

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Governmental Fund Financial Statements:		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	23
Statement of Revenues, Expenses, and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	26
Statement of Changes in Fiduciary Net Assets	K	27
Notes to Financial Statements		28-36
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	44
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	45
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		46-47
Schedule of Findings and Responses		48-52

Gary E. Horton CPA

902 Central Ave. East - PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of
North Kossuth Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2009, on our consideration of North Kossuth Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

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

February 12, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Kossuth Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,334,874 in fiscal 2007 to \$3,503,274 in fiscal 2008, while General Fund expenditures increased from \$3,541,364 in fiscal 2007 to \$3,844,592 in fiscal 2008. The District's General Fund balance decreased from \$640,030 in fiscal 2007 to \$302,760 in fiscal 2008, a 53% decrease.
- The increase in General Fund revenues was attributable to an increase in state and federal grant revenue in fiscal 2008. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2008. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of North Kossuth Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Kossuth Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Kossuth Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
North Kossuth GASB 34 Community School District Annual Financial Report

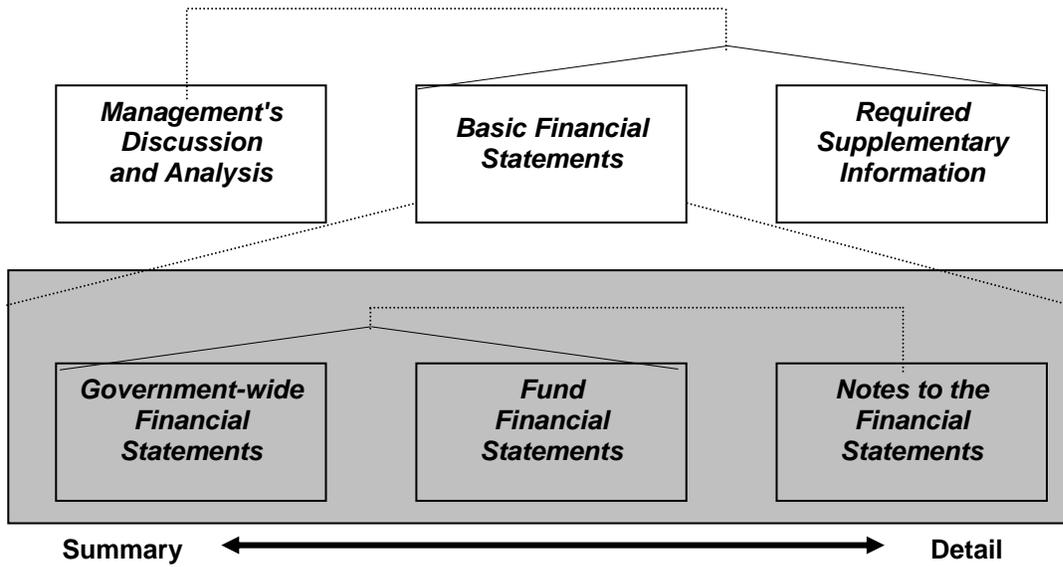


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 1) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has two internal service funds; one used to account for the District's employee flexible benefit plan and one used to reimburse employees for a portion of their health insurance deductible.

- 2) The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – These are funds through which the District administers and accounts for certain monies behalf of other entities.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

Condensed Statement of Net Assets							
	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		
	2008	2007	2008	2007	2008	2007	2007-08
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,255,021	2,911,837	-22,472	-13,001	3,232,549	2,898,836	11%
Capital assets	3,044,313	3,083,310	66,542	75,193	3,110,855	3,158,503	-2%
Total assets	6,299,334	5,995,147	44,070	62,192	6,343,404	6,057,339	5%
Long-term liabilities	585,982	732,878	-	-	585,982	732,878	-20%
Other liabilities	2,199,612	1,664,926	1,005	752	2,200,617	1,665,678	33%
Total liabilities	2,785,594	2,397,804	1,005	752	2,786,599	2,398,556	17%
Net Assets:							
Invested in capital assets, net of related debt	2,549,313	2,473,310	66,542	75,193	2,615,855	2,548,503	3%
Restricted	438,466	368,824	-	-	438,466	368,824	19%
Unrestricted	525,961	755,209	-23,477	-13,753	502,484	741,456	-33%
TOTAL NET ASSETS	3,513,740	3,597,343	43,065	61,440	3,556,805	3,658,783	-3%

The District’s combined total net assets decreased by nearly 3%, or approximately \$101,978, over the prior year. The largest portion of the District’s net assets is invested in capital assets net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$69,642 or nearly 19% over the prior year. The increase was primarily a result of physical plant and equipment property taxes that were collected, but not spent in fiscal year 2008.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$238,972, or 33%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

