

**BOONE COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006**

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## Introductory Section

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# Board of Education and School District Officials

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At June 30, 2006

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Education (Before September, 2005 Election)</b>		
Dr. Jeffrey Anderson	President	2007
Jim Malloy	Vice President	2005
Paulette Newbold	Board Member	2005
Stan Brandmeyer	Board Member	2006
Kirk Leeds	Board Member	2007
<b>Board of Education (After September, 2005 Election)</b>		
Dr. Jeffrey Anderson	President	2007
Jim Malloy	Vice President	2008
Kirk Leeds	Member	2007
Paulette Newbold	Board Member	2008
Stan Brandmeyer	Board Member	2006
<b>School Officials</b>		
Dr. Theron Shutte	Superintendent	Indefinite
Micky Heath	District Secretary/Treasurer	Terminated - October, 2005
Jodi Severson, CPA	District Secretary/Treasurer	Indefinite

**Financial Section**



## Independent Auditor's Report

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Board of Education  
Boone Community School District  
Boone, Iowa

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Boone Community School District, Boone, Iowa, at and for the year ended June 30, 2006, and the discretely presented component unit at and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 16, for the first several months of the year management had not monitored its internal controls to ensure that revenue and expenditures were being properly recorded to the general ledger. As a result, four months of activity was not entered on a timely basis. This error was not determined until later in the year, which made the accurate recording of the information difficult. Therefore, the allocation and reporting of revenue and expenditures in each major and nonmajor fund, as well as the government-wide financial statements is not accurate. This error only affected the reporting of revenue and expenditures by function within the financial statements and had no net effect on the changes in fund balances and net assets for the year ended June 30, 2006.

In our opinion, except for the effects of the matter in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Boone Community School District at June 30, 2006 and the discretely presented component unit at December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Also, as discussed in Note 15, a special investigation of the Boone Community School District was performed by the Office of Auditor of State for the period of July 1, 2001 through November 30, 2005 and identified \$208,649 of improper disbursements made by the former Business Manager, including \$149,317 of unrecorded disbursements. Improper disbursements pertaining to the year ended June 30, 2006 are included as expenditures in the District's financial statements. The prior year's unrecorded improper disbursements were approximately equal to unrecorded revenue. The financial statements also reflect the District's subsequent insurance recovery of substantially all the improper disbursements made as of June 30, 2006.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006 on our consideration of the Boone 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 Page 4 through 13 and 38 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 the Boone Community School District's basic financial statements. The financial statements for the three years ended June 30, 2005 (which are not presented herein) were audited by other auditors who expressed a qualified opinion on the June 30, 2005 financial statements and unqualified opinions on the June 30, 2003 and 2004 financial statements. Other supplementary information included on Pages 39 through 44, including the accompanying Schedule of Expenditures of Federal Awards required by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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.

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
October 27, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The Boone Community School District is pleased to provide this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the District's financial performance 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 immediately follow this section.

### **Financial Highlights**

During fiscal year 2006, beginning fund balances were adjusted upward or downward to balance the beginning fund balances with the 2004-2005 CAR data certified to the Iowa Department of Education. These amounts were:

General Fund \$318,998 Upward  
Student Activity Fund \$788 Upward  
Management Fund \$18,503 Upward  
PEEL (Voted) Fund \$154,024 Upward  
Debt Service Fund \$3,153 Upward  
Scholarship/Trust Fund \$55,618 Upward  
Capital Projects Fund \$350,442 Downward  
Nutrition Fund \$4,654 Downward

- General Fund revenue increased from \$18,769,269 in fiscal 2005 to \$20,204,160 in 2006, a revenue increase of \$1,434,891. General Fund expenditures increased from \$18,897,407 in 2005 to \$19,691,013 for fiscal year 2006, an increase of \$793,606. The District's General Fund balance changed from (\$230,393) (deficit) at the end of fiscal year 2005 to a \$282,754 surplus.
- The total of state and local General Fund revenue for fiscal year 2006 increased by \$1,455,854 over the prior year, which includes a state revenue increase of \$767,796 accounting for 53% of the increase.
- Capital Project expenditures increased from \$4,885,338 in fiscal 2005 to \$7,540,817 in 2006, an increase of over \$2.6 million. The increase relates to construction costs in the District's new middle school project. The Capital Project fund balance of \$1,409,215 at June 30, 2006 will be used to complete the project.

### **Overview of the Financial Statements**

This annual report consists of five parts:

1. Management's Discussion and Analysis (this section).
2. Basic Financial Statements.
3. Notes to Financial Statements.
4. Required Supplementary Information.
5. Other Supplementary Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first, the Statement of Net Assets and the Statement of Activities, are *District-Wide Financial Statements* that provide information about the District as a whole and present an overall view of the District’s finances.
- The second are *Fund Financial Statements* that focus on *individual parts* of the District, reporting about the District’s operations in *more detail* than the District-wide statements, as follows:
  - The *Governmental Fund Statements* explain how basic services, such as regular and special education, were financed in the *short term* as well as what remains for future spending.
  - The *Proprietary Fund Statements* offer *short- and long-term* financial information about the activities the District operates *like a business*, such as food services.
  - The statements for *Fiduciary Funds* provide information about the financial relationships in which the District acts solely as a *trustee* for the benefit of others, such as scholarship trusts.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The statements are followed by a section of Required Supplementary Information that 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

The following diagram, Figure A-1, shows how the various parts of this annual report are arranged and related to one another.

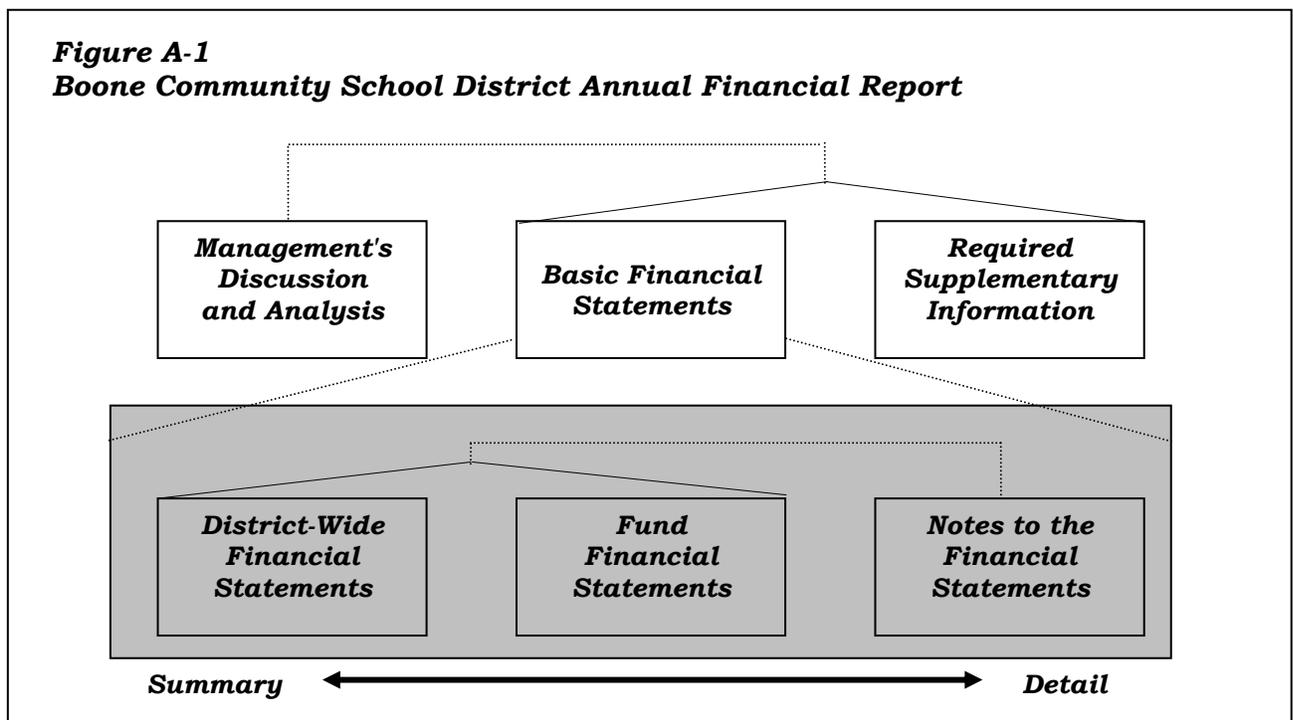


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b>				
<b>Major Features of the District-Wide and Fund Financial Statements</b>				
	District-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, such as food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets	Balance sheet	Balance sheet Statement of revenue, expenses and changes in net assets	Statement of fiduciary net assets
	Statement of activities	Statements of revenue, expenditures and changes in fund balances	Statement of cash flows	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, and 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 revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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 after	All revenue 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

## **District-Wide Financial Statements**

The District-wide 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 revenue and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two District-wide 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 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, readers should consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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 food services are included here, as reported in the School Nutrition Fund.

## **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 or by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for various student activity funds or to demonstrate it is properly using certain revenue, such as federal grants.

The District has three types 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 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. Because this information does not encompass the additional long-term focus of the District-wide statements, reconciliations between the District-wide financial statements and the fund financial statements follow the fund financial statements.

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

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

- **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 District-wide 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 balance sheet, a statement of revenue, expenses and changes in fund net assets and a statement of cash flows.

- *Fiduciary funds:* The District serves as the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

### Financial Analysis of the District as a Whole

**Net Assets** – Figure A-3 provides a summary of the District’s net assets for the year ended June 30, 2006 compared to 2005.

**Figure A-3**  
**Condensed Statement of Net Assets**  
(expressed in thousands)

	Governmental Activities		Business-Type Activities		Total School District		Percentage Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current & Other Assets	18,592	23,905	236	121	18,828	24,026	-22%
Capital Assets	18,500	10,981	26	34	18,526	11,015	68%
<b>Total Assets</b>	<b>37,092</b>	<b>34,886</b>	<b>262</b>	<b>155</b>	<b>37,354</b>	<b>35,041</b>	<b>7%</b>
Long-Term Liabilities	12,070	12,765	-	-	12,070	12,765	-5%
Other Liabilities	15,601	14,319	15	-	15,616	14,319	9%
<b>Total Liabilities</b>	<b>27,671</b>	<b>27,084</b>	<b>15</b>	<b>-</b>	<b>27,686</b>	<b>27,084</b>	<b>2%</b>
<b>Net Assets</b>							
Invested Capital in assets, net of related debt	5,735	6,093	27	34	5,762	6,127	-6%
Restricted	2,780	1,023	-	-	2,780	1,023	172%
Unrestricted	906	686	219	121	1,125	807	39%
<b>Total Net Assets</b>	<b>9,421</b>	<b>7,802</b>	<b>246</b>	<b>155</b>	<b>9,667</b>	<b>7,957</b>	<b>21%</b>

As shown in Figure A-3, total assets increased by about 7%, or approximately \$2.3 million from the prior year. The District’s total liabilities increased by about 2%, or approximately \$600,000. The increase in total assets was largely attributable to construction in progress of the District’s middle school construction project, while the increase in total liabilities was mainly attributable to an increase in deferred revenue from succeeding year property taxes.

Restricted net assets increased by approximately \$1.757 million, or 172%. These net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation, which limits how they can be used. The increase in restricted net assets is primarily due to an increase in the Debt Service and Physical Plant and Equipment Levy fund balances. Unrestricted assets, the part of net assets that can be used to finance day-to-day operations without constraints, increased by approximately \$318,000, or 39%, from the prior fiscal year while total net assets increased by about \$1.710 million, or 21%, from the prior year.

**Changes in Net Assets** – Figure A-4 shows a summary of the District’s changes in net assets for the fiscal year ended June 30, 2006 as compared to fiscal 2005.

