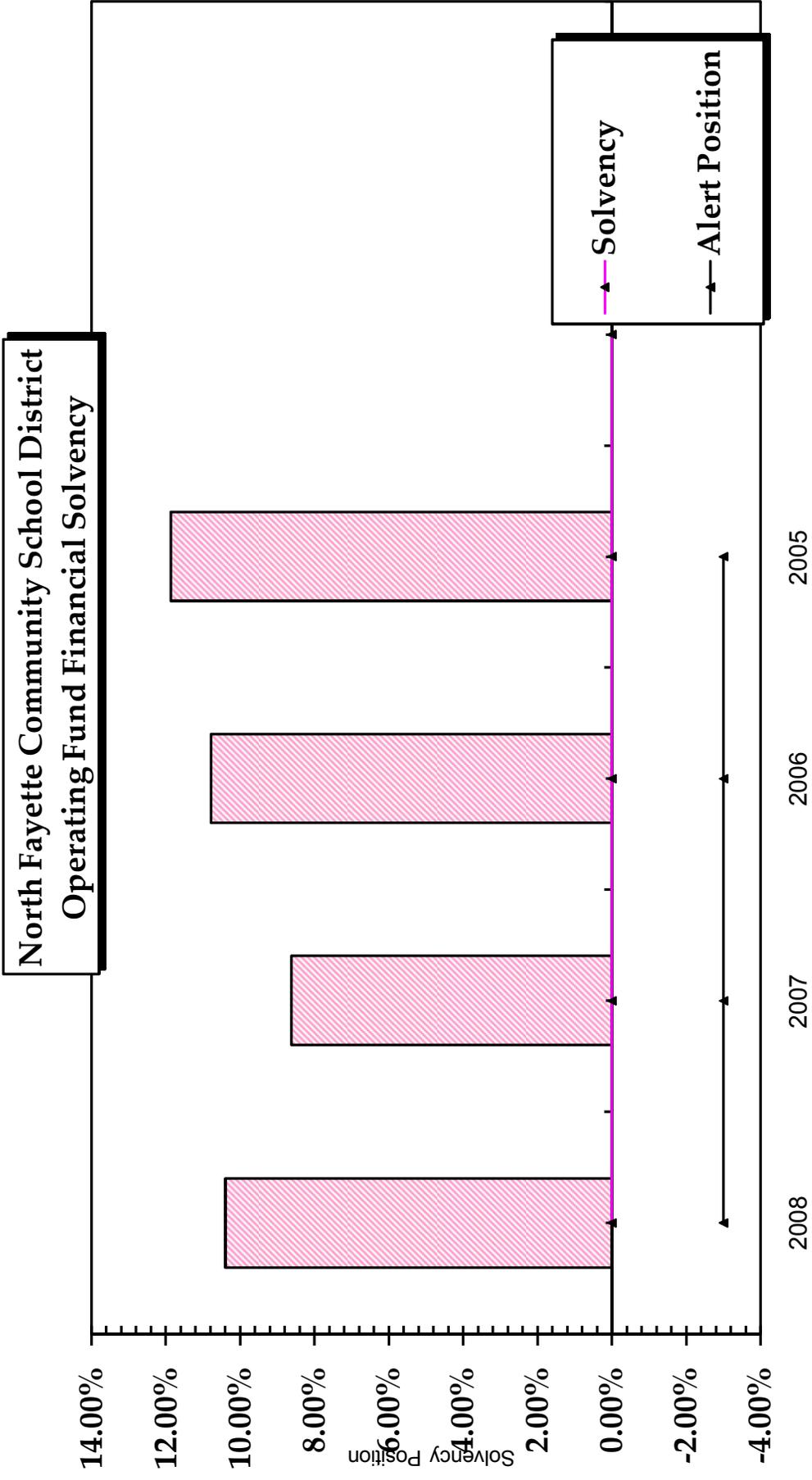


See Independent Auditor's Report on the Supplementary Information.