	Change in Net Assets						Percentage Change 2007-08
	Governmental Activities		Business-type Activities		Total School District		
	2008 \$	2007 \$	2008 \$	2007 \$	2008 \$	2007 \$	
Revenues							
Program Revenues:							
Charges for services	563,725	372,980	41,697	42,766	605,422	415,746	46%
Operating grants & contributions	612,413	503,137	30,525	25,757	642,938	528,894	22%
Capital grants & contributions							
General Revenues:							
Property taxes	1,569,826	1,812,006			1,569,826	1,812,006	-14%
Income Surtax	275,107	212,976			275,107	212,976	29%
Local option sales tax	200,907	214,697			200,907	214,697	-7%
Unrestricted state grants	1,067,696	935,187			1,067,696	935,187	15%
Unrestricted investment earnings	20,331	25,559	57	59	20,388	25,618	-21%
Other revenue	27,222	16,354			27,222	16,354	67%
Total Revenues	4,337,227	4,092,896	72,279	68,582	4,409,506	4,161,478	6%
Expenses:							
Instruction	2,794,967	2,574,530			2,794,967	2,574,530	9%
Support services	1,340,334	1,203,781			1,340,334	1,203,781	12%
Non-instructional programs			90,654	101,550	90,654	101,550	-11%
Other expenditures	285,529	233,997			285,529	233,997	22%
Total expenses	4,420,830	4,012,308	90,654	101,550	4,511,484	4,113,858	10%
Change in net assets before transfers	-83,603	80,588	-18,375	-32,968	-101,978	47,620	-315%
Transfers	0	-30,794	0	30,794	0	0	
CHANGE IN NET ASSETS	-83,603	49,794	-18,375	-2,174	-101,978	47,620	-315%
Net assets beginning of year	3,597,343	3,547,549	61,440	63,614	3,658,783	3,611,163	2%
Net assets end of year	3,513,740	3,597,343	43,065	61,440	3,556,805	3,658,783	-3%

Property tax and unrestricted state grants account for 61% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,337,227 and expenses were \$4,420,830. Increase in revenue was mainly due to an increase in income surtax and charges for services. Property tax did decrease. Expenses increased 10% due to 4% across the board salary increases and increased operating expenses.

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

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
	\$	\$		\$	\$	
Instruction	2,794,967	2,574,530	9%	1,796,511	1,868,459	-4%
Support Services	1,340,334	1,203,781	12%	1,300,488	1,166,249	12%
Other Expenses	285,529	233,997	22%	147,693	101,483	45%
TOTAL	4,420,830	4,012,308	10%	3,244,692	3,136,191	3%

- The cost financed by users of the District's programs was \$563,725. Most of these revenues are derived from tuition charged to other school districts and from student activities.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$612,413.
- The net cost of governmental activities was financed with \$2,045,840 in property and local other taxes and \$1,067,696 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$72,279 and expenses were \$90,654. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2008, the District again increased revenue and decreased expenses from the previous year. The steps are being taken to continue to reduce costs and increase student participation in both lunch and breakfast programs.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$688,570, below last year's ending fund balances of \$916,484, a decrease of \$227,914. Most of this decrease is attributable to the general fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. The General Fund balance decreased from \$640,030 to \$302,760, a \$337,270 or nearly a 53% decrease. Local tax decreased by \$247,112 from the previous year, however an increase in state and federal sources resulted in an overall increase in revenues. The General Fund expenses also increased \$228,141 for Instruction for a total of \$2,640,527 and an increase of \$69,141 in support services for a total of \$1,066,229, required the District to use carryover fund balance to meet its financial obligations during the year.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$64,271 in fiscal 2007 to \$126,347 in fiscal 2008. The carryover balance will be used to update transportation vehicles and major building repairs.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$61,440 at June 30, 2007 to \$43,065 at June 30, 2008, representing a decrease of approximately 30%. The School Nutrition program continued to operate at a loss, however plans move the elementary to the Swea City Center in 2008-09 will greatly improve the School Nutrition financial situation.

BUDGETARY HIGHLIGHTS

The District's receipts were \$39,489 more than budgeted receipts, a variance of less than 1%. The most significant variance resulted from the District receiving less in federal sources than originally anticipated.

Total expenditures were more than budgeted, due primarily to the District's budget for the General Fund. A year end asbestos situation led to increased expenses both in instruction and support services.

The certified budget was exceeded in the instruction and support services functional areas due to the timing of disbursements paid at year-end for without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had invested \$3,110,855, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$167,792.