**Figure A-4**  
**Change in Net Assets**  
(expressed in thousands)

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total School District</b>		<b>Percentage Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-2006</b>
<b>Revenue</b>							
<b>Program Revenue</b>							
Charge for Service	2,348	2,581	466	409	2,814	2,990	-5.9%
Operating grants, contributions and restricted interest	2,150	1,883	309	294	2,459	2,177	13.0%
Capital grants, contributions and restricted interest	-	282	-	-	-	282	-100.0%
<b>General Revenue</b>							
Property Tax	5,990	5,797	-	-	5,990	5,797	3.3%
Local Option Sales and Service Tax	1,087	1,176	-	-	1,087	1,176	-7.6%
Income Surtax	699	839	-	-	699	839	-16.7%
Unrestricted state grants and contributions	9,669	9,141	-	-	9,669	9,141	5.8%
Unrestricted investment earnings	459	84	6	3	465	87	434.5%
Other	252	4	-	-	252	4	6200.0%
<b>Total Revenue</b>	<b>22,654</b>	<b>21,787</b>	<b>781</b>	<b>706</b>	<b>23,435</b>	<b>22,493</b>	<b>4.2%</b>
<b>Program Expenses</b>							
Instruction	14,125	13,750	-	-	14,125	13,750	2.7%
Support Services	5,678	5,264	-	-	5,678	5,264	7.9%
Non-instructional programs	-	10	691	692	691	702	-1.6%
Other expenses	1,233	1,404	-	-	1,233	1,404	-12.2%
<b>Total Expenses</b>	<b>21,036</b>	<b>20,428</b>	<b>691</b>	<b>692</b>	<b>21,727</b>	<b>21,120</b>	<b>2.9%</b>
<b>Change in Net Assets</b>	<b>1,618</b>	<b>1,359</b>	<b>90</b>	<b>14</b>	<b>1,708</b>	<b>1,373</b>	<b>24.4%</b>

Property tax and unrestricted state grants accounted for 69% of the District's total revenue in all funds, as shown above. The District's expenses are primarily in the instruction and support services, which total 94% of the total expenses shown in Figure A-4. Total District revenue was 4.2% higher than the prior year, and the corresponding expenses were 2.9% higher.

### Governmental Activities

Revenue for governmental activities was \$22,654,819 and expenses were \$21,036,087. Revenue from capital grants, contributions and restricted interest increased significantly due to the District earning interest on unspent bond and note proceeds for a full year in FY06.

The following table, Figure A-5, presents the cost of the four major District activities: Instruction, Support Services, Non-Instructional Programs and Other Expenses. The table shows each activity's *net* cost, which is the total expense less any fees generated by the activities and intergovernmental aid provided for specific programs. Therefore, the net cost indicates the financial burden placed on the District's taxpayers by each of these District functions.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
(Expressed in thousands)

	Total Costs of Services			Net Cost of Services		
	2006	2005	Change 2005- 2006	2006	2005	Change 2005- 2006
Instruction	\$ 14,125	\$ 13,750	3%	\$ 10,342	\$ 10,336	0%
Support Services	5,678	5,264	8%	5,646	4,859	16%
Non-instructional Programs	0	10	-100%	0	10	-100%
Other Expenses	1,233	1,404	-12%	551	476	16%
<b>Total</b>	<b>\$ 21,036</b>	<b>\$ 20,428</b>	<b>3%</b>	<b>\$ 16,539</b>	<b>\$ 15,681</b>	<b>5%</b>

The total cost of all governmental activities for FY06 was \$21,036,087. Users of the District's programs, through fees and admissions revenue, financed approximately \$2.3 million. Federal and state governments through restricted program grants and contributions subsidized approximately \$2.1 million. This revenue is categorized as program revenue as it is specifically related to a certain program and, therefore, must be expended within that program.

The net cost of services for all governmental activities was \$16,537,619 financed primarily with revenue from unrestricted state aid and local property tax. State aid and property tax are examples of general revenue, as they are not specific to a program and are available to be expended for more universal purposes within a specific fund. The differences in total cost of services versus net cost of services remained very similar from the prior year to the current year, as shown in the comparison above.

### Business-Type Activities

As previously discussed, the District's business-type fund is the School Nutrition Fund. Revenue for this fund was \$782,325, an increase of \$76,514 from the prior year. Similarly, expenses in FY06 decreased by \$917 from the prior year, totaling \$691,377. Revenue of the School Nutrition Fund is comprised of charges for service, federal and state reimbursements and investment income.

## **Financial Analysis of the District's Funds**

The Boone Community School District uses fund accounting to ensure and demonstrate compliance with finance-related statutory requirements. A summary financial analysis of individual District Funds follows, categorized into governmental and business types:

### **Governmental Fund Highlights**

The financial performance of the District as a whole is largely reflected in its governmental funds. Overall, the District's governmental funds had combined fund balances of \$3,145,300 at June 30, 2006, a decrease of approximately \$6.3 million over the prior year. The following is a closer look at each individual major fund:

- The **General Fund** balance increased from a deficit balance of (\$230,393), at the end of fiscal 2005 to a \$282,754 surplus at the end of fiscal 2006. The increase is due to a 7.6% increase in revenue and only a 4.2% increase in expenditures.
- The **Capital Projects Fund** balance decreased from \$8,556,289 at the end of fiscal 2005 to \$1,409,215 at the end of fiscal 2006. This decrease is a result of the construction of a new middle school. The District collects local option sales and services tax and is required to account for these revenue and expenses in a separate fund since they may only be used for capital projects or debt reduction. The District's share of revenue from the local option sales and services tax from Boone County was \$1,086,699 for fiscal 2006.

### **Business-Type Fund Highlights**

- The **School Nutrition Fund** balance increased from a balance of \$155,252 at the end of fiscal year 2005 to \$246,200 at June 30, 2006. Students and staff continued to enjoy high quality breakfasts and lunches. Business-type fund capital assets were \$26,695 as of June 30, 2006.

### **General Fund Budgetary Highlights**

Over the course of the year, the District amended its annual budget one time to reflect additional revenue and expenditures associated with various programs within the District.

The District's revenue was \$980,321 more than budgeted revenue, a variance of 4.3%, while the District's expenditures/expenses were \$2,298,576 more than budgeted expenditures/expenses, a variance of 8.3%.

## **Capital Assets and Debt Administration**

### **Capital Assets**

At the end of fiscal year 2006 the District had invested, net of depreciation, about \$18.5 million in capital assets, including school buildings, construction in progress, vehicles and other equipment.

Construction in progress increased \$7.6 million to \$12,500,703 at June 30, 2006. This category typically can vary greatly from year to year, according to the timing of when construction projects are started or completed. The category included the District's new middle school project, which was substantially completed and occupied August 8, 2006. The project is funded through debt issuances, which occurred in FY04.

## **Long-Term Debt**

On June 30, 2006, the District had a total of \$12,841,160 in general obligation bonds and other long-term obligations outstanding. This represents a decrease of 5% from the prior year total of \$13,520,861.

Regular scheduled debt service payments of principal and interest on general obligation bonds were paid in fiscal 2006 and included principal payments of \$680,000.

Early retirement obligations rose slightly from \$75,861 at the end of 2005 to \$76,160 at the end of 2006.

## **Economic Factors Bearing on the District's Future**

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

- District enrollment decreased at the start of the 2006-2007 school year by 34.9 students, or about 1.47% of the total enrolled in the previous year. Under Iowa's school foundation formula, a school district's state aid funding is highly dependant upon its enrollment. Even though 1% is a small percentage, it generates a substantial decrease in funding over and above the allowable growth amount set by the Legislature. These enrollment figures reported in September 2006 will be the basis for the District's state funding for fiscal year 2007.
- The District levied a cash reserve levy of \$685,000 for fiscal year 2007.
- Successful grant applications will allow continuation or expansion of programs.
- The state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its two collective bargaining units. The District will negotiate new agreements during fiscal 2007. 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. Corresponding cost reductions may be necessary to offset the cost of negotiated settlements and other cost increases.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus must be replaced during fiscal year 2007 at an approximate cost of \$77,810. To pay for this bus, the District will use resources from the Physical Plant and Equipment Levy Fund.
- Rising fuel costs will increase the cost of student transportation leaving fewer funds available for instructional and other services.
- The District is in the process of establishing a facility condition report to develop a repair/maintenance schedule for all facilities.
- The early retirement plan has been rescinded beginning in fiscal year 2007 and forward. The Board of Education will review and determine when it will be in the best interest of the District to reinstate.

### **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 commitment of accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Jodi Severson CPA MBA, Business Manager, Boone Community School District, 500 Seventh Street, Boone, Iowa, 50036-2898.

## **Basic Financial Statements**

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# Statement of Net Assets

At June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Boone Educational Endowment Foundation
<b>Assets</b>				
Cash and Cash Equivalents				
ISCAP .....	\$ 5,000,370	\$ —	\$ 5,000,370	\$ —
Other .....	5,056,421	188,837	5,245,258	266,059
Receivables				
Property Taxes, Net of Allowance				
Current year delinquent .....	76,353	—	76,353	—
Succeeding year .....	6,820,622	—	6,820,622	—
Accrued interest .....	124,996	—	124,996	—
Other .....	51,969	30,500	82,469	—
Due from other governments .....	1,218,423	—	1,218,423	—
Inventories and prepaid expenses .....	242,564	15,592	258,156	—
Capital assets, net of accumulated depreciation .....	18,499,800	26,695	18,526,495	—
<b>Total Assets .....</b>	<b>\$ 37,091,518</b>	<b>\$ 261,624</b>	<b>\$ 37,353,142</b>	<b>\$ 266,059</b>
<b>Liabilities</b>				
Accounts payable .....	\$ 1,187,699	\$ —	\$ 1,187,699	\$ —
Salaries and benefits payable .....	1,671,365	15,424	1,686,789	—
Accrued interest payable .....	82,792	—	82,792	—
Deferred revenue - succeeding year property taxes ..	6,820,622	—	6,820,622	—
ISCAP warrants payable .....	5,000,000	—	5,000,000	—
ISCAP accrued interest payable .....	29,527	—	29,527	—
ISCAP unamortized premium .....	37,601	—	37,601	—
Long-Term Liabilities				
Portion Due Within One Year				
General obligation bonds payable .....	485,000	—	485,000	—
General obligation capital loan notes payable .....	210,000	—	210,000	—
Early retirement .....	76,160	—	76,160	—
Portion Due After One Year				
General obligation bonds payable .....	11,625,000	—	11,625,000	—
General obligation capital loan notes payable .....	445,000	—	445,000	—
<b>Total Liabilities .....</b>	<b>27,670,766</b>	<b>15,424</b>	<b>27,686,190</b>	<b>—</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt .....	5,734,800	26,695	5,761,495	—
Restricted For				
Debt service .....	168,907	—	168,907	—
Management levy .....	30,761	—	30,761	—
Property, plant and equipment levy .....	1,064,252	—	1,064,252	—
Student activities .....	106,619	—	106,619	—
Capital projects .....	1,409,215	—	1,409,215	—
Unrestricted .....	906,198	219,505	1,125,703	266,059
<b>Total Net Assets .....</b>	<b>9,420,752</b>	<b>246,200</b>	<b>9,666,952</b>	<b>266,059</b>
<b>Total Liabilities and Net Assets .....</b>	<b>\$ 37,091,518</b>	<b>\$ 261,624</b>	<b>\$ 37,353,142</b>	<b>\$ 266,059</b>

See accompanying notes to the financial statements.

