

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of  
Anthon-Oto 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 Anthon-Oto Community School District, Anthon, Iowa, as of and for the year ended June 30, 2006, 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 Anthon-Oto Community School District at June 30, 2006, 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 September 19, 2006, on our consideration of Anthon-Oto Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, , contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Anthon-Oto 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, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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

September 19, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Anthon-Oto 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, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,096,627 in fiscal 2005 to \$3,892,232 in fiscal 2006, while General Fund expenditures increased from \$3,069,372 in fiscal 2005 to \$3,798,770 in fiscal 2006. The District's General Fund balance increased from \$643,202 in fiscal 2005 to \$736,664 in fiscal 2006, a 15% increase.
- The increases in General Fund revenues and expenses are mostly due to the mandatory conversion to GAAP in 2006. This conversion required us to recognize two years worth of our Whole Grade Sharing settlement with our partner district Maple Valley. The additional increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The increase in general fund balance was due to the administration's effort to cut expenses to match available resources. Another reason for this increase is again due to the mandatory conversion to GAAP, requiring us to recognize two years worth of whole grade sharing settlements. The difference in this settlement results in more revenue than expenses for Anthon-Oto. This year we had two years of that net difference which benefited our fund balance significantly.

### 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 the Anthon-Oto 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 the Anthon-Oto 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 the Anthon-Oto Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