The original cost of the District's capital assets was \$5,623,338. Governmental funds account for \$5,486,094, with the remainder of \$137,244 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred when improvements were made to existing structures and furniture and equipment. The gymnasium roof was repaired and replaced and a ventilation system was installed on existing gym roof for approximately \$50,600. A handicap accessible door was installed and two vans were purchased for approximately \$34,824.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2007-08
	Activities		Activities		School District		
	2008	2007	2008	2007	2008	2007	
	\$	\$	\$	\$	\$	\$	
Land	30,725	30,725			30,725	30,725	0%
Buildings	2,444,503	2,462,375			2,444,503	2,462,375	0%
Improvements Equipment & Furniture	4,405	4,737			4,405	4,737	-7%
	564,680	585,473	66,542	75,193	631,222	660,666	-4%
TOTAL	3,044,313	3,083,310	66,542	75,193	3,110,855	3,158,503	-2%

Long-Term Debt

At June 30, 2008 the District had \$143,833 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 80% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage
	2008	2007	Change 2007-2008
	\$	\$	
Capital Loan Notes	495,000	610,000	-19%
Termination Benefits	78,382	106,783	-26%
Compensated Absences	12,600	16,095	-22%
Total	143,833	732,848	-20%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's October 2008 enrollment continued to decline. This drop in enrollment will decrease the District's funding for fiscal year 2010.
- Negotiations for the Master Contract with the North Kossuth Education Association will require an increase in salary and benefit costs. No employees are considering retirement at this time. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- North Kossuth and Sentral schools will be entering into a whole grade sharing arrangement starting in 2008-09. Bus routes were consolidated and a route position was eliminated. A teaching position and an At-Risk position were cut along with losing a seasoned administrator will help defray costs next year. North Kossuth employment needs will continue to be assessed.

- In April 2008, the North Kossuth School Board decided to close the Bancroft center and move our elementary to the Swea City Center. This move fits with the whole grade sharing arrangement with Sentral and will help our Nutrition Department. Our rent agreement with St. Johns will continue through 2012; however it will be at the reduced rate of \$45,996 vs. \$72,000 for 2008-09.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kay Hardt, District Secretary/Treasurer and Business Manager, North Kossuth Community School District, 203 5th Street North, Swea City, IA 50590.

BASIC FINANCIAL STATEMENTS

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	761,273	1,715	762,988
Receivables:			
Property tax:			
Delinquent	31,722	-	31,722
Succeeding year	2,057,010	-	2,057,010
Accounts	4,556	-	4,556
Interfund balances	27,959	(27,959)	-
Due from other governments	372,501	-	372,501
Inventories	-	3,772	3,772
Capital assets, net of accumulated depreciation	3,044,313	66,542	3,110,855
	<u>6,299,334</u>	<u>44,070</u>	<u>6,343,404</u>
Total assets			
Liabilities			
Warrants issued in excess of bank balances	65,275	-	65,275
Accounts payable	54,236	-	54,236
Salaries and benefits payable	20,261	249	20,510
Accrued interest payable	2,830	-	2,830
Deferred revenue:			
Succeeding year property tax	2,057,010	-	2,057,010
Other	-	756	756
Long-term liabilities:			
Portion due within one year:			
Capital loan notes payable	120,000	-	120,000
Termination benefits	18,833	-	18,833
Compensated absences	5,000	-	5,000
Portion due after one year:			
Capital loan notes payable	375,000	-	375,000
Termination benefits	59,549	-	59,549
Compensated absences	7,600	-	7,600
	<u>2,785,594</u>	<u>1,005</u>	<u>2,786,599</u>
Total liabilities			

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2008

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Net assets			
Invested in capital assets, net of related debt	2,549,313	66,542	2,615,855
Restricted for:			
State categorical aid	30,585	-	30,585
Physical plant and equipment levy	219,923	-	219,923
Other special revenue purposes	49,651	-	49,651
Local option sales tax capital projects	138,307	-	138,307
Unrestricted	525,961	(23,477)	502,484
Total net assets	<u>3,513,740</u>	<u>43,065</u>	<u>3,556,805</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2008

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Governmental activities:				
Instruction:				
Regular	1,570,774	298,738	290,573	-
Special	649,827	97,988	73,800	-
Other	574,366	161,149	76,208	-
	<u>2,794,967</u>	<u>557,875</u>	<u>440,581</u>	<u>-</u>
Support services:				
Student	86,469	-	-	-
Instructional staff	85,893	-	-	-
Administration	459,232	-	-	-
Operation and maintenance of plant	417,773	-	-	-
Transportation	290,967	5,850	33,996	-
	<u>1,340,334</u>	<u>5,850</u>	<u>33,996</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	54,417	-	-	-
Long-term debt interest	21,255	-	-	-
AEA flowthrough	137,836	-	137,836	-
Depreciation (unallocated)*	72,021	-	-	-
	<u>285,529</u>	<u>-</u>	<u>137,836</u>	<u>-</u>
Total governmental activities	4,420,830	563,725	612,413	-
Business type activities:				
Non-instructional programs:				
Food service operations	90,654	41,697	30,525	-
Total	<u>4,511,484</u>	<u>605,422</u>	<u>642,938</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(981,463)	-	(981,463)
(478,039)	-	(478,039)
(337,009)	-	(337,009)
<u>(1,796,511)</u>	<u>-</u>	<u>(1,796,511)</u>
(86,469)	-	(86,469)
(85,893)	-	(85,893)
(459,232)	-	(459,232)
(417,773)	-	(417,773)
(251,121)	-	(251,121)
<u>(1,300,488)</u>	<u>-</u>	<u>(1,300,488)</u>
(54,417)	-	(54,417)
(21,255)	-	(21,255)
-	-	-
(72,021)	-	(72,021)
<u>(147,693)</u>	<u>-</u>	<u>(147,693)</u>
(3,244,692)	-	(3,244,692)
-	(18,432)	(18,432)
<u>(3,244,692)</u>	<u>(18,432)</u>	<u>(3,263,124)</u>
1,385,350	-	1,385,350
184,476	-	184,476
275,107	-	275,107
200,907	-	200,907
1,067,696	-	1,067,696
20,331	57	20,388
27,222	-	27,222
<u>3,161,089</u>	<u>57</u>	<u>3,161,146</u>
(83,603)	(18,375)	(101,978)
<u>3,597,343</u>	<u>61,440</u>	<u>3,658,783</u>
<u>3,513,740</u>	<u>43,065</u>	<u>3,556,805</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2008