# Statement of Activities

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenue		Net (Expenses), Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Boone Educational Endowment Foundation
<b>Governmental Activities</b>							
Instruction							
Regular instruction .....	\$ 9,188,787	\$ 2,120,599	\$ 1,078,702	\$ (5,989,486)	\$ —	\$ (5,989,486)	\$ —
Special instruction .....	3,762,965	—	220,479	(3,542,486)	—	(3,542,486)	—
Other instruction .....	1,173,180	201,963	161,978	(809,239)	—	(809,239)	—
Total Instruction .....	<u>14,124,932</u>	<u>2,322,562</u>	<u>1,461,159</u>	<u>(10,341,211)</u>	<u>—</u>	<u>(10,341,211)</u>	<u>—</u>
Support Services							
Student services .....	749,001	—	—	(749,001)	—	(749,001)	—
Instructional staff services .....	672,358	—	—	(672,358)	—	(672,358)	—
Administration services .....	2,152,681	—	—	(2,152,681)	—	(2,152,681)	—
Operation and maintenance of plant services .....	1,682,281	9,675	—	(1,672,606)	—	(1,672,606)	—
Transportation services .....	421,439	15,874	6,880	(398,685)	—	(398,685)	—
Total Support Services .....	<u>5,677,760</u>	<u>25,549</u>	<u>6,880</u>	<u>(5,645,331)</u>	<u>—</u>	<u>(5,645,331)</u>	<u>—</u>
Other Expenditures							
Facilities acquisition .....	23,332	—	—	(23,332)	—	(23,332)	—
Long-term debt interest .....	521,797	—	—	(521,797)	—	(521,797)	—
AEA flow through .....	682,318	—	682,318	—	—	—	—
Depreciation - unallocated .....	5,948	—	—	(5,948)	—	(5,948)	—
Total Other Expenditures .....	<u>1,233,395</u>	<u>—</u>	<u>682,318</u>	<u>(551,077)</u>	<u>—</u>	<u>(551,077)</u>	<u>—</u>
<b>Total Governmental Activities .....</b>	<b>21,036,087</b>	<b>2,348,111</b>	<b>2,150,357</b>	<b>(16,537,619)</b>	<b>—</b>	<b>(16,537,619)</b>	<b>—</b>
<b>Business-Type Activities</b>							
Noninstructional Programs							
Nutrition services .....	691,377	466,474	309,410	—	84,507	84,507	—
<b>Total .....</b>	<b>\$ 21,727,464</b>	<b>\$ 2,814,585</b>	<b>\$ 2,459,767</b>	<b>(16,537,619)</b>	<b>84,507</b>	<b>(16,453,112)</b>	<b>—</b>
<b>Component Unit</b>							
School Foundation .....	<u>\$ 49,380</u>	<u>\$ —</u>	<u>\$ 9,343</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(40,037)</u>
<b>General Revenue</b>							
Property Taxes Levied For							
General purposes .....				4,952,428	—	4,952,428	—
Management .....				375,591	—	375,591	—
PPEL .....				607,947	—	607,947	—
Capital projects .....				54,540	—	54,540	—
Local option sales tax .....				1,086,699	—	1,086,699	—
Income surtax .....				699,604	—	699,604	—
Unrestricted State Grants							
General .....				9,667,652	—	9,667,652	—
Other .....				1,019	—	1,019	—
Interest and investment earnings .....				458,976	6,441	465,417	11,769
Miscellaneous .....				251,895	—	251,895	—
<b>Total General Revenue .....</b>				<b>18,156,351</b>	<b>6,441</b>	<b>18,162,792</b>	<b>11,769</b>
<b>Change in Net Assets .....</b>				<b>1,618,732</b>	<b>90,948</b>	<b>1,709,680</b>	<b>(28,268)</b>
Net Assets - Beginning of Year .....				7,802,020	155,252	7,957,272	294,327
<b>Net Assets - End of Year .....</b>				<b>\$ 9,420,752</b>	<b>\$ 246,200</b>	<b>\$ 9,666,952</b>	<b>\$ 266,059</b>

See accompanying notes to the financial statements.

## Balance Sheet - Governmental Funds

At June 30, 2006

	General	Capital Projects	All Other Nonmajor	Total
<b>Assets</b>				
Cash and Pooled Investments				
ISCAP .....	\$ 5,000,370	\$ —	\$ —	\$ 5,000,370
Other .....	1,454,587	2,172,700	1,429,134	5,056,421
Receivables				
Property Taxes, Net				
Current year delinquent.....	63,301	—	13,052	76,353
Succeeding year .....	5,618,035	—	1,202,587	6,820,622
Other .....	51,969	—	—	51,969
ISCAP accrued interest.....	31,590	—	—	31,590
Due from other funds .....	229,119	—	—	229,119
Due from other governments .....	853,844	364,579	—	1,218,423
Prepaid insurance.....	93,406	—	242,564	335,970
<b>Total Assets .....</b>	<b><u>\$ 13,396,221</u></b>	<b><u>\$ 2,537,279</u></b>	<b><u>\$ 2,887,337</u></b>	<b><u>\$ 18,820,837</u></b>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable .....	\$ 57,335	\$ 1,128,064	\$ 2,300	\$ 1,187,699
Salaries and benefits payable .....	1,671,365	—	—	1,671,365
Due to other funds .....	—	—	229,119	229,119
ISCAP warrants payable .....	5,000,000	—	—	5,000,000
ISCAP accrued interest payable.....	29,527	—	—	29,527
ISCAP unamortized premium.....	37,601	—	—	37,601
Deferred Revenue				
Succeeding year property taxes ...	5,618,035	—	1,202,587	6,820,622
Other .....	699,604	—	—	699,604
<b>Total Liabilities .....</b>	<b><u>13,113,467</u></b>	<b><u>1,128,064</u></b>	<b><u>1,434,006</u></b>	<b><u>15,675,537</u></b>
<b>Fund Balances</b>				
Reserved For				
Capital project fund.....	—	1,409,215	—	1,409,215
Debt service .....	—	—	251,699	251,699
Prepaid insurance .....	—	—	242,564	242,564
Unreserved.....	282,754	—	959,068	1,241,822
<b>Total Fund Balances .....</b>	<b><u>282,754</u></b>	<b><u>1,409,215</u></b>	<b><u>1,453,331</u></b>	<b><u>3,145,300</u></b>
<b>Total Liabilities and Fund Balances .....</b>	<b><u>\$ 13,396,221</u></b>	<b><u>\$ 2,537,279</u></b>	<b><u>\$ 2,887,337</u></b>	<b><u>\$ 18,820,837</u></b>

See accompanying notes to the financial statements.

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

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At June 30, 2006

<b>Total Fund Balances for Governmental Funds (Page 16).....</b>		<b>\$ 3,145,300</b>
 <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 .....		18,499,800
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the government funds .....		699,604
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.....		(82,792)
Long-term liabilities, including capital loan notes, general obligation bonds and early retirement benefits are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
Capital loan notes .....	\$ 655,000	
General obligation bonds payable.....	12,110,000	
Early retirement benefits .....	<u>76,160</u>	<u>(12,841,160)</u>
<b>Net Assets of Governmental Activities (Page 14) .....</b>		<b><u>\$ 9,420,752</u></b>

# Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds

Year Ended June 30, 2006

	General	Capital Projects	All Other Nonmajor	Total Govern- mental Funds
<b>Revenue</b>				
Local Sources				
Local taxes.....	\$ 5,759,211	\$ 1,086,699	\$ 1,038,022	\$ 7,883,932
Tuition .....	1,816,342	—	—	1,816,342
Other .....	926,929	277,604	344,437	1,548,970
Intermediate sources .....	479	—	—	479
State sources.....	11,160,024	—	1,019	11,161,043
Federal sources.....	541,175	—	—	541,175
<b>Total Revenue.....</b>	<b><u>20,204,160</u></b>	<b><u>1,364,303</u></b>	<b><u>1,383,478</u></b>	<b><u>22,951,941</u></b>
<b>Expenditures</b>				
Current				
Instruction				
Regular instruction .....	8,658,904	—	372,985	9,031,889
Special instruction .....	3,762,965	—	—	3,762,965
Other instruction.....	<u>930,922</u>	<u>—</u>	<u>236,578</u>	<u>1,167,500</u>
<b>Total Instruction.....</b>	<b><u>13,352,791</u></b>	<b><u>—</u></b>	<b><u>609,563</u></b>	<b><u>13,962,354</u></b>
Support Services				
Student services.....	749,001	—	—	749,001
Instructional staff services.....	668,542	—	2,778	671,320
Administration services .....	2,141,563	—	10,528	2,152,091
Operation and maintenance of plant services .....	1,681,462	—	13,170	1,694,632
Transportation services.....	<u>415,336</u>	<u>—</u>	<u>66,852</u>	<u>482,188</u>
<b>Total Support Services.....</b>	<b><u>5,655,904</u></b>	<b><u>—</u></b>	<b><u>93,328</u></b>	<b><u>5,749,232</u></b>
Other Expenditures				
Facilities acquisition and construction.....	—	7,540,817	97,880	7,638,697
Long-Term Debt				
Principal .....	—	—	680,000	680,000
Interest and fiscal charges ....	—	—	526,606	526,606
AEA flowthrough .....	<u>682,318</u>	<u>—</u>	<u>—</u>	<u>682,318</u>
<b>Total Other Expenditures ....</b>	<b><u>682,318</u></b>	<b><u>7,540,817</u></b>	<b><u>1,304,486</u></b>	<b><u>9,527,621</u></b>
<b>Total Expenditures.....</b>	<b><u>19,691,013</u></b>	<b><u>7,540,817</u></b>	<b><u>2,007,377</u></b>	<b><u>29,239,207</u></b>
<b>Revenue Over (Under)</b>				
<b>Expenditures .....</b>	<b><u>513,147</u></b>	<b><u>(6,176,514)</u></b>	<b><u>(623,899)</u></b>	<b><u>(6,287,266)</u></b>
<b>Other Financing Sources (Uses)</b>				
Operating transfers in.....	—	—	1,205,606	1,205,606
Operating transfers out.....	<u>—</u>	<u>(970,560)</u>	<u>(235,046)</u>	<u>(1,205,606)</u>
<b>Total Other Financing     Sources (Uses) .....</b>	<b><u>—</u></b>	<b><u>(970,560)</u></b>	<b><u>970,560</u></b>	<b><u>—</u></b>
<b>Net Change in Fund Balances.....</b>	<b>513,147</b>	<b>(7,147,074)</b>	<b>346,661</b>	<b>(6,287,266)</b>
Fund Balance - Beginning of Year....	<u>(230,393)</u>	<u>8,556,289</u>	<u>1,106,670</u>	<u>9,432,566</u>
<b>Fund Balance - End of Year.....</b>	<b><u>\$ 282,754</u></b>	<b><u>\$ 1,409,215</u></b>	<b><u>\$ 1,453,331</u></b>	<b><u>\$ 3,145,300</u></b>

See accompanying notes to the financial statements.

# Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities \_\_\_\_\_

Year Ended June 30, 2006

**Change in Fund Balances - Total Governmental Funds (Page 18) \$ (6,287,266)**

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

Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays.....	\$ 7,794,335	
Depreciation expense .....	<u>(275,725)</u>	7,518,610

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.....		680,000
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Certain revenue not collected for several months after year end is not considered available revenue and is deferred in governmental funds

Prior period.....	\$ (996,726)	
Current period .....	<u>699,604</u>	(297,122)

Interest on long-term liabilities 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 .....		4,809
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Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.....		<u>(299)</u>
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**Change in Net Assets of Governmental Activities (Page 15) \$ 1,618,732**

# Balance Sheet - Proprietary Fund

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At June 30, 2006

	<b>School Nutrition</b>
<b>Assets</b>	
Cash and cash equivalents .....	\$ 188,837
Receivable - other .....	30,500
Inventories and prepaid items .....	15,592
Machinery and equipment .....	96,762
Less accumulated depreciation .....	<u>(70,067)</u>
<b>Total Assets</b> .....	<b><u>\$ 261,624</u></b>
<b>Liabilities</b>	
Salaries and benefits payable .....	<b><u>\$ 15,424</u></b>
<b>Net Assets</b>	
Invested in capital assets, net of related debt .....	26,695
Unrestricted .....	<u>219,505</u>
<b>Total Net Assets</b> .....	<b><u>246,200</u></b>
<b>Total Liabilities and Net Assets</b> .....	<b><u>\$ 261,624</u></b>

# Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Fund

---

Year Ended June 30, 2006

	<b>School Nutrition</b>
<b>Operating Revenue</b>	
Charges for service .....	<b><u>\$ 466,474</u></b>
<b>Operating Expenses</b>	
Noninstructional Programs	
Food Service Operations	
Salaries and benefits.....	285,124
Purchased services.....	3,059
Supplies .....	394,604
Depreciation .....	<u>8,590</u>
<b>Total Operating Expenses</b> .....	<b><u>691,377</u></b>
<b>Loss From Operations</b> .....	<b><u>(224,903)</u></b>
<b>Nonoperating Revenue</b>	
State sources.....	9,317
Federal sources.....	300,093
Interest on investments .....	<u>6,441</u>
<b>Total Nonoperating Revenue</b> .....	<b><u>315,851</u></b>
<b>Change in Net Assets</b> .....	<b>90,948</b>
Net Assets - Beginning of Year .....	<u>155,252</u>
<b>Net Assets - End of Year</b> .....	<b><u>\$ 246,200</u></b>

# Statement of Cash Flows - Proprietary Fund

Year Ended June 30, 2006

	<b>School Nutrition</b>
<b>Cash Flows From Operating Activities</b>	
Cash received from sale of lunches and breakfasts.....	\$ 435,974
Cash payments to employees for services.....	(269,700)
Cash payments to suppliers for goods and services.....	<u>(368,680)</u>
<b>Net Cash Used in Operating Activities .....</b>	<b><u>(202,406)</u></b>
<b>Cash Flows Provided by Noncapital Financing Activities</b>	
State grants received.....	9,317
Federal grants received.....	<u>265,960</u>
<b>Net Cash Provided by Noncapital Financing Activities .....</b>	<b><u>275,277</u></b>
<b>Cash Flows From Capital and Related Financing Activities</b>	
Acquisition of capital assets .....	<u>(1,249)</u>
<b>Cash Flows From Investment Activities</b>	
Interest on investments .....	<u>6,441</u>
<b>Net Increase in Cash and Cash Equivalents .....</b>	<b>78,063</b>
Cash and Cash Equivalents at Beginning of Year.....	<u>110,774</u>
<b>Cash and Cash Equivalents at End of Year .....</b>	<b><u>\$ 188,837</u></b>
<b>Reconciliation of Loss From Operations to Net Cash Used in Operating Activities</b>	
Loss from operations .....	\$ (224,903)
Adjustments to Reconcile Loss from Operations to Net Cash Used in Operating Activities	
Commodities used .....	26,420
Depreciation.....	8,590
Changes in Assets and Liabilities	
Decrease in inventories and prepaid items .....	2,563
Increase in accounts receivable .....	(30,500)
Increase in salaries and benefits payable .....	<u>15,424</u>
<b>Net Cash Used in Operating Activities .....</b>	<b><u>\$ (202,406)</u></b>

## Noncash Investing, Capital and Financing Activities

During the year ended June 30, 2006, the District received \$34,133 of federal commodities.

# Statement of Fiduciary Net Assets - Fiduciary Fund ---

At June 30, 2006

	<b>Private Purpose Trusts</b>
<b>Assets</b>	
Cash, Cash Equivalents and Pooled Investments .....	<u>\$ 148,314</u>
<b>Net Assets</b>	
Reserved for Scholarships .....	<u>\$ 148,314</u>

# Statement of Changes in Fiduciary Net Assets - Fiduciary Fund ---

Year Ended June 30, 2006

	<b>Private Purpose Trusts</b>
<b>Additions</b>	
Local Sources	
Gifts and contributions .....	\$ 3,215
Interest income .....	<u>7,485</u>
Total Additions .....	10,700
<b>Deductions</b>	
Support Services	
Scholarships awarded.....	<u>9,103</u>
<b>Change in Net Assets</b> .....	<b>1,597</b>
Net Assets - Beginning of Year .....	<u>146,717</u>
<b>Net Assets - End of Year</b> .....	<b><u>\$ 148,314</u></b>

# Notes to the Financial Statements

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## **(1) Summary of Significant Accounting Policies**

The Boone Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Boone, Iowa, and agricultural territory in Boone County. The District is governed by a Board of Education whose members are elected on a nonpartisan basis.

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

### **Reporting Entity**

For financial reporting purposes, the Boone Community School District has included all funds, organizations, account groups, 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.

These financial statements present the Boone Community School District and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

### **Discretely Presented Component Unit**

The Boone Educational Endowment Foundation is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to collect funds and provide financial support for activities of the Boone Community School District. The Foundation is governed by a six-member Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The financial information presented is as of and for its year end of December 31, 2005.

### **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 Boone County Assessor's Conference Board.

## **Basis of Presentation**

### ***District-Wide Financial Statements***

The statement of net assets and the statement of activities report information on all 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 revenue, are reported separately for business-type activities, which rely to a significant extent on fees and charges for service.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

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 revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenue are reported instead as general revenue.

### **Fund Financial Statements**

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

The District reports the following major governmental funds:

*General Fund* is the general operating fund of the District. All general tax revenue and other receipts 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 expenses, including instructional, support and other costs.

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

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

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund includes 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.

## (1) Summary of Significant Accounting Policies

### Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus." The District-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenue is 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. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collected within 60 days after year end.

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenue. 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 revenue.

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 revenue and expenses from nonoperating items. Operating revenue 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 revenue 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 revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

## (1) Summary of Significant Accounting Policies

### Assets, Liabilities and Fund Equity

#### ***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 nonnegotiable certificates of deposit which are stated at cost.

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

#### ***Property Taxes Receivable***

Property taxes in the governmental funds are accounted for using the modified accrual basis of accounting.

Property taxes receivable are recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property taxes receivable represent unpaid taxes for the current and prior years. The succeeding year property taxes receivable represent 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 taxes receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1-1/2% monthly 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 revenue, grants and reimbursements from other governments.

#### ***Food and Supplies Inventories***

Inventories are valued at cost using the first-in, first-out (FIFO) method for purchased items and contributed value for government commodities. At June 30, 2006, total inventories included government commodities valued at \$15,592 which were on hand. General fund supplies inventory is accounted for under the consumption method. Expenditures are recognized when the inventory is used.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

### **Capital Assets**

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

Land .....	\$ 5,000
Buildings.....	5,000
Improvements other than buildings .....	5,000
Furniture and Equipment	
School Nutrition equipment.....	500
Other furniture and equipment .....	5,000

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

Buildings.....	50 Years
Improvements other than buildings .....	20-50 Years
Equipment.....	10 Years

### **Salaries and Benefits Payable**

Payroll and related expenditures for teachers and staff with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

### **Deferred Revenue**

Although certain revenue is measurable, it is not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property taxes receivable and other receivables not collected within 60 days after year end.

Deferred revenue on the statement of net assets includes succeeding year property taxes receivable that will not be recognized as revenue until the year for which it is levied.

### **Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

### **Fund Balances**

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.

# Notes to the Financial Statements

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## (1) Summary of Significant Accounting Policies

### **Restricted Net Assets**

In the District-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.

### **Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures for instruction and other expenditures functions exceeded the amounts budgeted.

### **Estimates and Assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## (2) Cash, Cash Equivalents 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 improvements certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio of \$2,819,778. The investments are valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

### **Concentration of Credit Risk**

The District's Private Purpose Trust Fund investments consists of 71% in a Federal Home Loan Note and 29% in stock, as follows:

Type	Fair Value	Maturity
Stock	\$20,907	None
Federal Home Loan Note	50,000	June, 2011

The investments in the Iowa Schools Joint Investment Trust and the Federal Home Loan Note were rated Aaa by Moody's Investors Service.

## Notes to the Financial Statements

### (3) Due From and Due to Other Funds

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

Receivable Fund	Payable Fund	Amount
General	Management	\$ 219,280
General	Student Activity	9,839
<b>Total</b>		<b><u>\$ 229,119</u></b>

### (4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer From	Amount
Debt Service	Capital Projects	\$ 970,560
Debt Service	Special Revenue - PPEL	235,046
<b>Total</b>		<b><u>\$ 1,205,606</u></b>

### (5) Iowa School Cash Anticipation Program

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2005-06B	1-28-05	1-26-07	\$ 1,505,235	\$ 30,503	\$ 1,500,000	\$ 28,664	\$ 9,368
2006-07A	6-30-05	6-28-07	3,495,135	1,087	3,500,000	863	28,233
<b>Total</b>			<b><u>\$ 5,000,370</u></b>	<b><u>\$ 31,590</u></b>	<b><u>\$ 5,000,000</u></b>	<b><u>\$ 29,527</u></b>	<b><u>\$ 37,601</u></b>

## Notes to the Financial Statements

### (5) Iowa School Cash Anticipation Program

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Series	Balance - Beginning of Year	Advances Received	Advances Repaid	Balance - End of Year
2005-06A	<u>\$ —</u>	<u>\$ 1,500,000</u>	<u>\$ 1,500,000</u>	<u>\$ —</u>

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06B	4.5%	4.772%
2006-07A	4.5	5.676

### (6) Capital Assets

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

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated				
Land .....	\$ 319,432	\$ —	\$ —	\$ 319,432
Construction in progress .....	<u>4,885,338</u>	<u>7,615,365</u>	<u>—</u>	<u>12,500,703</u>
Total Capital Assets Not Being Depreciated.....	<u>5,204,770</u>	<u>7,615,365</u>	<u>—</u>	<u>12,820,135</u>
Capital Assets Being Depreciated				
Buildings and improvements .....	14,403,430	—	—	14,403,430
Furniture and equipment.....	<u>831,515</u>	<u>178,970</u>	<u>—</u>	<u>1,010,485</u>
Total Capital Assets Being Depreciated.....	<u>15,234,945</u>	<u>178,970</u>	<u>—</u>	<u>15,413,915</u>
Less Accumulated Depreciation For				
Buildings and improvements .....	8,890,975	206,338	—	9,097,313
Furniture and equipment.....	<u>567,550</u>	<u>69,387</u>	<u>—</u>	<u>636,937</u>
Total Accumulated Depreciation .....	<u>9,458,525</u>	<u>275,725</u>	<u>—</u>	<u>9,734,250</u>
Net Total Capital Assets Being Depreciated.....				
	<u>5,776,420</u>	<u>(96,755)</u>	<u>—</u>	<u>5,679,665</u>
<b>Net Governmental Activities</b>				
<b>Capital Assets</b> .....	<u><b>\$ 10,981,190</b></u>	<u><b>\$ 7,518,610</b></u>	<u><b>\$ —</b></u>	<u><b>\$ 18,499,800</b></u>

## Notes to the Financial Statements

### (6) Capital Assets

	Balance - Beginning of Year	Increases	Decreases	Balance - End of Year
<b>Business-Type Activities</b>				
Furniture and equipment .....	\$ 95,513	\$ 1,249	\$ —	\$ 96,762
Less accumulated depreciation .....	<u>61,477</u>	<u>8,590</u>	<u>—</u>	<u>70,067</u>
<b>Net Business-Type Activities</b>				
<b>Capital Assets</b> .....	<u><b>\$ 34,036</b></u>	<u><b>\$ (7,341)</b></u>	<u><b>\$ —</b></u>	<u><b>\$ 26,695</b></u>

Depreciation expense was charged as follows:

#### Governmental Activities

Instruction		
Regular .....		\$ 212,813
Other .....		5,680
Support Services		
Instructional staff services .....		1,037
Administrative services .....		590
Operation and maintenance of plant services .....		7,325
Transportation .....		<u>42,332</u>
Subtotal .....		269,777
Unallocated .....		<u>5,948</u>
<b>Total Governmental Activities Depreciation Expense</b> .....		<u><b>\$ 275,725</b></u>
Business-Type Activities		
Food Service .....		<u><b>\$ 8,590</b></u>

### (7) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance - Beginning of Year	Additions	Reductions	Balance - End of Year	Due Within One Year
General obligation bonds	\$ 12,580,000	\$ —	\$ 470,000	\$ 12,110,000	\$ 485,000
General obligation capital loan notes .....	865,000	—	210,000	655,000	210,000
Early retirement .....	<u>75,861</u>	<u>76,160</u>	<u>75,861</u>	<u>76,160</u>	<u>76,160</u>
<b>Total</b> .....	<u><b>\$ 13,520,861</b></u>	<u><b>\$ 76,160</b></u>	<u><b>\$ 755,861</b></u>	<u><b>\$ 12,841,160</b></u>	<u><b>\$ 771,160</b></u>