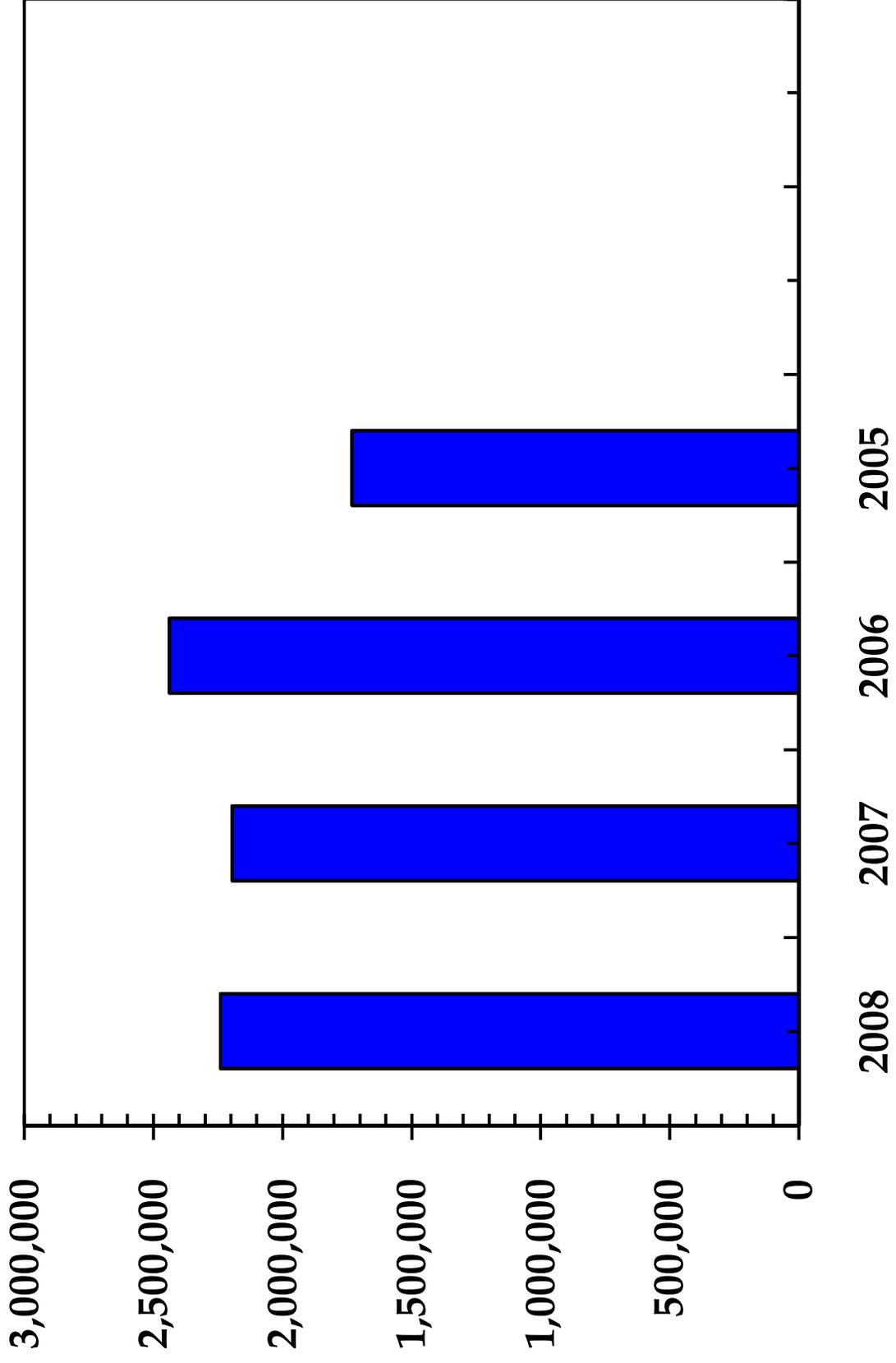
NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Comparison of General Fund Expenditures