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	209,128	126,159	270,012	605,299
Receivables:				
Property tax:				
Delinquent	25,266	3,728	2,728	31,722
Succeeding year	1,769,441	181,069	106,500	2,057,010
Accounts	2,987	-	1,569	4,556
Interfund receivable	70,959	6,449	-	77,408
Due from other governments	246,114	93,576	32,811	372,501
Total assets	<u>2,323,895</u>	<u>410,981</u>	<u>413,620</u>	<u>3,148,496</u>
Liabilities and Fund Balances				
Liabilities:				
Warrants issued in excess of bank balance	65,275	-	-	65,275
Accounts payable	26,029	9,989	4,657	40,675
Salaries and benefits payable	20,261	-	-	20,261
Interfund payable	6,449	-	43,000	49,449
Deferred revenue:				
Succeeding year property tax	1,769,441	181,069	106,500	2,057,010
Other	133,680	93,576	-	227,256
Total liabilities	<u>2,021,135</u>	<u>284,634</u>	<u>154,157</u>	<u>2,459,926</u>
Fund balances:				
Reserved for:				
State categorical aid	30,585	-	-	30,585
Unreserved reported in:				
General fund	272,175	-	-	272,175
Special revenue funds	-	126,347	121,156	247,503
Capital projects funds	-	-	138,307	138,307
Total fund balances	<u>302,760</u>	<u>126,347</u>	<u>259,463</u>	<u>688,570</u>
Total liabilities and fund balances	<u>2,323,895</u>	<u>410,981</u>	<u>413,620</u>	<u>3,148,496</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

June 30, 2008

	\$
Total fund balances of governmental funds (Exhibit C)	688,570
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,044,313
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	227,256
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(2,830)
An internal service fund is used by the District's management to charge the costs of the medical deductible reimbursement plan and employee flexible benefit plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	142,413
Long-term liabilities, including notes payable, termination benefits and compensated absences, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(585,982)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,513,740</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,384,452	291,758	335,905	2,012,115
Tuition	392,687	-	-	392,687
Other	46,026	2,537	170,028	218,591
State sources	1,449,950	-	-	1,449,950
Federal sources	230,159	-	-	230,159
Total revenues	<u>3,503,274</u>	<u>294,295</u>	<u>505,933</u>	<u>4,303,502</u>
Expenditures:				
Current:				
Instruction:				
Regular	1,571,683	-	24,599	1,596,282
Special	649,827	-	-	649,827
Other	419,017	-	154,276	573,293
	<u>2,640,527</u>	<u>-</u>	<u>178,875</u>	<u>2,819,402</u>
Support services:				
Student	86,469	-	-	86,469
Instructional staff	54,836	-	38,765	93,601
Administration	411,735	-	36,695	448,430
Operation and maintenance of plant	306,261	77,833	44,123	428,217
Transportation	206,928	-	49,144	256,072
	<u>1,066,229</u>	<u>77,833</u>	<u>168,727</u>	<u>1,312,789</u>
Other expenditures:				
Facilities acquisition	-	18,556	111,051	129,607
Long-term debt:				
Principal	-	-	115,000	115,000
Interest and fiscal charges	-	-	20,830	20,830
AEA flowthrough	137,836	-	-	137,836
	<u>137,836</u>	<u>18,556</u>	<u>246,881</u>	<u>403,273</u>
Total expenditures	<u>3,844,592</u>	<u>96,389</u>	<u>594,483</u>	<u>4,535,464</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(341,318)</u>	<u>197,906</u>	<u>(88,550)</u>	<u>(231,962)</u>
Other financing sources (uses):				
Sales of materials and equipment	4,048	-	-	4,048
Operating transfers in	-	-	135,830	135,830
Operating transfers out	-	(135,830)	-	(135,830)
Total other financing sources (uses)	<u>4,048</u>	<u>(135,830)</u>	<u>135,830</u>	<u>4,048</u>
Net change in fund balances	(337,270)	62,076	47,280	(227,914)
Fund balances beginning of year	<u>640,030</u>	<u>64,271</u>	<u>212,183</u>	<u>916,484</u>
Fund balances end of year	<u>302,760</u>	<u>126,347</u>	<u>259,463</u>	<u>688,570</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(227,914)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense and loss on the disposal of capital assets exceeded expenditures for capital assets in the current year, as follows:		
Expenditures for capital assets	162,554	
Loss on disposal of assets	(33,759)	
Depreciation expense	<u>(167,792)</u>	(38,997)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the Statement of Activities.		33,725
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		115,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		(425)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	28,401	
Compensated absences	<u>3,495</u>	31,896
An internal service fund is used by the District's management to charge the costs of the health insurance deductible reimbursement program and employee flexible benefit plan to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.		<u>3,112</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(83,603)</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2008