## Notes to the Financial Statements

### (7) Long-Term Liabilities

#### General Obligation Bonds

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

June 30,	Bond Issue of December 1, 2003			Bond Issue of May 1, 2004 Series 2004A			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2007	4.00 - 4.50%	\$ —	\$ 216,120	3.500%	\$ 485,000	\$ 267,990	\$ 485,000	\$ 484,110
2008	4.00 - 4.50	—	216,120	3.500	510,000	251,016	510,000	467,136
2009	4.00 - 4.50	—	216,120	3.500	525,000	233,166	525,000	449,286
2010	4.00 - 4.50	—	216,120	3.500	545,000	214,790	545,000	430,910
2011	4.00 - 4.50	—	216,120	3.500	565,000	195,716	565,000	411,836
2012-16	4.00 - 4.50	540,000	1,080,600	3.500 - 3.875	2,565,000	665,684	3,105,000	1,746,284
2017-21	4.00 - 4.50	3,050,000	726,650	3.875 - 4.350	680,000	365,800	3,730,000	1,092,450
2022-24	4.45 - 4.50	1,410,000	95,850	4.350 - 4.500	1,235,000	145,260	2,645,000	241,110
<b>Total</b>		<b>\$ 5,000,000</b>	<b>\$ 2,983,700</b>		<b>\$ 7,110,000</b>	<b>\$ 2,339,422</b>	<b>\$ 12,110,000</b>	<b>\$ 5,323,122</b>

#### Notes Payable

Details of the District's June 30, 2006 general obligation capital loan note indebtedness is as follows:

Year Ending June 30,	PPEL Note Issue of May 1, 2004 - Series 2004B		
	Interest Rates	Principal	Interest
2007.....	2.75 - 2.80%	\$ 210,000	\$ 19,270
2008.....	2.80 - 3.25	215,000	13,496
2009.....	3.25	230,000	7,476
<b>Total.....</b>		<b>\$ 655,000</b>	<b>\$ 40,242</b>

### (8) Pension Plan

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 3.7% 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 \$691,122; \$732,800 and \$728,043, respectively, equal to the required contributions for each year.

### **(9) Risk Management**

The Boone Community School District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. The ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July, 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision and prescription drugs. Each member's contributions to ISEBA funds current operations and provided capital.

Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses, due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$999,102.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop-loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop-loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the District's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

The Boone 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.

### **(10) Area Education Agency Support**

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 \$682,318 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.

## Notes to the Financial Statements

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### **(11) Early Retirement**

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least 15 years of full-time services as a licensed employee since the last date of hire and must have reached the age of 55 on or before June 30 in the calendar year in which early retirement commences. The employee must also meet the rule of "74" (the employee's age plus years of service equal to at least 74). The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are equal to 30% of the employee's regular contractual salary in effect during the employee's last year of regular employment, with a maximum retirement benefit of \$21,000. Early retirement expenditures for the year ended June 30, 2006 totaled \$76,160.

### **(12) Construction Commitments**

The District has entered into contracts totaling \$12,810,592 for the construction of a middle school building. As of June 30, 2006, \$12,424,921 had been incurred and paid. The balance of \$385,671 remaining at June 30, 2006 will be paid as work on the project is completed during the next year.

On June 19, 2006 and August 8, 2006, respectively, the Board of Education approved bids to provide fiber optic communication to Franklin Elementary for \$52,058 and for the construction of an athletics track for \$80,128.

### **(13) Financial Condition**

Sixteen of the District's student activity accounts had a deficit fund balance at June 30, 2006

### **(14) Contingent Liability for Sick Leave Time**

District employees accumulate sick leave hours for subsequent use. These accumulations do not vest and, therefore, are not recognized as liabilities of the District until used by employees. The District's contingent liability for employee sick leave at June 30, 2006 was approximately \$2,133,000.

### **(15) Special Investigations**

The Boone Community School District requested the Office of Auditor of State to perform a special investigation of the District as a result of concerns identified with disbursements made by the District's former Business Manager. The Auditor of State's special investigation identified improper disbursements of \$208,649 between July 1, 2001 and November 30, 2005. Of the \$208,649, approximately \$16,000 of the improper disbursements apply to the year ended June 30, 2006. An insurance recovery of \$205,649 was received during the year ended June 30, 2006.

### **(15) Special Investigations**

The District also requested the Office of Auditor of State to perform a special investigation of the District's Nutrition Department as a result of concerns identified with certain deposits prepared by the District's former Kitchen Manager. The Auditor of State's special investigation estimated \$33,500 of collections undeposited between August 30, 2004 and March 31, 2006. Of the \$33,500 of estimated undeposited collections, approximately \$8,000 apply to the year ended June 30, 2006. An insurance recovery of \$30,500 was recorded as a receivable at June 30, 2006 and was received in October, 2006.

Copies of the Auditor of State's special investigation reports were filed with the City of Boone Police Department, the Boone County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office.

### **(16) Allocation of Revenue and Expenditures**

The District's former Business Manager was terminated in October, 2005. After the termination, it was discovered that much of the revenue and expenditures for the first four months of the school year had not been recorded. The amounts were later recorded but the proper allocation of revenue and expenditures was not able to be determined. The State Auditor investigated the matter (see Note 15 above) and substantially all losses were recovered through the District's insurance carrier.

**Required Supplementary Information**

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## Schedule of Budgetary Comparison of Receipts, Disbursements and Changes in Balances - Budget to Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Year Ended June 30, 2006

	Governmental Fund Types - Actual	Pro- prietary Fund - Actual	Total	Original Budget	Final Budget	Final to Actual Variance
<b>Receipts</b>						
Local sources .....	\$ 11,249,244	\$ 472,915	\$ 11,722,159	\$ 9,938,954	\$ 9,938,954	\$ 1,783,205
Intermediate sources .....	479	—	479	9,500	9,500	(9,021)
State sources .....	11,161,043	9,317	11,170,360	11,960,491	11,960,491	(790,131)
Federal sources .....	541,175	300,093	841,268	845,000	845,000	(3,732)
<b>Total Receipts .....</b>	<b><u>22,951,941</u></b>	<b><u>782,325</u></b>	<b><u>23,734,266</u></b>	<b><u>22,753,945</u></b>	<b><u>22,753,945</u></b>	<b><u>980,321</u></b>
<b>Disbursements</b>						
Instruction.....	13,962,354	—	13,962,354	13,882,008	13,882,008	(80,346)
Support services .....	5,749,232	—	5,749,232	6,521,704	6,700,000	950,768
Noninstructional programs	—	691,377	691,377	933,491	950,000	258,623
Other expenditures.....	9,527,621	—	9,527,621	13,452,144	6,100,000	(3,427,621)
<b>Total Disbursements .....</b>	<b><u>29,239,207</u></b>	<b><u>691,377</u></b>	<b><u>29,930,584</u></b>	<b><u>34,789,347</u></b>	<b><u>27,632,008</u></b>	<b><u>(2,298,576)</u></b>
<b>Receipts Over (Under) Disbursements.....</b>	<b><u>(6,287,266)</u></b>	<b><u>90,948</u></b>	<b><u>(6,196,318)</u></b>	<b><u>(12,035,402)</u></b>	<b><u>(4,878,063)</u></b>	<b><u>(1,318,255)</u></b>
<b>Other Financing Sources (Uses).....</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>236,000</u></b>	<b><u>236,000</u></b>	<b><u>(236,000)</u></b>
<b>Receipts and Other Financing Sources Over (Under) Disbursements..</b>	<b><u>(6,287,266)</u></b>	<b><u>90,948</u></b>	<b><u>(6,196,318)</u></b>	<b><u>(11,799,402)</u></b>	<b><u>(4,642,063)</u></b>	<b><u>\$(1,554,255)</u></b>
Balance - Beginning of Year	9,432,566	155,252	9,587,818	12,500,046	12,500,046	
<b>Balance - End of Year .....</b>	<b><u>\$ 3,145,300</u></b>	<b><u>\$ 246,200</u></b>	<b><u>\$ 3,391,500</u></b>	<b><u>\$ 700,644</u></b>	<b><u>\$ 7,857,983</u></b>	

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 private-purpose trust and agency funds. The budget may be amended during the year utilizing similar and statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. 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 adopted one budget amendment decreasing budget expenditures by \$7,157,339.

During the year ended June 30, 2006, expenditures in instruction and other expenditures functions exceeded the amounts budgeted.

**Other Supplementary Information**

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# Combining Balance Sheet - Nonmajor Governmental Funds

At June 30, 2006

	Special Revenue Funds			Debt Service	Total Nonmajor Governmental Funds
	Management Account	Student Account	PPEL Fund		
<b>Assets</b>					
Cash and pooled investments .....	\$ 2,676	\$ 118,758	\$ 1,056,680	\$ 251,020	\$ 1,429,134
Receivables					
Property Taxes, Net					
Current year delinquent	4,801	—	7,572	679	13,052
Succeeding year .....	480,000	—	669,597	52,990	1,202,587
Prepaid insurance .....	242,564	—	—	—	242,564
<b>Total Assets .....</b>	<b>\$ 730,041</b>	<b>\$ 118,758</b>	<b>\$ 1,733,849</b>	<b>\$ 304,689</b>	<b>\$ 2,887,337</b>
<b>Liabilities and Equities</b>					
<b>Liabilities</b>					
Accounts payable .....	\$ —	\$ 2,300	\$ —	\$ —	\$ 2,300
Due to other funds .....	219,280	9,839	—	—	229,119
Deferred Revenue					
Succeeding year					
property taxes .....	480,000	—	669,597	52,990	1,202,587
<b>Total Liabilities .....</b>	<b>699,280</b>	<b>12,139</b>	<b>669,597</b>	<b>52,990</b>	<b>1,434,006</b>
<b>Equities</b>					
Unreserved, undesignated fund balance .....	30,761	106,619	1,064,252	251,699	1,453,331
<b>Total Liabilities and Equities .....</b>	<b>\$ 730,041</b>	<b>\$ 118,758</b>	<b>\$ 1,733,849</b>	<b>\$ 304,689</b>	<b>\$ 2,887,337</b>