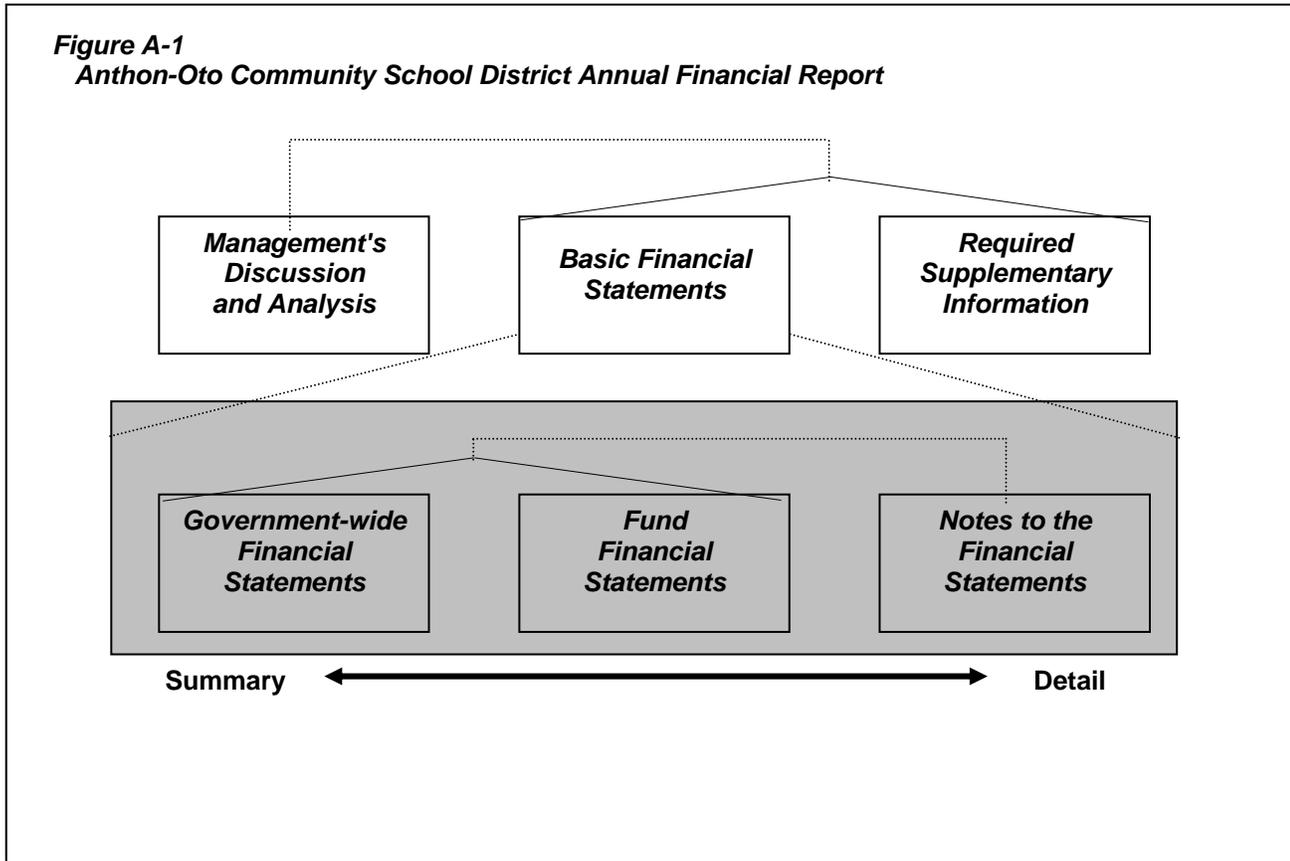


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
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 two kinds of funds:

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

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

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

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

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

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, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	3,266,729	2,883,904	41,866	47,049	3,308,595	2,930,953	13%
Capital assets	837,698	882,269	13,140	15,771	850,838	898,040	-5%
<b>Total assets</b>	<b>4,104,427</b>	<b>3,766,173</b>	<b>55,006</b>	<b>62,820</b>	<b>4,159,433</b>	<b>3,828,993</b>	<b>8%</b>
Long-term liabilities	1,516	1,556	-	-	1,516	1,556	-2%
Other liabilities	1,478,061	1,294,055	1,313	1,060	1,479,374	1,295,115	14%
<b>Total liabilities</b>	<b>1,479,577</b>	<b>1,295,611</b>	<b>1,313</b>	<b>1,060</b>	<b>1,480,890</b>	<b>1,296,671</b>	<b>14%</b>
Net Assets:							
Invested in capital assets, net of related debt	837,698	882,269	13,140	15,771	850,838	898,040	-5%
Restricted	990,507	869,746	-	-	990,507	869,746	14%
Unrestricted	796,645	718,547	40,553	45,989	837,198	764,536	10%
<b>TOTAL NET ASSETS</b>	<b>2,624,850</b>	<b>2,470,562</b>	<b>53,693</b>	<b>61,760</b>	<b>2,678,543</b>	<b>2,532,322</b>	<b>6%</b>

The District's combined net assets increased by 6%, or approximately \$146,000, over the prior year.

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 \$120,800 or 14% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased approximately \$72,700, or 10%.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	
Revenues							
Program Revenues:							
Charges for services	1,354,675	801,675	49,975	55,759	1,404,650	857,434	64%
Operating grants & contributions	351,842	323,929	80,619	78,481	432,461	402,410	7%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	943,329	941,543	-	-	943,329	941,543	.2%
Income Surtax	103,530	82,087	-	-	103,530	82,087	26%
Local option sales tax	238,771	193,230	-	-	238,771	193,230	24%
Unrestricted state grants	1,167,181	1,035,015	-	-	1,167,181	1,035,015	13%
Unrestricted investment earnings	62,780	25,248	1,038	940	63,818	26,188	144%
Other revenue	34,150	992	-	-	34,150	992	3343%
<b>Total Revenues</b>	<b>4,256,258</b>	<b>3,403,719</b>	<b>131,632</b>	<b>135,180</b>	<b>4,387,890</b>	<b>3,538,899</b>	<b>24%</b>
Expenses:							
Instruction	2,693,631	2,240,118	-	-	2,693,631	2,240,118	20%
Support services	1,133,435	848,389	-	-	1,133,435	848,389	34%
Non-instructional programs	885	3,348	139,699	138,658	140,584	142,006	-1%
Other expenditures	274,019	157,078	-	-	274,019	157,078	74%
<b>Total expenses</b>	<b>4,101,970</b>	<b>3,248,933</b>	<b>139,699</b>	<b>138,658</b>	<b>4,241,669</b>	<b>3,387,591</b>	<b>25%</b>
<b>Change in net assets before Transfers</b>	<b>154,288</b>	<b>154,786</b>	<b>(8,067)</b>	<b>(3,478)</b>	<b>146,221</b>	<b>151,308</b>	<b>-3%</b>
Transfers	-	-	-	-	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>154,288</b>	<b>154,786</b>	<b>(8,067)</b>	<b>(3,478)</b>	<b>146,221</b>	<b>151,308</b>	<b>-3%</b>
Net assets beginning of year	2,470,562	2,315,776	61,760	65,238	2,532,322	2,381,014	6%
Net assets end of year	2,624,850	2,470,562	53,693	61,760	2,678,543	2,532,322	6%