	Enterprise Fund Nonmajor School Nutrition \$	Governmental Activities - Internal Service Fund \$
Assets		
Cash and cash equivalents	1,715	155,974
Inventories	3,772	-
Capital assets, net of accumulated depreciation	<u>66,542</u>	<u>-</u>
Total assets	<u>72,029</u>	<u>155,974</u>
Liabilities		
Accounts payable	-	13,561
Interfund payable	27,959	-
Salaries and benefits payable	249	-
Deferred revenue	<u>756</u>	<u>-</u>
Total liabilities	<u>28,964</u>	<u>13,561</u>
Net assets		
Invested in capital assets, net of related debt	66,542	-
Unrestricted	<u>(23,477)</u>	<u>142,413</u>
Total net assets	<u><u>43,065</u></u>	<u><u>142,413</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal <u>Service Fund</u> \$
Operating revenues:		
Local sources:		
Charges for service	41,697	52,493
Operating expenses:		
Non-instructional programs:		
Salaries	28,146	-
Benefits	13,975	49,381
Purchased services	1,189	-
Supplies	38,593	-
Depreciation	8,651	-
Other	100	-
Total operating expenses	<u>90,654</u>	<u>49,381</u>
Operating gain (loss)	<u>(48,957)</u>	<u>3,112</u>
Non-operating revenues:		
State sources	918	-
Federal sources	29,607	-
Interest income	57	-
Total non-operating revenues	<u>30,582</u>	<u>-</u>
Gain (loss) before transfers	(18,375)	3,112
Transfers in	<u>-</u>	<u>-</u>
Change in net assets	(18,375)	3,112
Net assets beginning of year	<u>61,440</u>	<u>139,301</u>
Net assets end of year	<u><u>43,065</u></u>	<u><u>142,413</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2008

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u> </u> \$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	41,701	-
Cash from services provided to other funds	-	52,493
Cash payments to employees for services	(41,872)	(46,944)
Cash payments to suppliers for goods or services	<u>(32,910)</u>	<u>-</u>
Net cash provided by (used by) provided by operating activities	<u>(33,081)</u>	<u>5,549</u>
Cash flows from non-capital financing activities:		
Loan from (repaid to) General Fund	4,053	-
State grants received	918	-
Federal grants received	<u>23,341</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>28,312</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>57</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(4,712)	5,549
Cash and cash equivalents at beginning of year	<u>6,427</u>	<u>150,425</u>
Cash and cash equivalents at end of year	<u><u>1,715</u></u>	<u><u>155,974</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(48,957)	3,112
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	6,266	-
Depreciation	8,651	-
Decrease (increase) in inventories	706	-
(Decrease) increase in accounts payable	-	2,437
(Decrease) increase in salaries and benefits payable	249	-
(Decrease) increase in deferred revenue	<u>4</u>	<u>-</u>
Net cash used by operating activities	<u>(33,081)</u>	<u>5,549</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2008, the District received \$6,266 of federal commodities.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2008

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	1,918	11,536
Liabilities		
Other payables	<u>-</u>	<u>11,536</u>
Net Assets		
Reserved for scholarships	<u><u>1,918</u></u>	<u><u>-</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2008

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,061
Deductions:	
Support services:	
Scholarships awarded	<u>5,813</u>
Change in net assets	(4,752)
Net assets beginning of year	<u>6,670</u>
Net assets end of year	<u><u>1,918</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2008

1. Summary of Significant Accounting Policies

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

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40 years
Improvements other than buildings	20-40 years
Furniture and equipment	5-20 years

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

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

Compensated Absences – District employees accumulate a limited amount of earned but unused sick leave hours for subsequent use or for payment upon retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, expenditures in the instruction and support services functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

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

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

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

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2008 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
General Fund	Nonmajor School Nutrition Fund	27,959
General Fund	Management Fund	43,000
Physical Plant and Equipment Levy Fund	General Fund	6,449

The loans from the General Fund to the School Nutrition and Management Funds were made to assist with cash flow.

During fiscal year \$6,449 of Physical Plant and Equipment revenues were inadvertently placed in the General Fund.