## Combining Schedule of Revenue, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds

Year Ended June 30, 2006

	<u>Special Revenue Funds</u>			Debt Service	Total Nonmajor Govern- mental Funds
	Management Account	Student Account	PPEL Fund		
<b>Revenue</b>					
Local Sources					
Local taxes.....	\$ 375,591	\$ —	\$ 607,948	\$ 54,483	\$ 1,038,022
Other .....	—	297,365	38,947	8,125	344,437
State sources.....	383	—	584	52	1,019
<b>Total Revenue.....</b>	<b><u>375,974</u></b>	<b><u>297,365</u></b>	<b><u>647,479</u></b>	<b><u>62,660</u></b>	<b><u>1,383,478</u></b>
<b>Expenditures</b>					
Instruction					
Regular instruction .....	341,199	—	31,786	—	372,985
Other instruction.....	—	236,578	—	—	236,578
Total Instruction.....	<u>341,199</u>	<u>236,578</u>	<u>31,786</u>	<u>—</u>	<u>609,563</u>
Support Services					
Instructional staff services	—	2,778	—	—	2,778
Administration services...	—	10,128	400	—	10,528
Operation and mainten- ance of plant services...	—	—	13,170	—	13,170
Transportation services...	—	—	66,852	—	66,852
Total Support Services	<u>—</u>	<u>12,906</u>	<u>80,422</u>	<u>—</u>	<u>93,328</u>
Other Expenditures					
Facilities acquisition and construction .....	—	—	97,880	—	97,880
Long-Term Debt					
Principal.....	—	—	—	680,000	680,000
Interest and fiscal charges	—	—	—	526,606	526,606
Total Other Expenditures	<u>—</u>	<u>—</u>	<u>97,880</u>	<u>1,206,606</u>	<u>1,304,486</u>
<b>Total Expenditures.....</b>	<b><u>341,199</u></b>	<b><u>249,484</u></b>	<b><u>210,088</u></b>	<b><u>1,206,606</u></b>	<b><u>2,007,377</u></b>
<b>Revenue Over (Under) Expenditures .....</b>	<b><u>34,775</u></b>	<b><u>47,881</u></b>	<b><u>437,391</u></b>	<b><u>(1,143,946)</u></b>	<b><u>(623,899)</u></b>
<b>Other Financing Sources (Uses)</b>					
Operating transfers in.....	—	—	—	1,205,606	1,205,606
Operating transfers out.....	—	—	(235,046)	—	(235,046)
<b>Total Other Financing Sources (Uses).....</b>	<b><u>—</u></b>	<b><u>—</u></b>	<b><u>(235,046)</u></b>	<b><u>1,205,606</u></b>	<b><u>970,560</u></b>
<b>Net Change in Fund Balance .....</b>					
<b>Balance .....</b>	<b>34,775</b>	<b>47,881</b>	<b>202,345</b>	<b>61,660</b>	<b>346,661</b>
Fund Balance - Beginning of Year .....	<u>(4,014)</u>	<u>58,738</u>	<u>861,907</u>	<u>190,039</u>	<u>1,106,670</u>
<b>Fund Balance - End of Year .....</b>	<b><u>\$ 30,761</u></b>	<b><u>\$ 106,619</u></b>	<b><u>\$ 1,064,252</u></b>	<b><u>\$ 251,699</u></b>	<b><u>\$ 1,453,331</u></b>

## Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2006

	Balance - Beginning of Year	Revenue and Transfers	Expenditures and Transfers	Balance - End of Year
Donations (new middle school) .....	\$ 766	\$ —	\$ —	\$ 766
Drama.....	6,965	12,683	8,206	11,442
Speech .....	584	14	—	598
Musicals.....	396	—	—	396
Band uniforms .....	3,990	817	886	3,921
Cheerleading .....	4,462	19,598	17,908	6,152
Drill team .....	4,720	3,108	1,762	6,066
Basketball - B .....	9,785	6,992	4,203	12,574
State-sponsored tournament.....	9,277	17,902	16,177	11,002
Football - B .....	25,588	22,437	15,837	32,188
Baseball - B .....	(21,583)	6,977	9,659	(24,265)
Track - B .....	(260)	3,087	2,464	363
Cross Country - B .....	(1,965)	50	438	(2,353)
Tennis - B .....	(3,304)	426	1,117	(3,995)
Golf - B .....	(3,845)	8	760	(4,597)
Swimming - B .....	(1,015)	2,435	2,362	(942)
Wrestling - B.....	219	6,563	6,422	360
Basketball - G .....	599	5,852	6,358	93
Volleyball - G .....	(11,297)	3,521	8,061	(15,837)
Softball - G.....	4,738	4,339	2,445	6,632
Track - G.....	3,971	8,545	4,543	7,973
Cross Country - G.....	(2,119)	50	415	(2,484)
Soccer - G .....	—	3,687	7,504	(3,817)
Tennis - G.....	(4,400)	844	2,613	(6,169)
Golf - G .....	(3,475)	—	275	(3,750)
Swimming - G .....	(1,000)	1,001	1,860	(1,859)
Miscellaneous athletics.....	(45,589)	15,749	18,339	(48,179)
RC woodworking .....	(6,427)	—	—	(6,427)
Dolphins.....	1,689	—	—	1,689
ID cards .....	33,552	10,332	—	43,884
Lockers.....	731	—	—	731
Art Club.....	441	—	150	291
Swim suits .....	2,304	595	—	2,899
Interest.....	6,191	3,963	—	10,154
Class Day .....	250	—	—	250
Class 2001.....	12	—	—	12
Class 2004.....	34	—	—	34
Class 2005.....	102	—	—	102
Class 2006.....	42	—	—	42
Class 2007.....	42	—	—	42

## Schedule of Changes in Individual Student Activity Accounts

Year Ended June 30, 2006

	Balance - Beginning of Year	Revenue and and Transfers	Expenditures and Transfers	Balance - End of Year
Future Homemakers.....	\$ 95	\$ —	\$ —	\$ 95
Future Farmers.....	(2,646)	22,738	18,846	1,246
Junior Achievement.....	459	—	2	457
FFA vending.....	(2,402)	1,493	2,337	(3,246)
Activity miscellaneous.....	(12,436)	1,488	—	(10,948)
Activity fund balance.....	(331)	—	—	(331)
Foreign Language Club.....	4,422	18,999	14,250	9,171
Chess Club.....	159	—	—	159
Thespian Club.....	1,662	1,537	2,182	1,017
Peer Helpers.....	2,659	834	678	2,815
Life Connections Club.....	75	200	—	275
Pottery Club.....	50	—	—	50
National Honor Society.....	1,033	1,533	611	1,955
Student Council.....	1,493	10,086	9,405	2,174
Student Congress.....	1,205	7,182	7,403	984
SADD.....	137	323	83	377
SADD - MS.....	622	—	—	622
Journalism - Scroll.....	19,717	22,571	4,362	37,926
Spotlight.....	3,808	9,622	11,715	1,715
Yearbook - Middle School.....	1,427	2,963	3,681	709
RC Recycle.....	67	—	—	67
MOC.....	1,510	860	951	1,419
Prom.....	4,659	4,585	8,453	791
Intramurals.....	1,022	—	—	1,022
Elementary library.....	604	—	—	604
Bryant.....	425	120	—	545
Franklin (jump rope).....	350	150	—	500
Franklin (box top).....	4,616	4,482	3,946	5,152
Pick a Better Snack fund balance.....	—	2,000	563	1,437
Lincoln.....	858	348	646	560
Lowell box tops.....	—	260	25	235
Lowell.....	1,540	895	230	2,205
Page.....	581	4,672	4,300	953
Page/Bryant art fundraiser.....	892	—	560	332
Construction Tech.....	240	742	390	592
Futures.....	203	—	194	9
PE (Iowa Games).....	6	—	—	6
LEGO League.....	22	—	—	22
HS/MS library.....	4,272	3,119	2,778	4,613
Principal activity miscellaneous HS....	492	10,938	10,129	1,301
Reconnecting Youth Grant.....	—	1,050	—	1,050
	<b><u>\$ 58,738</u></b>	<b><u>\$ 297,365</u></b>	<b><u>\$ 249,484</u></b>	<b><u>\$ 106,619</u></b>

## Schedule of Revenue By Source and Expenditures By Function - All Governmental Fund Types (Modified Accrual Basis)

Years Ended June 30, 2006, 2005, 2004 and 2003

	2006	2005	2004	2003
<b>Revenue</b>				
Local Sources				
Local taxes.....	\$ 7,883,932	\$ 7,707,034	\$ 6,631,614	\$ 6,350,196
Tuition .....	1,816,342	2,019,484	1,898,477	1,857,346
Other .....	1,548,970	900,360	659,339	607,496
Intermediate source.....	479	445	—	—
State sources.....	11,161,043	10,393,096	10,133,983	10,032,788
Federal sources.....	<u>541,175</u>	<u>562,138</u>	<u>571,332</u>	<u>533,702</u>
<b>Total</b>	<b><u>\$ 22,951,941</u></b>	<b><u>\$ 21,582,557</u></b>	<b><u>\$ 19,894,745</u></b>	<b><u>\$ 19,381,528</u></b>
<b>Expenditures</b>				
Instruction				
Regular instruction .....	\$ 9,031,889	\$ 8,741,351	\$ 8,845,202	\$ 8,596,814
Special instruction.....	3,762,965	3,793,311	3,592,001	3,834,525
Other instruction.....	1,167,500	1,205,692	939,236	683,782
Support Services				
Student services .....	749,001	676,438	687,109	645,688
Instructional staff services.....	671,320	998,199	732,980	730,926
Administration services.....	2,152,091	1,638,021	1,614,488	1,577,581
Operation and maintenance of plant services .....	1,694,632	1,606,234	1,628,454	1,360,637
Transportation services.....	482,188	416,222	303,199	313,703
Noninstructional programs.....	—	10,260	9,831	10,582
Other Expenditures				
Facilities acquisition and construction .....	7,638,697	4,898,847	486,289	—
Long-Term Debt				
Principal.....	680,000	570,000	185,000	175,000
Interest and other charges .....	526,606	635,305	46,198	61,576
AEA flowthrough.....	<u>682,318</u>	<u>643,892</u>	<u>652,690</u>	<u>681,312</u>
<b>Total</b>	<b><u>\$ 29,239,207</u></b>	<b><u>\$ 25,833,772</u></b>	<b><u>\$ 19,722,677</u></b>	<b><u>\$ 18,672,126</u></b>

# Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass- Through Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>			
Pass-Through From Iowa Department of Education			
Food Donation (noncash) .....	10.550	FY 2006	<u>\$ 34,133</u>
Child Nutrition Cluster			
School Breakfast Program .....	10.553	FY 2006	29,101
National School Lunch Program.....	10.555	FY 2006	236,551
Special Milk Program for Children.....	10.556	FY 2006	<u>308</u>
Total Cash Expenditures.....			<u>265,960</u>
<b>Total U.S. Department of Agriculture .....</b>			<b><u>300,093</u></b>
<b>U.S. Department of Education</b>			
Pass-Through From Iowa Department of Education			
Title I Grants to Local Education Agencies .....	84.010	FY 2006	<u>243,486</u>
Vocational Education - Basic Grants to States .....	84.048	FY 2006	<u>28,935</u>
Safe and Drug-Free Schools and Communities - State Grants .....	84.186	FY 2006	<u>26,003</u>
State Grants for Innovative Programs.....	84.298	FY 2006	<u>5,852</u>
Improving Teacher Quality State Grants.....	84.367	FY 2006	<u>90,679</u>
Grants for State Assessments and Related Activities	84.369	FY 2006	<u>13,740</u>
<b>Total Pass-Through Iowa Department     of Education</b>			<b><u>408,695</u></b>
<b>U.S. Department of Health and Human Services</b>			
Pass-Through From Iowa Department of Education			
Child Care and Development Block Grant .....	93.575		<u>125,899</u>
<b>Total .....</b>			<b><u>\$ 834,687</u></b>

## Basis of Presentation

The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Boone Community School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*.

## Subrecipients

The Boone Community School District provided no federal awards to subrecipients.

# **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters**

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Board of Education  
Boone Community School District  
Boone, Iowa

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Boone Community School District as of and for the year ended June 30, 2006, and the discretely presented component unit as of and for the year ended December 31, 2005, which collectively comprise the Boone Community School District's basic financial statements, and have issued our report thereon dated October 27, 2006. Our report expressed a qualified opinion as a result of several months' worth of revenue and expenditures which were not recorded to the appropriate functional classification within the financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 the Boone 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 II of the accompanying Schedule of Findings and Questioned Costs.

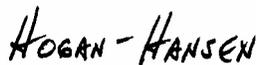
A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being 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 items 06-II-R-1, 06-II-R-2, 06-II-R-4, 06-II-R-5, 06-II-R-6, 06-II-R-12 and 06-II-R-13 are material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Boone Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in Part II of the accompanying Schedule of Findings and Questioned Costs. We also noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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 the Boone Community School District and other parties to whom the Boone Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



HOGAN - HANSEN

Mason City, Iowa  
October 27, 2006

# **Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance** ██████████

Board of Education  
Boone Community School District  
Boone, Iowa

## **Compliance**

We have audited the compliance of the Boone Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Boone Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Boone Community School District's management. Our responsibility is to express an opinion on the Boone Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Boone Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Boone Community School District's compliance with those requirements.

As described in item 06-III-C-1 in the accompanying Schedule of Findings and Questioned Costs, the Boone Community School District does not have the proper internal controls in place to provide reasonable assurance that grant financial and accounting requirements are being met. Compliance with such requirements is necessary, in our opinion, for the Boone Community School District to comply with the requirements applicable to the major programs.