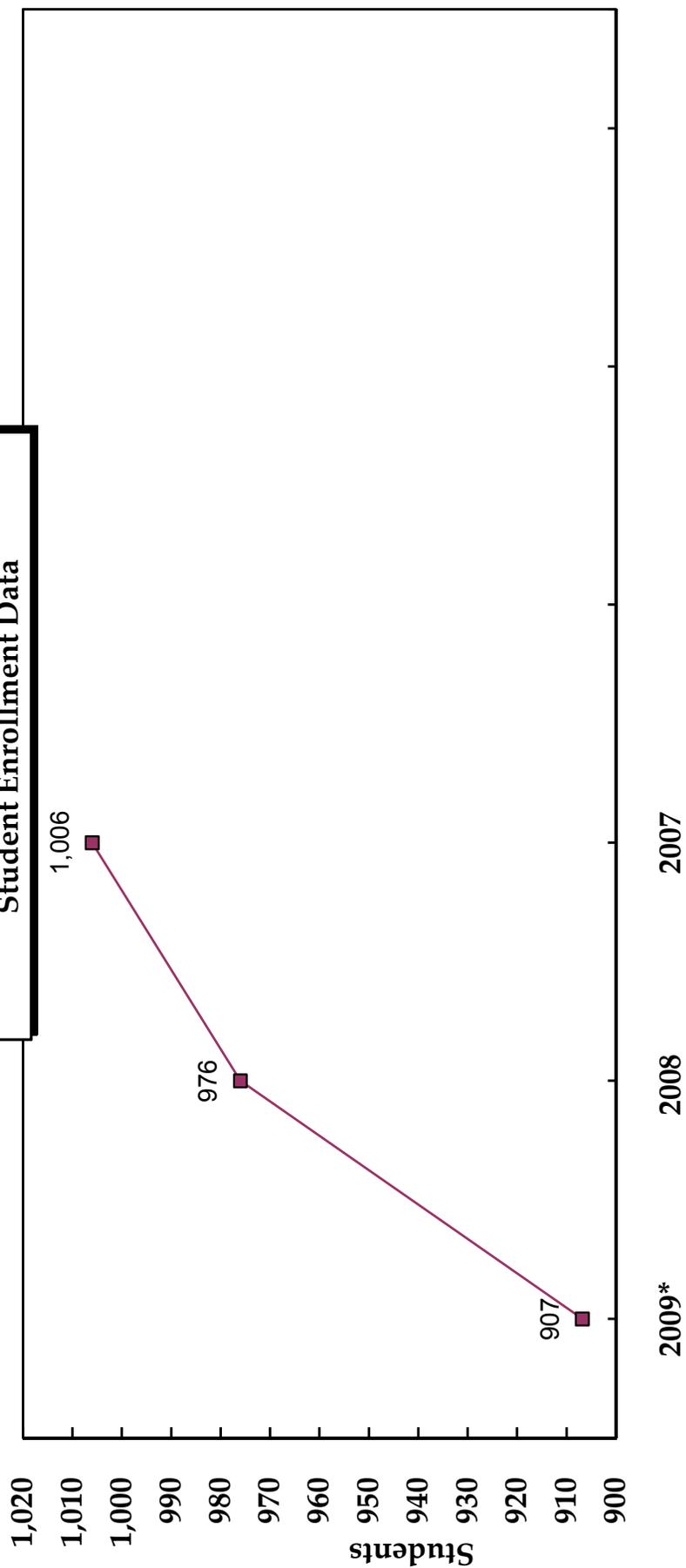
Totals By Year



**North Fayette Community School District
Spending Authority**



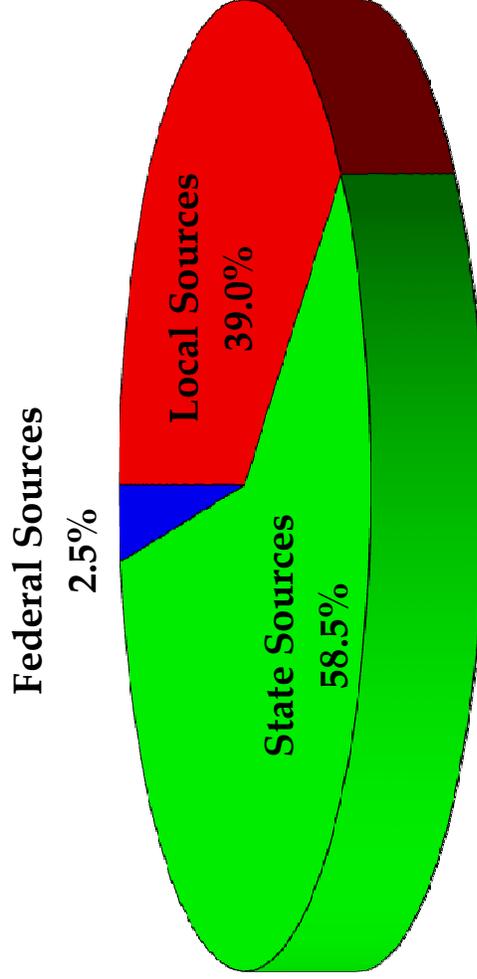