Charges for services and unrestricted state grants are the largest revenue categories, accounting for 59% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 90% of the total expenses. The reason for the large increases in the charges for services revenue and the expenses is also due to the mandatory conversion to GAAP in 2006. Two years worth of whole grade sharing settlement revenue and expenses, along with 14 months of salaries are included in the 2006 totals. This makes an accurate comparison of 2005 and 2006 impossible, because the district used different accounting methods in each year.

### Governmental Activities

Revenues for governmental activities were \$4,256,258 and expenses were \$4,101,970. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost of Services 2006 \$</b>	<b>Total Cost of Services 2005 \$</b>	<b>Net Cost of Services 2006 \$</b>	<b>Net Cost of Services 2005 \$</b>
Instruction	2,693,631	2,240,118	1,137,131	1,239,852
Support Services	1,133,435	848,389	1,075,227	810,184
Non-instructional Programs	885	3,348	885	3,348
Other Expenses	274,019	157,078	182,210	69,945
<b>TOTAL</b>	<b>4,101,970</b>	<b>3,248,933</b>	<b>2,395,453</b>	<b>2,123,329</b>

- The cost financed by users of the District's programs was \$1,354,675; up significantly from last year due to two years worth of the whole grade sharing settlement revenue.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$351,842.
- The net cost of governmental activities was financed with \$1,285,630 in property and other taxes and \$1,167,181 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$130,594 and expenses were \$139,699. 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, 2006, the District had \$9,105 more expenses than revenues. The District may need to look at raising hot lunch prices in the near future.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, the Anthon-Oto 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 \$1,707,171, 13% above last year's ending fund balances of \$1,514,504.

**Governmental Fund Highlights**

- The General Fund balance increased from \$643,202 to \$736,664, due in part to the trimming of expenses to match the available revenues.
- The Local Option Sales Tax Fund balance increased from \$695,113 in 2005 to \$768,146 in 2006. This amount will decrease significantly next year due to the completion of our HVAC project.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$61,760 at June 30, 2005 to \$53,693 at June 30, 2006, representing a decrease of approximately 15%. In Fiscal year 2006, the district improved meals and updated some obsolete equipment. The main change in this fund came in the charges for services revenue, which was down approximately 12%. This was due to less students eating hot lunch, therefore decreasing the operating revenues, without decreasing the operating expenses. Regardless of how many students eat each day, we still have the same amount of kitchen staff. Salaries and benefits make up approximately 41% of this fund's expenses. Again, the district may need to look at raising hot lunch prices to help offset the increasing expenses.

## **BUDGETARY HIGHLIGHTS**

In Accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. This is referred to as the certified budget. The budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority. The district certifies its budget on a cash basis, but year-end financial reports are converted to an accrual basis. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures.

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

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the general fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the district.

The Anthon-Oto District's unspent balance is extremely overstated. The reason for this is several years ago, the Board at that time chose not to tax for the District's full authority. This resulted in the unspent balance increasing, however, the district did not collect the cash to back up that authority. Therefore, our unspent balance is a lot higher than our actual cash carryover. The cash for this authority was never collected, and we cannot go back to collect it in the future. Therefore, our unspent balance really gives us an unrealistic view of our financial position.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested approximately \$837,696, 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 5% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$86,859.

The original cost of the District's capital assets was \$2.5 million. Governmental funds account for \$2.45 million, with the remainder of \$0.05 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the equipment and furniture category. The District's equipment and furniture totaled \$545,069 at June 30, 2005, compared to \$567,616 reported at June 30, 2006. This represents an increase of 4%, due to replacing some of the obsolete furniture and equipment.