4. Interfund Transfers

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

Transfer To	Transfer From	Amount
		\$
Nonmajor Governmental Funds:		
Debt Service Fund	Physical Plant and Equipment Levy Fund	135,830

The transfer from the PPEL Fund to the Debt Service Fund moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	30,725	-	-	30,725
Capital assets being depreciated:				
Buildings	3,250,940	53,817	-	3,304,757
Improvements other than buildings	44,888	-	-	44,888
Furniture and equipment	2,325,015	108,737	328,028	2,105,724
Total capital assets being deprec.	<u>5,620,843</u>	<u>162,554</u>	<u>328,028</u>	<u>5,455,369</u>
Less accumulated depreciation for:				
Buildings	788,565	71,689	-	860,254
Improvements other than buildings	40,151	332	-	40,483
Furniture and equipment	1,739,542	95,771	294,269	1,541,044
Total accumulated depreciation	<u>2,568,258</u>	<u>167,792</u>	<u>294,269</u>	<u>2,441,781</u>

Total capital assets being depreciated, net	<u>3,052,585</u>	<u>(5,238)</u>	<u>33,759</u>	<u>3,013,588</u>
Governmental activities capital assets, net	<u>3,083,310</u>	<u>(5,238)</u>	<u>33,759</u>	<u>3,044,313</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	137,244	-	-	137,244
Less accumulated depreciation	<u>62,051</u>	<u>8,651</u>	<u>-</u>	<u>70,702</u>
Business type activities capital assets, net	<u>75,193</u>	<u>(8,651)</u>	<u>-</u>	<u>66,542</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	25,113
Other	1,073
Support services:	
Instructional support	20,320
Administration services	10,802
Operation and maintenance of plant services	1,629
Transportation	<u>36,834</u>
	95,771
Unallocated depreciation	<u>72,021</u>
Total depreciation expense – governmental activities	<u>167,792</u>
Business type activities:	
Food services	<u>8,651</u>

6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Capital loan notes	610,000	-	115,000	495,000	120,000
Termination benefits	106,783	-	28,401	78,382	18,833
Compensated absences	16,095	-	3,495	12,600	5,000
Total	<u>732,878</u>	<u>-</u>	<u>146,896</u>	<u>585,982</u>	<u>143,833</u>

Termination Benefits

The District offered a voluntary early retirement plan to its employees during the year ended June 30, 2006. Eligible employees must have completed at least twenty years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits consist of the District paying \$322 per month for up to eight years for the retiree's health insurance premiums.

At June 30, 2008, the District has obligations to four participants with a total liability of \$78,382. Actual early retirement expenditures for the year ended June 30, 2008 totaled \$28,401.

Capital Loan Notes

The District issued \$1,035,000 of capital loan notes during the year ended June 30, 2003. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2009	3.250	120,000	16,980	136,980
2010	3.50	120,000	13,080	133,080
2011	3.50	125,000	9,120	134,120
2012	3.65	130,000	4,746	134,746
		<u>495,000</u>	<u>43,926</u>	<u>538,926</u>

During the year ended June 30, 2008 the District made principal and interest payments totaling \$135,430 under the note agreement.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$123,366, \$107,034 and \$105,180 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$137,836 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.

10. Lease Commitment

The District entered into a ten-year contract to lease a school building in fiscal year 2002. At June 30, 2008 the District exercised the termination clause in the lease. The payments the District will make over the next four years, as provided by the termination contingency clause in the lease, are as follows:

<u>Year Ended June 30,</u>	<u>Lease Payment</u>
	\$
2009	45,996
2010	36,000
2011	36,000
2012	36,000

The District has also leased a bus and copy machines under operating leases. The remaining payments required under the leases are as follows:

<u>Year Ended June 30,</u>	<u>Bus Lease Payments</u>	<u>Copier Lease Payments</u>
	\$	\$
2009	9,323	7,404
2010	-	7,404
2011	-	7,404
2012	-	617

11. Deficit Fund Balances

At June 30, 2008 the District had an unrestricted net assets deficit of \$23,477 in the Enterprise, School Nutrition Fund.