**North Fayette Community School District
Student Enrollment Data**



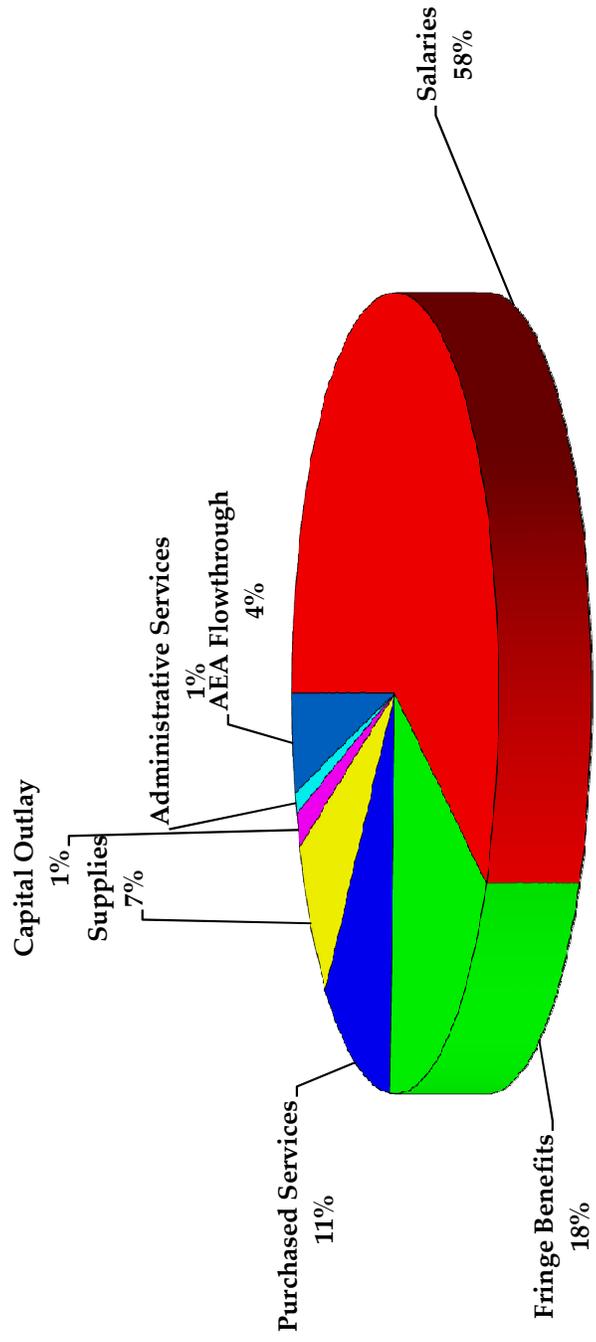
Resource: Total School Enrollment, Not Certified Enrollment, Line 11 of Certified Enrollment Form