**Figure A-6**

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	716,770	751,388	-	-	716,769	751,388	-5%
Improvements	17,265	18,361	-	-	17,265	18,361	-6%
Equipment & Furniture	93,661	102,518	13,140	15,771	106,802	118,289	-10%
<b>TOTAL</b>	<b>837,696</b>	<b>882,267</b>	<b>13,140</b>	<b>15,771</b>	<b>850,836</b>	<b>898,038</b>	<b>-5%</b>

**Long-Term Debt**

At June 30, 2006, the District had \$0 in general obligation and other long-term debt outstanding. The District does have a small balance in their early retirement liability. The remaining balance of this liability will be paid during the fiscal year 2007.

**Figure A-7**

**Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2005-2006
	2006	2005	
	\$	\$	
General Obligation Bonds			
Local Option Sales and Services			
Tax Revenue Bonds			
Capital Loan Notes			
Capital Leases			
Early Retirement	1,516	1,556	-3%
Compensated Absences			
	<u>1,516</u>	<u>1,556</u>	<u>-3%</u>

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- School financing is highly dependent upon student enrollment. The District's enrollment decreased in the Fall of 2006, which will mean less revenue generated for the 2007-2008 Fiscal year.
- Enrollments are predicted to continue to decrease over the next several years as smaller Kindergarten classes replace the larger graduating classes.

- The District has facilities that are modern and in good shape. Although there are always projects that need to be done, the revenues to support facility maintenance and improvements should be sufficient to take care of immediate needs for the next few years.
- Woodbury County one-cent sales tax will expire in 2008, however a renewal was passed in the Fall of 2005. Our district changed the ballot language to allow use of one-cent sales tax revenues to fund vehicle purchases.
- Our district is spending down our one-cent sales tax with a major HVAC renovation in the 2006-2007 school year. The District borrowed against our future one-cent sales tax revenue to help pay for this project. We will start repaying those funds in 2006-2007 as well.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, at least one bus needs to be replaced during fiscal 2007 at a cost of \$70,000. The District may use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund to pay for this item.

### **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 Shona Klingensmith, Board Secretary/Treasurer and Business Manager, Anthon-Oto Community School District, 110 W. Division St., Anthon, IA 51004.

## BASIC FINANCIAL STATEMENTS

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,469,062	41,526	1,510,588
Receivables:			
Property tax:			
Delinquent	22,536	-	22,536
Succeeding year	1,080,065	-	1,080,065
Accounts	-	56	56
Accrued interest:			
Other	-	141	141
Due from other governments	686,968	-	686,968
Inventories	-	8,241	8,241
Interfund receivable/(payable)	8,098	(8,098)	-
Capital assets, net of accumulated depreciation	837,698	13,140	850,838
	<u>4,104,427</u>	<u>55,006</u>	<u>4,159,433</u>
<b>Liabilities</b>			
Accounts payable	333,739	-	333,739
Salaries and benefits payable	64,257	-	64,257
Deferred revenue:			
Succeeding year property tax	1,080,065	-	1,080,065
Other	-	1,313	1,313
Long-term liabilities:			
Portion due within one year:			
Early retirement	1,516	-	1,516
	<u>1,479,577</u>	<u>1,313</u>	<u>1,480,890</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	837,698	13,140	850,838
Restricted for:			
Gifted and talented program	21,516	-	21,516
Management levy	154,357	-	154,357
Physical plant and equipment levy	27,879	-	27,879
Other special revenue purposes	18,609	-	18,609
Local option sales tax capital projects	768,146	-	768,146
Unrestricted	796,645	40,553	837,198
	<u>2,624,850</u>	<u>53,693</u>	<u>2,678,543</u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	2,074,718	1,100,261	157,098	-
Special instruction	434,832	186,466	84,749	-
Other instruction	184,081	27,926	-	-
	<u>2,693,631</u>	<u>1,314,653</u>	<u>241,847</u>	<u>-</u>
Support services:				
Student services	33,804	-	1,521	-
Instructional staff services	313,912	-	10,238	-
Administration services	312,796	-	5,795	-
Operation and maintenance of plant services	241,666	-	-	-
Transportation services	231,257	40,022	632	-
	<u>1,133,435</u>	<u>40,022</u>	<u>18,186</u>	<u>-</u>
Non-instructional programs	<u>885</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	127,956	-	-	-
AEA flowthrough	91,809	-	91,809	-
Depreciation (unallocated)*	54,254	-	-	-
	<u>274,019</u>	<u>-</u>	<u>91,809</u>	<u>-</u>
Total governmental activities	<u>4,101,970</u>	<u>1,354,675</u>	<u>351,842</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>139,699</u>	<u>49,975</u>	<u>80,619</u>	<u>-</u>
Total	<u>4,241,669</u>	<u>1,404,650</u>	<u>432,461</u>	<u>-</u>
<b>General Revenues:</b>				
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.