12. Construction Commitment

The District has entered into a \$40,800 contract for blacktop surfacing. Work on the project had not started at June 30, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,623,393	41,754	2,665,147	2,619,838	2,619,838	45,309
State sources	1,449,950	918	1,450,868	1,421,454	1,421,454	29,414
Federal sources	230,159	29,607	259,766	295,000	295,000	(35,234)
Total revenues	<u>4,303,502</u>	<u>72,279</u>	<u>4,375,781</u>	<u>4,336,292</u>	<u>4,336,292</u>	<u>39,489</u>
Expenditures/Expenses:						
Instruction	2,819,402	-	2,819,402	2,692,500	2,692,500	(126,902)
Support services	1,312,789	-	1,312,789	1,243,100	1,243,100	(69,689)
Non-instructional programs	-	90,654	90,654	100,381	100,381	9,727
Other expenditures	403,273	-	403,273	478,213	478,213	74,940
Total expenditures/expenses	<u>4,535,464</u>	<u>90,654</u>	<u>4,626,118</u>	<u>4,514,194</u>	<u>4,514,194</u>	<u>(111,924)</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(231,962)	(18,375)	(250,337)	(177,902)	(177,902)	(72,435)
Other financing sources (uses) net	<u>4,048</u>	-	<u>4,048</u>	-	-	<u>4,048</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures/expenses	(227,914)	(18,375)	(246,289)	(177,902)	(177,902)	(68,387)
Balance beginning of year	<u>916,484</u>	<u>61,440</u>	<u>977,924</u>	<u>1,175,942</u>	<u>1,175,942</u>	<u>(198,018)</u>
Balance end of year	<u><u>688,570</u></u>	<u><u>43,065</u></u>	<u><u>731,635</u></u>	<u><u>998,040</u></u>	<u><u>998,040</u></u>	<u><u>(266,405)</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2008

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

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

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

During the year ended June 30, 2008, expenditures in the instruction and support services functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

Assets	Special Revenue Funds			Total
	Management	Student	Capital	
	Levy	Activity	Projects	
	\$	\$	\$	\$
Cash and pooled investments	111,777	52,739	105,496	270,012
Receivables:				
Property tax:				
Delinquent	2,728	-	-	2,728
Succeeding year	106,500	-	-	106,500
Accounts	-	1,569	-	1,569
Due from other governments	-	-	32,811	32,811
Total assets	221,005	54,308	138,307	413,620
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	-	4,657	-	4,657
Interfund payables	43,000	-	-	43,000
Deferred revenue:				
Succeeding year property tax	106,500	-	-	106,500
Total liabilities	149,500	4,657	-	154,157
Fund balances:				
Unreserved reported in:				
Special revenue funds	71,505	49,651	-	121,156
Capital projects funds	-	-	138,307	138,307
Total fund balances	71,505	49,651	138,307	259,463
Total liabilities and fund balances	221,005	54,308	138,307	413,620

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2008

	<u>Special Revenue Funds</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity Fund</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	134,998	-	200,907	-	335,905
Other	9,793	156,715	3,520	-	170,028
Total revenues	<u>144,791</u>	<u>156,715</u>	<u>204,427</u>	<u>-</u>	<u>505,933</u>
Expenditures:					
Current:					
Instruction:					
Regular	24,599	-	-	-	24,599
Other	-	154,276	-	-	154,276
Support services:					
Instructional staff	-	-	38,765	-	38,765
Administration	36,695	-	-	-	36,695
Operation and maintenance of plant	23,942	-	20,181	-	44,123
Transportation	8,104	-	41,040	-	49,144
Other expenditures:					
Facilities acquisition	-	-	111,051	-	111,051
Long-term debt:					
Principal	-	-	-	115,000	115,000
Interest and fiscal charges	-	-	-	20,830	20,830
Total expenditures	<u>93,340</u>	<u>154,276</u>	<u>211,037</u>	<u>135,830</u>	<u>594,483</u>
Excess (deficiency) of revenues over (under) expenditures	51,451	2,439	(6,610)	(135,830)	(88,550)
Other financing sources (uses):					
Operating transfers in	-	-	-	135,830	135,830
Net change in fund balances	51,451	2,439	(6,610)	-	47,280
Fund balances beginning of year	20,054	47,212	144,917	-	212,183
Fund balances end of year	<u>71,505</u>	<u>49,651</u>	<u>138,307</u>	<u>-</u>	<u>259,463</u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2008

Account	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Athletics	17,955	101,326	97,742	21,539
Vocal	1,004	63	180	887
Instrumental	1,077	710	980	807
MS student council	248	-	248	-
MS pals	152	-	152	-
MS yearbook	180	-	180	-
MS cheerleaders	508	-	508	-
Activity tickets	-	2,380	2,380	-
Interest	1,339	654	-	1,993
Drama and speech	812	365	436	741
FFA	1,601	7,578	7,696	1,483
FFA scholarship CD	1,000	-	-	1,000
FCCLA	695	561	1,087	169
Student council-high school	7,814	4,368	3,698	8,484
National honor society	245	154	71	328
Annual	1,792	5,990	7,254	528
Spanish club	1,026	2,037	1,172	1,891
Economics club	203	-	-	203
Voc. team club	589	-	95	494
FCA club	206	-	-	206
Elementary student council	2,903	12,527	12,688	2,742
Elementary read-a-thon	1,009	-	655	354
Elementary spec. olympics	140	-	-	140
Business club	(61)	8,158	7,747	350
Quiz bowl	821	849	1,533	137
Science club	331	-	-	331
Class of 2007	1,265	-	-	1,265
Class of 2008	1,423	1,045	1,888	580
Class of 2009	915	6,451	5,011	2,355
Class of 2010	20	1,499	875	644
Total	47,212	156,715	154,276	49,651