*estimated enrollment, has not been audited

**NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
General Fund Revenue Analysis**



NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
General Fund Expenditure Analysis Year Ended June 30, 2008



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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
North Fayette Community School District
West Union, Iowa**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Fayette Community School District as of and for the year ended June 30, 2008, which collectively comprise North Fayette Community School District's basic financial statements and have issued our report thereon dated November 20, 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 North Fayette 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 an opinion on the effectiveness of North Fayette Community School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of North Fayette 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.

A control deficiency exists when the design or operation of a 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 the North Fayette Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the North Fayette Community School District's financial statements that is more than inconsequential will not be prevented or detected by the North Fayette Community School District's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

1. Financial Report Preparation

Reporting financial data reliably in accordance with generally accepted accounting principles requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Obtaining additional generally accepted accounting principles knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in their ability to prepare and take responsibility for reliable generally accepted accounting principles financial statements.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

2. Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

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 the North Fayette 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, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Fayette 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, noncompliance 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of North Fayette Community School District in a separate letter dated November 20, 2008.

North Fayette Community School District's response to the findings identified in our audit is described above. We did not audit North Fayette Community School District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 20, 2008

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MANAGEMENT LETTER

To the Board of Education
North Fayette Community School District
West Union, Iowa

In planning and performing our audit of the financial statements of North Fayette Community School District for the year ended June 30, 2008, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal control or state statutory compliance matters, accordingly, we provide no such assurance.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated November 20, 2008 contains our report on significant deficiencies in the District's internal control. This letter does not affect our report dated November 20, 2008, on the financial statements of the North Fayette Community School District. Comment numbers 10 and 12 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions. We did not audit the District's responses and, accordingly, we express no opinion on them.

1. Certified Budget
Disbursements for the year ended June 30, 2008, did not exceed the amounts budgeted.
2. Questionable Disbursements
We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.
3. Travel Expense
No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions
We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2008.
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
We noted no transactions requiring Board approval, which had not been, approved by the Board. We also noted no minutes and bills that had not been published as required.
7. Certified Enrollment
No variances in the basic enrollment data certified to the Department of Education were noted.

8. Deposits and Investments

No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

9. Certified Annual Report

The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.

10. Property and Equipment Records

We recommend for proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. The District also needs to calculate depreciation expense on the appropriate capital assets. The entries have been made to the financial statements.

Recommendation

We recommend that management update its property records and record the results in the governmental activities.

Response

The District will take an inventory of all property and equipment at the conclusion of the school year.

Conclusion

Response accepted.

11. Disbursements

During our audit, we noticed various items that were not in compliance with District procedures. We noted one check could not be located for testing and many invoices were not cancelled.

Recommendation

We recommend that all invoices have supporting documents and be properly cancelled to avoid double payment. We also recommend that the purchase order be signed and attached to all applicable disbursements.

Response

The District does attach the check stub to all paid invoices. All paid invoices are audited and approved by the Board each month. We will implement additional procedures to address your recommendation.

Conclusion

Response accepted.

12. Bank Reconciliations

Reconciliations of book balances to the bank account by fund were not prepared by the District.

Recommendation

To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared and retained by the District. Any differences should be investigated and resolved in a timely matter.

Response

We will implement a reconciliation of the book to bank balances including all cash and investment accounts.

Conclusion

Response accepted.

We have also provided you under separate cover a listing of general steps that you should review and consider implementing to strengthen controls. This list is not all inclusive. You should review all aspects of your operations and implement appropriate controls as deemed necessary. Some of these items may not be applicable or you may have already implemented them.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of North Fayette 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.

Hacher, Nelson & Co., P.C.

Decorah, Iowa
November 20, 2008