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(817,359)	-	(817,359)
(163,617)	-	(163,617)
(156,155)	-	(156,155)
<u>(1,137,131)</u>	<u>-</u>	<u>(1,137,131)</u>
(32,283)	-	(32,283)
(303,674)	-	(303,674)
(307,001)	-	(307,001)
(241,666)	-	(241,666)
(190,603)	-	(190,603)
<u>(1,075,227)</u>	<u>-</u>	<u>(1,075,227)</u>
(885)	-	(885)
(127,956)	-	(127,956)
-	-	-
(54,254)	-	(54,254)
<u>(182,210)</u>	<u>-</u>	<u>(182,210)</u>
(2,395,453)	-	(2,395,453)
-	(9,105)	(9,105)
<u>(2,395,453)</u>	<u>(9,105)</u>	<u>(2,404,558)</u>
920,671	-	920,671
22,658	-	22,658
103,530	-	103,530
238,771	-	238,771
1,167,181	-	1,167,181
62,780	1,038	63,818
34,150	-	34,150
<u>2,549,741</u>	<u>1,038</u>	<u>2,550,779</u>
154,288	(8,067)	146,221
<u>2,470,562</u>	<u>61,760</u>	<u>2,532,322</u>
<u>2,624,850</u>	<u>53,693</u>	<u>2,678,543</u>

See notes to financial statements.

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Capital Projects (LOST)	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	516,522	751,704	200,836	1,469,062
Receivables:				
Property tax:				
Delinquent	21,011	-	1,525	22,536
Succeeding year	1,014,696	-	65,369	1,080,065
Interfund receivable	8,098	-	-	8,098
Due from other governments	670,526	16,442	-	686,968
	<u>2,230,853</u>	<u>768,146</u>	<u>267,730</u>	<u>3,266,729</u>
<b>Total assets</b>				
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	333,739	-	-	333,739
Salaries and benefits payable	64,257	-	-	64,257
Deferred revenue:				
Succeeding year property tax	1,014,696	-	65,369	1,080,065
Other	81,497	-	-	81,497
Total liabilities	<u>1,494,189</u>	<u>-</u>	<u>65,369</u>	<u>1,559,558</u>
Fund balances:				
Reserved for:				
Gifted and talented program	21,516	-	-	21,516
Unreserved, reported in:				
General fund	715,148	-	-	715,148
Special revenue funds	-	-	200,805	200,805
Capital project funds	-	768,146	-	768,146
Unreserved, designated	-	-	1,556	1,556
Total fund balances	<u>736,664</u>	<u>768,146</u>	<u>202,361</u>	<u>1,707,171</u>
	<u>2,230,853</u>	<u>768,146</u>	<u>267,730</u>	<u>3,266,729</u>
<b>Total liabilities and fund balances</b>				

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	1,707,171
<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.	837,698
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	81,497
Long-term liabilities, early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,516)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,624,850</u></u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects (LOST)	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	982,956	232,619	63,898	1,279,473
Tuition	1,299,271	-	-	1,299,271
Other	90,982	29,689	31,668	152,339
State sources	1,390,175	-	-	1,390,175
Federal sources	128,848	-	-	128,848
Total revenues	<u>3,892,232</u>	<u>262,308</u>	<u>95,566</u>	<u>4,250,106</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,063,974	-	7,888	2,071,862
Special instruction	434,832	-	-	434,832
Other instruction	155,428	-	28,653	184,081
	<u>2,654,234</u>	<u>-</u>	<u>36,541</u>	<u>2,690,775</u>
Support services:				
Student services	33,703	-	101	33,804
Instructional staff services	313,807	-	105	313,912
Administration services	310,443	-	2,353	312,796
Operation and maintenance of plant services	178,109	47,821	15,146	241,076
Transportation services	216,665	-	9,273	225,938
	<u>1,052,727</u>	<u>47,821</u>	<u>26,978</u>	<u>1,127,526</u>
Non-instructional programs	-	-	885	885
Other expenditures:				
Facilities acquisition	-	141,454	4,990	146,444
AEA flowthrough	91,809	-	-	91,809
	<u>91,809</u>	<u>141,454</u>	<u>4,990</u>	<u>238,253</u>
Total expenditures	<u>3,798,770</u>	<u>189,275</u>	<u>69,394</u>	<u>4,057,439</u>
Excess (deficiency) of revenues over (under) expenditures	93,462	73,033	26,172	192,667
Fund balances beginning of year	<u>643,202</u>	<u>695,113</u>	<u>176,189</u>	<u>1,514,504</u>
Fund balances end of year	<u><u>736,664</u></u>	<u><u>768,146</u></u>	<u><u>202,361</u></u>	<u><u>1,707,171</u></u>