In our opinion, except for the matter described in the preceding paragraph, the Boone Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### **Internal Control Over Compliance**

The management of the Boone Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Boone Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect the Boone Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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 noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 items 06-III-R-1, 06-III-R-2, 06-III-R-3 and 06-III-R-4 are material weaknesses.

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

*HOGAN - HANSEN*

HOGAN - HANSEN

Mason City, Iowa  
October 27, 2006

# Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

## Part I: Summary of the Independent Auditor's Results

### Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness identified?  yes  no

Reportable condition identified not considered to be material weaknesses?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

### Federal Awards

Internal control over major programs:

Material weakness identified?  yes  no

Reportable condition identified not considered to be material weakness?  yes  none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  yes  no

Identification of major programs:

#### **CFDA Numbers**

10.553  
10.555  
10.556  
84.010

#### **Name of Federal Program or Cluster**

Child Nutrition Cluster  
Child Nutrition Cluster  
Child Nutrition Cluster  
Title I - Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  no

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## **Part II: Findings Related to the General-Purpose Financial Statements**

### **Instances of Noncompliance:**

A special report issued by the Office of Auditor of State dated March 21, 2006 covering the period July 1, 2001 through November 30, 2005 identified improper disbursements of \$208,649 made by the former Business Manager. Of the \$208,649 of improper disbursements, approximately \$16,000 apply to the year ended June 30, 2006.

A special report issued by the Office of Auditor of State dated July 12, 2006 covering the period August 30, 2004 through March 31, 2006 estimated \$33,500 of collections undeposited for the Nutrition Department. Of the \$33,500 of undeposited collections, approximately \$8,000 apply to the year ended June 30, 2006.

### **All Programs Displayed on the Schedule of Expenditures of Federal Awards**

#### **06-II-C-1 Internal Controls Over Federal Revenue and Expenditures**

**Finding** - During our audit, we found that the District does not have the proper internal controls in place to provide reasonable assurance that grant financial and accounting requirements are being met. See Finding 06-III-R-3 for additional information and the District's response.

### **Reportable Conditions:**

Current year reportable conditions are as follows:

#### **06-II-R-1 Segregation of Duties**

**Finding** - The limited number of personnel employed by the District in its accounting department makes it difficult to achieve adequate control procedures through the segregation of employee duties. The concentration of closely related duties and responsibilities, such as recording and preparing cash receipts, preparing and recording checks and preparation of journals and general financial information for posting makes it impossible to establish an adequate system of automatic internal checks on accounting record accuracy and reliability.

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

**Auditor's Recommendation** - This is not an unusual condition, but it is important that management be aware that the condition exists. The severity of this condition is clear from the recent frauds and bookkeeping errors.

**District's Response** - We will monitor this situation and continue to segregate incompatible duties as efficiently as possible.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

### 06-II-R-2 Business Office Receipts

**Finding** - During our audit, we noted the following:

1. The District did not post receipts to the computer system in a timely manner. The receipts for the first four months of fiscal year 2006 were not posted until December, 2006.
2. A restrictive endorsement (for deposit only) was not placed on checks upon receipt. The endorsement is placed on checks when deposits are prepared.
3. Although prenumbered receipts were issued, the numerical sequence was not properly accounted for.

**Auditor's Recommendation** - We recommend the following:

1. Receipts should be posted on a timely basis and reviewed by a responsible member of management each month.
2. Checks should be restrictively endorsed (for deposit only) upon receipt.
3. The numerical sequence of receipts should be accounted for to provide additional control over the proper recording of all collections.

**District's Response**

1. Receipts are now deposited and posted daily as received.
2. Restrictive endorsement stamps have been distributed to all locations. All checks received will be stamped with the restrictive endorsement upon receipt.
3. The numeric sequence of receipts will be logged in a notebook and periodically reviewed.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-3 Change Funds and Receipts

**Finding** - An office change fund is maintained for petty cash purposes and an events change fund is maintained for making change at various District events. The office collects student and other fees, including admissions from District-sponsored events, and prepares bank deposits for the collections. The following items were noted regarding the change funds and office collections:

1. The office and events change funds do not have established balances.
2. A ledger is not maintained documenting change fund receipts and disbursements.
3. Cashing personal checks from cash collections is not prohibited.
4. Receipts are not deposited intact.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

5. A restrictive endorsement (for deposit only) is not placed on checks upon receipt. The endorsement is placed on checks when deposits are prepared.
6. Prenumbered tickets are not issued at all events.

**Auditor's Recommendation** - We recommend the following:

1. The change funds should be set at established amounts and the petty cash fund should be replenished at regular intervals to the established amount. The District should also implement controls to ensure that the appropriate segregation of duties over this area are considered and implemented when cost effective.
2. Change fund receipts and disbursements should be documented on a ledger to aid in reconciling the amount of cash on hand in the office.
3. Cashing checks from cash receipts should be prohibited.
4. Receipts should be deposited intact.
5. Checks should be restrictively endorsed (for deposit only) upon receipt.
6. Prenumbered tickets should be issued at all events and issued tickets should be reconciled to the cash collected.

**District's Response**

1. The office and events change funds were established with a beginning balance at the start of the 2006-07 school year.
2. A ledger has been maintained documenting the activity in the change fund since the beginning in the 2006-07 school year.
3. Cashing personal checks has been stopped by the District
4. Event receipts procedures are being reviewed and changed to ensure proper reconciliations are being performed and documented.
5. Restrictive endorsement stamps are being provided to all offices and all checks received will be immediately stamped.
6. Prenumbered tickets will be used at all events and reconciliation procedures have been established.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

### 06-II-R-4 Disbursements

**Finding** - Prenumbered checks were not issued. Check numbers were printed by the computer, but the numeric sequence of checks was not properly accounted for. Bank wire transfers are not approved by an independent person. Several disbursements tested did not include supporting documentation and were posted to the wrong account.

**Auditor's Recommendation** - Prenumbered checks should be issued and the numeric sequence of checks should be accounted for to provide control over the proper recording of District disbursements. Bank wire transfers should be reviewed and approved by an independent person. Supporting documentation should be retained for all District disbursements.

**District's Response**

1. Prenumbered checks have been used since the conversion to the windows version of Software Unlimited in January, 2006.
2. Check logs are used to document sequence.
3. Bank wire transfers will be approved by the Business Manager or Superintendent.
4. Supporting documentation will be attached to the invoice.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-5 Bank Reconciliations

**Finding** - Bank accounts are not reconciled promptly after the end of each month, including resolving variances between book and bank balances.

**Auditor's Recommendation** - Bank reconciliations should be prepared on a monthly basis. Variances between book and bank balances should be investigated and resolved in a timely manner. We further recommend that a member of management review the bank reconciliations, bank statements and canceled checks each month.

**District's Response** - Beginning with the Business Manager staff change, bank reconciliations are prepared by the Business Manager within the first five days of the following month and posted to the Board Docs for the Board Members review. The Board President receives bank statements monthly for review and comparison to the monthly bank reconciliation.

**Auditor's Conclusion** - Response accepted.

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## 06-II-R-6 School Nutrition Program

**Finding** - During our audit, we noted the following:

1. **Lunch Sales** - Sales of lunches paid by cash or check in the meal line are not recorded to the cash register terminals at the time of sale. The sales are manually logged on a sheet and later entered in the computer system by a cashier.
2. **Breakfast Sales** - Sales of breakfast are not recorded to the cash register terminal at the time of sale. The sales are recorded manually and later entered in the computer system by a cashier.
3. **Snack Bar and Breakfast Cart Sales** - A cash register or manual record of sales is not maintained at the point of sale. The collections are remitted uncounted by the cashiers to the Kitchen Manager. The Kitchen Manager counted the cash and checks and recorded the collections on the daily receipt sheet.
4. **Deposits** - The daily receipt total is not compared to the validated deposit slip by an independent person.

**Auditor's Recommendations** - We recommend the following:

1. All collections received in the lunch line should be recorded in the cash register terminal at the time of sale.
2. Breakfast sales should be recorded in the cash register terminal at the time of sale.
3. The District should maintain a record of snack bar and breakfast cart sales using a cash register or other receipt system at the point of sale. The collections should be counted by the cashier and reconciled to the receipt record.
4. An independent person should compare the daily receipt total to the validated deposit slip.

### **District's Response**

1. Lunch money will no longer be accepted in the lunch line. Students will be directed to pay lunch fees before and after school at the building office.
2. Cash will continue to be accepted for single meal purchases and ala carte items. Ledgers will be kept and reconciled during the cash counting process.
3. Breakfast sales will be in the regular lunch rooms of the middle school and high school, respectively.
4. A breakfast cart will no longer be prepared and moved outside the lunch room at the high school. An inventory of the ala carte items will be taken and sales reconciled back to items left.
5. The daily deposit will be prepared by the Secretary, deposited by the Director and the receipt will be reviewed upon return by the Secretary.

**Auditor's Conclusion** - Response accepted.

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## 06-II-R-7 Investments

**Finding** - An investment register detailing the District's investment activity including purchase and redemption dates, interest rates and interest revenue is not maintained.

**Auditor's Recommendation** - The District should maintain an investment register.

**District's Response** - The Scholarship accounts have individual investment registers that are reconciled monthly beginning in 2006-07. The Accounting Clerk will reconcile the monthly bank statement.

**Auditor's Conclusion** - Response accepted.

## 06-II-R-8 Information Systems

**Finding** - The following weaknesses in the District's computer-based systems were noted during our audit:

The District does not have written policies for:

- Information system security.
- Maintaining a computer log to document who recorded transactions.
- Requiring a time out or log off function for terminals left unattended.
- Requiring password changes periodically (at least every 60-90 days).
- Preventing a user from using the same password and denying access to the user after several unsuccessful attempts to enter an unauthorized password.
- A complete system backup at month end and year end.

Also, the District does not have a written disaster recovery plan and does not require backup tapes to be stored off site in a fire-proof vault or safe.

**Auditor's Recommendation** - The District should develop written policies addressing the above items in order to improve the District's control over the computer-based systems. Also, a written disaster recovery plan should be developed and backup tapes should be stored off site in a fireproof vault or safe.

### **District's Response**

1. Policies will be written and put before the Board during the 2006-07 school year regarding the following:
  - a. Security policy.
  - b. Computer log.
  - c. Time out or log off function.
  - d. Password change policy.
  - e. System back-up at month end and year end.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

2. A disaster recovery plan will be addressed with the Technology Department during the 2006-07 school year.
3. Off-site storage of backup data will be discussed and a policy written during the 2006-07 school year.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-9 Capital Assets

**Finding** - A physical inventory of all capital assets has not been performed recently and reconciled to the detailed capital asset records. In addition, capital asset records are not kept up to date. Additions and deletions are not recorded until after year end.

**Auditor's Recommendation** - A physical inventory of all capital assets should be completed and reconciled to the detailed capital asset records by employees having no responsibility for the assets. The capital asset records should be maintained currently as addition and deletions occur.

#### **District's Response**

1. Capital assets observation will be taken by the Business Manager and Superintendent annually.
2. A capital assets ledger will be maintained semi-annually documenting acquisitions and deletions.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-10 Accounting Policies and Procedures Manual

**Finding** - The District does not have an accounting policies and procedures manual.

**Auditor's Recommendation** - An accounting policies and procedures manual should be developed to provide the following benefits:

1. Aid in training additional or replacement personnel.
2. Help achieve uniformity in accounting and in the application of policies and procedures.
3. Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

#### **District's Response**

1. A Business Office Procedures manual is under construction and is expected to be completed by October, 2006
2. Each position in the Business Office will prepare a job procedures manual during the 2006-07 school year.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

### 06-II-R-11 Scholarship Accounts

**Finding** - The District did not maintain accounting records to separately identify the correct balance of each scholarship account.

**Auditor's Recommendation** - The District should account for the ownership of cash and investments by individual scholarship account and adjust the accounting records accordingly.