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2008

	<u>Music Boosters</u>	<u>PTO</u>	<u>Total</u>
	\$	\$	\$
Balance beginning of year	11,262	736	11,998
Additions:			
Miscellaneous	6,986	761	7,747
Deductions:			
Miscellaneous	<u>7,245</u>	<u>964</u>	<u>8,209</u>
Balance end of year	<u><u>11,003</u></u>	<u><u>533</u></u>	<u><u>11,536</u></u>

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2008	2007	2006	2005
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,012,115	2,233,285	2,330,981	2,237,918
Tuition	392,687	224,855	170,375	268,802
Other	218,591	190,038	188,682	216,864
State sources	1,449,950	1,269,405	1,204,489	1,476,134
Federal sources	230,159	168,919	265,687	401,412
Total revenues	<u>4,303,502</u>	<u>4,086,502</u>	<u>4,160,214</u>	<u>4,601,130</u>
Expenditures:				
Instruction:				
Regular	1,596,282	1,489,036	1,485,648	1,610,145
Special	649,827	577,662	566,513	756,089
Other	573,293	521,452	510,544	272,263
Support services:				
Student	86,469	52,491	52,417	51,628
Instructional staff	93,601	148,105	30,542	70,063
Administration	448,430	427,917	484,188	496,008
Operation and maintenance of plant	428,217	361,119	338,416	274,303
Transportation	256,072	321,250	279,018	239,727
Other expenditures:				
Facilities acquisition	129,607	93,844	114,819	552,480
Long-term debt:				
Principal	115,000	110,000	110,000	105,000
Interest and other charges	20,830	23,718	26,193	28,293
AEA flowthrough	137,836	132,514	128,082	130,763
Total expenditures	<u>4,535,464</u>	<u>4,259,108</u>	<u>4,126,380</u>	<u>4,586,762</u>

Gary E. Horton CPA

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

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

To the Board of Education of
North Kossuth Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of North Kossuth Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 12, 2009. 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 Kossuth Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of North Kossuth Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Kossuth Community School District's internal control over financial reporting.

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

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects North Kossuth Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of North Kossuth Community School District's financial statements that is more than inconsequential will not be prevented or detected by North Kossuth Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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

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

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

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

February 12, 2009

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

Significant deficiencies:

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

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

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

Conclusion: Response accepted.

08-I-B Check Signatures: We noted that checks are being signed for the board secretary and board president, by the District's accounting software. This practice negates the control procedure established by requiring two signatures on checks.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks.

District Response: We believe that using the accounting software to sign checks allows the office to operate more efficiently.

Conclusion: Response accepted.

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

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

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

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

Conclusion: Response accepted.

Instances of Noncompliance:

No matters were reported.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

08-II-A Certified Budget: Expenditures for the year ended June 30, 2008, exceeded the amounts budgeted in the instruction and support services functional areas.

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

District Response: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Beth Rolling, Board President, spouse is director at local bank and father is the owner of the same bank	School banking	\$

Recommendation: When school board members have relationships with local banks, conflicts of interest may occur with school banking agreements and when the bank has a depositor or lender relationship with entities that also do business with the school. The board should consult with its attorney before entering into any transactions that may appear to be a conflict of interest.

District response: We will consult with our attorney on all issues that might be a conflict of interest.

Conclusion: Response accepted.

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

08-II-F Board Minutes: No transactions requiring board approval that had not been approved by the board were noted.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

08-II-G Certified Enrollment: The number of basic resident students reported to the Iowa Department of Education on Line 1 of the Certified Enrollment Certification Form for October 2007, was overstated by three students. Also, the calculations for line 12, supplemental weighting, included open enrollment in students.

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

District Response: We will contact these departments.

Conclusion: Response accepted.

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

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

08-II-J Deficit Balances: The School Nutrition Fund has an unrestricted net assets deficit of \$23,477 at June 30, 2008.

Recommendation: The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

District Response: We are working on methods to improve the financial position of the School Nutrition Fund.

Conclusion: Response accepted.

08-II-K Interest Rate on Certificates of Deposit: We noted one certificate of deposit that had an interest rate below the minimum rate set by the State of Iowa.

Recommendation: The District should contact the bank to get the rate adjusted.

District Response: We have already done this.

Conclusion: Response accepted.

08-II-L Physical Plant and Equipment Levy Fund: The Physical Plant and Equipment Levy Fund may be used to purchase equipment with a unit cost exceeding \$500. We noted that expenditures from this fund included approximately \$2,329 for individual items of equipment with a unit cost of less than \$500. The District did have offsetting expenditures in the General Fund that could have been paid from the Physical Plant and Equipment Levy Fund.

Recommendation: The District should be aware of the limitation on types of expenditures allowed from this fund.

NORTH KOSSUTH COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Responses

Year ended June 30, 2008

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

District Response: We will monitor the expenditures from the Physical Plant and Equipment Levy Fund.

Conclusion: Response accepted.