ANTHON-OTO 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, 2006

\$ \$

**Net change in fund balances - total governmental funds (Exhibit E)** 192,667

*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 Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:

Expenditures for capital assets	42,288	
Depreciation expense	<u>(86,859)</u>	(44,571)

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.

6,152

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:

Early retirement	<u>40</u>
------------------	-----------

**Changes in net assets of governmental activities (Exhibit B)** 154,288

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	41,526
Accounts receivable	56
Interest Receivable	141
Inventories	8,241
Capital assets, net of accumulated depreciation	<u>13,140</u>
<b>Total assets</b>	<u>63,104</u>
<b>Liabilities</b>	
Interfund payable	8,098
Deferred revenue	<u>1,313</u>
<b>Total liabilities</b>	<u>9,411</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	13,140
Unrestricted	<u>40,553</u>
<b>Total net assets</b>	<u><u>53,693</u></u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>49,975</u>
Operating expenses:	
Non-instructional programs:	
Salaries	44,994
Benefits	12,435
Purchased services	3,497
Supplies	76,142
Depreciation	2,631
	<u>139,699</u>
Operating gain (loss)	<u>(89,724)</u>
Non-operating revenue:	
State sources	1,926
Federal sources	78,693
Interest income	1,038
Total non-operating revenue	<u>81,657</u>
Change in net assets	(8,067)
Net assets beginning of year	<u>61,760</u>
Net assets end of year	<u><u>53,693</u></u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	50,238
Cash payments to employees for services	(57,437)
Cash payments to suppliers for goods or services	(64,778)
Net cash used by operating activities	<u>(71,977)</u>
Cash flows from non-capital financing activities:	
State grants received	1,926
Federal grants received	65,203
Net cash provided by non-capital financing activities	<u>67,129</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>897</u>
Net increase (decrease) in cash and cash equivalents	(3,951)
Cash and cash equivalents at beginning of year	<u>45,477</u>
Cash and cash equivalents at end of year	<u><u>41,526</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating gain (loss)	(89,724)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	13,490
Depreciation	2,631
Decrease (increase) in inventories	1,371
Decrease (increase) in accounts receivable	10
(Decrease) increase in deferred revenue	253
(Decrease) increase in due to other fund for salary reimbursement	(8)
Net cash used in operating activities	<u><u>(71,977)</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received \$13,490 of federal commodities.

# ANTHON-OTO COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

Year ended June 30, 2006

### 1. Summary of Significant Accounting Policies

Anthon-Oto 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 Anthon and Oto, Iowa and the predominately agricultural territory in a portion of Woodbury 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, Anthon-Oto 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 Anthon-Oto Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, 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, 2004 assessed property valuations; is for the tax accrual period July 1,

2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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	500
Buildings	5,000
Improvements other than buildings	3,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,000

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

<u>Asset Class</u>	<u>Estimated Useful lives</u>
Buildings	50 years
Improvements other than buildings	5-20 years
Furniture and equipment	3-10 years

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

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

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

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

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are 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 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, 2006, expenditures exceeded the amount budgeted in the support services function.