**District's Response** - The Scholarship accounts have individual investment registers that are reconciled monthly beginning in 2006-07.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-12 Tuition Revenue

**Finding** - The District recorded receipts related to the June 30, 2005 fiscal year as revenue in the June 30, 2006 year. In addition, one school was not billed for the second semester tuition for the 2005-06 school year.

**Auditor's Recommendation** - The District should establish procedures to have an appropriate staff member responsible for billing and collecting tuition revenue and ensure that the revenue is properly recorded. The Business Manager should provide oversight to this process.

**District's Response** - We will establish procedures to properly track and record tuition revenue.

**Auditor's Conclusion** - Response accepted.

### 06-II-R-13 Internal Controls

**Finding** - The District's internal control system was not functioning as designed. During our audit, we noted the following errors and items of concern which were not detected by the District staff in the normal course of their duties:

1. A check run dated in June, 2006 totaling over \$440,000 was recorded in the general ledger in July, 2006 resulting in an overstatement of cash on the initial Certified Annual Report (CAR).
2. On June 13, 2006, the District paid for the 2006-07 insurance with check #45967 in the amount of \$242,564. When the District staff realized that they paid the June 30, 2007 fiscal year premium in fiscal 2006, they made a journal entry increasing cash and decreasing insurance expense. The result was an overstatement of cash by \$242,564 on the initial Certified Annual Report (CAR).
3. The Business Manager was required to make dozens of journal entries to correct errors in data entry and for changes made by predecessor auditors. No one reviews these entries. Due to a software error, many of the year-end entries to the General Fund were not posted correctly to the general ledger.
4. We noted several instances where department heads were approving their own expense reimbursement reports.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

**Auditor's Recommendation** - The District should establish procedures where the bank accounts are reconciled to the general ledger at the end of each month and all significant differences investigated and resolved. If District personnel do not have the time or expertise required for this, additional personnel should be hired, or outside consultants hired to ensure that this is done every month. A qualified person should review the journal entries made by the Business Manager. We are not aware of a person at the District that would have the necessary accounting background to know if the entries are correct. We recommend that if no one within the District can be found, that new personnel be hired or an outside consultant hired to review journal entries each month. In addition, we recommend that procedures be established and followed to ensure that no one is approving invoices for their own expense reimbursements.

**District's Response** - The District is working on an accounting manual establishing procedures to correct these deficiencies in our internal control system.

**Auditor's Conclusion** - Response accepted.

### **Part III: Findings and Questioned Costs For Federal Awards**

#### **Instances of Noncompliance:**

#### **All Programs Displayed on the Schedule of Expenditures of Federal Awards**

##### **06-III-C-1 Internal Controls Over Federal Revenue and Expenditures**

**Finding** - During our audit, we found that the District does not have the proper internal controls in place to provide reasonable assurance that grant financial and accounting requirements are being met. See Finding 06-III-R-3 for additional information and the District's response.

**CFDA Number 10.553: School Breakfast Program**

**CFDA Number 10.555: National School Lunch Program**

**CFDA Number 10.556: Special Milk Program for Children**

**Federal Award Year: 2006**

**U.S. Department of Education**

**Passed through the Iowa Department of Education**

##### **06-III-C-2 Proper Reporting of Meals Served**

**Finding** - During our audit, we found errors in eight of the nine reports that listed the number of meals served which was submitted to the State of Iowa for funding under the grant. See Finding 06-III-R-5 for additional information and the District's response.

##### **06-III-C-3 Verification of Free and Reduced Meal Price Applications**

**Finding** - During our audit, we noted that the District did not select the proper sized sample of free and reduced meal price applications for verification of parent or guardian income as required by the program regulations. See Finding 06-III-R-6 for additional information and the District's response.

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## Reportable Conditions:

The current year reportable conditions are as follows:

### All Programs Displayed on the Schedule of Expenditures of Federal Awards

#### 06-III-R-1 Segregation of Duties

Adequate control procedures through the segregation of employee duties is difficult to achieve due to the limited number of staff administering grants and performing accounting functions. See Finding 06-II-R-1 for additional information.

#### 06-III-R-2 Disbursements

The District did not issue prenumbered checks and invoices and supporting documentation is not marked paid or canceled to help prevent possible duplicate payment. See Finding 06-II-R-4.

#### 06-III-R-3 Internal Controls Over Federal Revenue and Expenditures

**Finding** - The District does not have proper internal controls in place that would provide reasonable assurance that the grant requirements are properly met, or if there are errors, that those errors would be detected by the procedures required by the internal control system.

**Auditor's Recommendation** - The District should establish proper internal control procedures to ensure that grant requirements are properly met.

**District's Response** - The District is working on an accounting manual that will include new internal control procedures that should, when implemented, provide the proper level of controls.

**Auditor's Conclusion** - Response accepted.

CFDA Number 10.553: School Breakfast Program  
CFDA Number 10.555: National School Lunch Program  
CFDA Number 10.556: Special Milk Program for Children  
CFDA Number 84.010: Title I Grants to Local Education Agencies  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

#### 06-III-R-4 Federal Revenue and Expenditures

**Finding** - Federal grant administrators do not receive and review financial reports prepared by the Business Office to ensure the accuracy of grant revenue and expenditures.

**Auditor's Recommendation** - Monthly financial reports should be obtained from the Business Office by the federal grant administrators and reviewed for accuracy.

## Schedule of Findings and Questioned Costs

---

Year Ended June 30, 2006

**District's Response** - All federal grant administrators will receive a monthly and year-to-date statement for their account during the first five days of the following month effective for the 2007 calendar year.

**Auditor's Conclusion** - Response accepted.

**CFDA Number 10.553: School Breakfast Program**  
**CFDA Number 10.555: National School Lunch Program**  
**CFDA Number 10.556: Special Milk Program for Children**  
**Federal Award Year: 2006**  
**U.S. Department of Education**  
**Passed through the Iowa Department of Education**

### 06-III-R-5 Proper Reporting of Meals Served

**Finding** - The District submits nine reports of meals served to the Iowa Department of Education in order to receive reimbursement at varying levels based on the status of the students eating the meals (free, reduced or full pay). Five of those reports were submitted with errors, with only one of those reports later corrected by the District. The net result of the errors was a reduction in funding to the District of approximately \$3,700.

**Auditor's Recommendation** - The District should establish procedures so that a qualified person prepares the reports and that they are reviewed by the Food Service Director before being submitted to the Iowa Department of Education.

**District's Response** - Appropriate counts will be filed and prepared by a staff member and reviewed by the Food Service Director.

**Auditor's Conclusion** - Response accepted.

### 06-III-R-6 Verification of Free and Reduced Meal Price Applications

**Finding** - The District is required to verify the free and reduced price eligibility of households selected from a sample of approved applications on file on October 31. The District indicated a random sampling method was used to select 3% of the total approved applications on file. We noted the following items related to the District's verification process:

1. **Sample Selection** - The District did not select a full 3% of the applications. The District should have sampled ten applications but only selected nine.
2. **Change of Status**. The verification selected a student whose level of income was not verified by his parent or guardian. This student's status should have been changed to full pay. No change in the student's status was made.

**Auditor's Recommendation** - The District should make the proper changes based on the verification process.

## Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

### **District's Response**

1. An appropriate sample selection will be done by the Food Service Director.
2. The verification results will be used to make appropriate changes to the student's status.

**Auditor's Conclusion** - Response accepted.

### **06-III-R-7 Proper Status of Free and Reduced Students**

**Finding** - The District receives applications from students at the beginning of the school year and uses those applications to determine whether the student should receive free or reduced-priced lunches. We reviewed 15 of those applications and noted one student who received free lunches who should only have received reduced-price lunches.

**Auditor's Recommendation** - The District should establish procedures so that a qualified person determines the status of the students and that determination is reviewed by the Food Service Director before the beginning of the school year.

**District's Response** - We will have the applications reviewed by a second party in the future to attempt to eliminate any mistakes in determining the students' status.

**Auditor's Conclusion** - Response accepted.

### **CFDA Number 84.010: Title I Grants to Local Education Agencies**

**Federal Award Year: 2006**

**U.S. Department of Education**

**Passed through the Iowa Department of Education**

### **06-III-R-8 Proper Reporting**

**Finding** - The District application for Title I funds noted that staff assigned to the project would be 3.6 teachers. There were actually 4.6 teachers funded with Title I proceeds.

**Auditor's Recommendation** - The District should have the applications reviewed by a person with knowledge of the program before the application is submitted.

**District's Response** - A second party will review the grant applications before they are submitted.

**Auditor's Conclusion** - Response Accepted.

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## **Part IV: Other Findings Related to Statutory Reporting**

### **06-IV-A Certified Budget**

**Finding** - Disbursements during the year ended June 30, 2006 exceeded the amended certified budget amounts in instruction and other expenditures. In addition, when the budget was amended, the column indicating the original budget amounts was incorrect.

**Auditor's Recommendation** - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget. The original budget amounts should be reflected properly on the amended budget.

**District's Response** - Future budgets will be amended properly and in sufficient amounts to ensure the certified budget is not exceeded.

**Auditor's Conclusion** - Response accepted.

**06-IV-B Questionable Disbursements** - No disbursements were noted that may not meet the requirements as defined in an Attorney General's opinion dated April 25, 1979.

**06-IV-C Travel Expense** - No expenditures of District money for travel expenses of spouses of District officials or employees were noted.

**06-IV-D Business Transactions** - No business transactions between the District and District officials or employees were noted.

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

### **06-IV-F Board Minutes**

**Finding** - The minutes of the Board of Education proceedings were not published within 15 days as required by Chapter 279.35 of the Code of Iowa in all five of the meetings that we tested. In addition, one set of minutes was not properly signed and in three cases, the reason for a closed session was not identified.

**Auditor's Recommendation** - The minutes should be published within 15 days of the Board meeting, properly signed and include the appropriate Code of Iowa reference for all closed sessions.

**District's Response** - We will do this.

**Auditor's Conclusion** - Response accepted.

**06-IV-G Certified Enrollment** - No variances in the basic enrollment data certified to the Department of Education were noted.

# Schedule of Findings and Questioned Costs

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Year Ended June 30, 2006

## 06-IV-H Deposits and Investments

**Finding** - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted, except as follows:

1. The interest rate on three time certificates of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.
2. The Private Purpose Trust, Scholarship Fund has investments in common stock which were donated to the District. These investments do not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa.

**Auditor's Recommendation** - Public fund time certificates of deposit, when renewed, shall be renewed at a rate of interest which conforms with current rates for public funds on date of renewal. The District should seek reimbursement of the additional interest due on these certificates of deposit. In addition, the District should be aware of the current allowable rates to insure at least the minimum allowable rate is received for all investments.

The District should consider selling the stock as soon as possible and in the future ensure all District investments are permitted by the Constitution of the State of Iowa and the Code of Iowa.

### **District's Response**

1. The District will seek compensation for the interest due from rate being below minimum set by State Rate Setting Committee.
2. The District intends to sell the donated stock and deposit the money into an appropriate investment vehicle.

**Auditor's Conclusion** - Response accepted.

## 06-IV-I Certified Annual Report

**Finding** - The Certified Annual Report (CAR) was filed with the Department of Education timely, but we noted several significant deficiencies in the amounts reported. The CAR was later refiled with the correct amounts.

**Auditor's Recommendation** - The Certified Annual Report should be reconciled with accounting records, reviewed by a member of management and filed timely.

**District's Response** - The 2006-07 report will be reconciled with accounting records and filed timely.

**Auditor's Conclusion** - Response accepted.

## Schedule of Findings and Questioned Costs ---

Year Ended June 30, 2006

### 06-IV-J Financial Condition

**Finding** - Sixteen of the District's student activity accounts had deficit fund balances at June 30, 2006.

**Auditor's Recommendation** - We recommend that the District investigate alternatives to return these accounts to a positive financial condition.

**District's Response** - We are taking steps to rectify this.

**Auditor's Conclusion** - Response accepted.