**2. Cash and Pooled Investments**

The District's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 1,408,626

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

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

**3. Interfund Receivables and Payable**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Enterprise, School Nutrition Fund	\$ 8,098

The interfund receivable/payable represents monies owed by the School Nutrition Fund for salaries paid by the General Fund

#### 4. Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	1,698,877	19,741	-	1,718,618
Improvements other than buildings	188,232	-	-	188,232
Furniture and equipment	545,069	22,547	-	567,616
Total capital assets being deprec.	<u>2,432,178</u>	<u>42,288</u>	-	<u>2,474,466</u>
Less accumulated depreciation for:				
Buildings	947,489	54,359	-	1,001,848
Improvements other than buildings	169,871	1,096	-	170,967
Furniture and equipment	442,551	31,404	-	473,955
Total accumulated depreciation	<u>1,559,911</u>	<u>86,859</u>	-	<u>1,646,770</u>
Total capital assets being depreciated, net	<u>872,267</u>	<u>(44,571)</u>	-	<u>827,696</u>
Governmental activities capital assets, net	<u>882,267</u>	<u>(44,571)</u>	-	<u>837,696</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	80,949	-	-	80,949
Less accumulated depreciation	<u>65,178</u>	<u>2,631</u>	-	<u>67,809</u>
Business type activities capital assets, net	<u>15,771</u>	<u>(2,631)</u>	-	<u>13,140</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,896
Support Services:	
Operation and maintenance of plant services	590
Transportation	<u>29,119</u>
	32,605
Unallocated depreciation	<u>54,254</u>

Total governmental activities depreciation expense	86,859
--	--------

Business type activities:	
Food services operations	2,631

## 5. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006, are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination benefits	1,556	-	40	1,516	1,516

### Termination Benefits

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

At June 30, 2006, the District has obligations to one participant with a total liability of \$1,516. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$40.

### Bonds Payable

The District had no bonded indebtedness at June 30, 2006.

## 6. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$78,973, \$79,565, and \$84,423 respectively, equal to the required contributions for each year.

## 7. Risk Management

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

**8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$91,809 for the year ended June 30, 2006, and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**9. Contingency**

There is an outstanding lawsuit against the District. The suit is being handled by the District's insurance company. The amount and the outcome are unknown at this time.

REQUIRED SUPPLEMENTARY INFORMATION

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
<b>Revenues:</b>						
Local sources	2,731,083	51,013	2,782,096	2,017,544	2,017,544	764,552
State sources	1,390,175	1,926	1,392,101	1,399,410	1,399,410	(7,309)
Federal sources	128,848	78,693	207,541	243,000	243,000	(35,459)
Total revenues	<u>4,250,106</u>	<u>131,632</u>	<u>4,381,738</u>	<u>3,659,954</u>	<u>3,659,954</u>	<u>721,784</u>
<b>Expenditures:</b>						
Instruction	2,690,775	-	2,690,775	3,017,370	3,017,370	326,595
Support services	1,127,526	-	1,127,526	923,933	923,933	(203,593)
Non-instructional programs	885	139,699	140,584	213,857	213,857	73,273
Other expenditures	238,253	-	238,253	817,657	817,657	579,404
Total expenditures	<u>4,057,439</u>	<u>139,699</u>	<u>4,197,138</u>	<u>4,972,817</u>	<u>4,972,817</u>	<u>775,679</u>
Excess (deficiency) of revenues over (under) expenditures	192,667	(8,067)	184,600	(1,312,863)	(1,312,863)	1,497,463
Other financing sources (uses) net	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,500</u>	<u>2,500</u>	<u>(2,500)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	192,667	(8,067)	184,600	(1,310,363)	(1,310,363)	1,494,963
Balance beginning of year	<u>1,514,504</u>	<u>61,760</u>	<u>1,576,264</u>	<u>1,310,363</u>	<u>1,310,363</u>	<u>265,901</u>
Balance end of year	<u><u>1,707,171</u></u>	<u><u>53,693</u></u>	<u><u>1,760,864</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,760,864</u></u>

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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 the GAAP basis.

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

During the year ended June 30, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	154,889	18,609	27,338	200,836
Receivables:				
Property tax:				
Delinquent	984	-	541	1,525
Succeeding year	40,000	-	25,369	65,369
<b>Total assets</b>	<b>195,873</b>	<b>18,609</b>	<b>53,248</b>	<b>267,730</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	40,000	-	25,369	65,369
Unreserved fund balance reported in:				
Special revenue funds	154,317	18,609	27,879	200,805
Unresered, designated fund balance	1,556	-	-	1,556
Total fund equity	155,873	18,609	27,879	202,361
<b>Total liabilities and fund balances</b>	<b>195,873</b>	<b>18,609</b>	<b>53,248</b>	<b>267,730</b>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	41,240	-	22,658	63,898
Other	4,048	27,061	559	31,668
Total revenues	<u>45,288</u>	<u>27,061</u>	<u>23,217</u>	<u>95,566</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	7,888	-	-	7,888
Other instruction	-	28,653	-	28,653
Support services:				
Student services	101	-	-	101
Instructional staff services	105	-	-	105
Administration services	2,353	-	-	2,353
Operation and maintenance of plant services	15,146	-	-	15,146
Transportation services	9,273	-	-	9,273
Non-instructional programs	885	-	-	885
Other expenditures:				
Facilities acquisition	-	-	4,990	4,990
Total expenditures	<u>35,751</u>	<u>28,653</u>	<u>4,990</u>	<u>69,394</u>
Excess (deficiency) of revenues over (under) expenditures	9,537	(1,592)	18,227	26,172
Fund balances beginning of year	<u>146,336</u>	<u>20,201</u>	<u>9,652</u>	<u>176,189</u>
Fund balances end of year	<u>155,873</u>	<u>18,609</u>	<u>27,879</u>	<u>202,361</u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Drama	191	-	-	-	191
Swing choir	1,446	366	598	-	1,214
Instrumental	346	5,412	5,211	-	547
Pep club	1,464	-	-	-	1,464
Junior high activity	8,167	17,971	19,345	(747)	6,046
Res for activity athletic director	730	580	-	-	1,310
Student council	(643)	1,530	3,247	2,360	-
Art club	1,070	-	-	-	1,070
Interest	283	644	-	(866)	61
Elementary activities	7,147	558	252	(747)	6,706
	<u>20,201</u>	<u>27,061</u>	<u>28,653</u>	<u>-</u>	<u>18,609</u>
Totals	<u>20,201</u>	<u>27,061</u>	<u>28,653</u>	<u>-</u>	<u>18,609</u>

## ANTHON-OTO COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,279,473	1,227,086	1,317,439	1,206,281
Tuition	1,299,271	702,991	643,481	44,354
Other	152,339	123,932	79,597	648,439
State sources	1,390,175	1,228,711	1,163,985	1,190,033
Federal sources	128,848	130,233	147,489	164,135
Total revenues	<u>4,250,106</u>	<u>3,412,953</u>	<u>3,351,991</u>	<u>3,253,242</u>
Expenditures:				
Instruction:				
Regular instruction	2,071,862	1,648,378	1,610,368	1,456,259
Special instruction	434,832	510,793	461,575	373,296
Other instruction	184,081	66,749	67,291	155,506
Support services:				
Student services	33,804	30,824	42,480	38,824
Instructional staff services	313,912	98,295	112,507	120,378
Administration services	312,796	320,174	262,634	258,872
Operation and maintenance of plant services	241,076	206,743	184,564	172,268
Transportation services	225,938	173,016	222,870	159,886
Non-instructional programs	885	3,348	6,525	1,897
Other expenditures:				
Facilities acquisition	146,444	27,695	11,746	69,778
AEA flowthrough	91,809	87,133	88,773	94,110
Total expenditures	<u>4,057,439</u>	<u>3,173,148</u>	<u>3,071,333</u>	<u>2,901,074</u>

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  
Anthon-Oto 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 Anthon-Oto Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 19, 2006. 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 Anthon-Oto Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-I-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Anthon-Oto 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Anthon-Oto Community School District and other parties to whom Anthon-Oto 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 Anthon-Oto 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

September 19, 2006

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

Conclusion: Response accepted.

ANTHON-OTO COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the support services function.

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

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

Conclusion: Response accepted.

06-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.

06-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.

06-II-D Business Transactions: We noted no transactions between the District and District officials or employees.

06-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.

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

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

06-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.

06-II-I Certified Annual Report (CAR): The audit field work was conducted prior to the due date of the CAR.

06-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.