

DELWOOD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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DELWOOD COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Steve Kinrade	Board President	2007
Ronda Denger	Board Member	2005
Paul Miller	Board Member	2005
Jody Holtz	Board Member	2006
Ron Filloon	Board Member	2007
(After September 2005 Election)		
Ron Filloon	Board President	2007
Jody Holtz	Board Member	2006
Steve Kinrade	Board Member	2007
Ronda Denger	Board Member	2008
Carmen Gerlach	Board Member	2008
<b>School Officials</b>		
Mary Hainstock	Superintendent	2006
Jane Goodenow	Board Secretary/Treasurer	2006
Ahlers Law Firm	Attorney	2006

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
Delwood Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Delwood Community School District, Delmar, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Delwood Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated September 8, 2006 on my consideration of Delwood Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 42 through 43 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Delwood Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 3, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
September 8, 2006

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

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Delwood Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$2,024,510 in fiscal 2005 to \$2,106,672 in fiscal 2006, and General Fund expenditures increased from \$2,084,135 in fiscal 2005 to \$2,097,100 in fiscal 2006. The District's General Fund balance decreased slightly from \$793,261 in fiscal 2005 to \$793,198 in fiscal 2006, a less than .1% decrease.
- The increase in General Fund revenues was attributable to more state foundation aid due to an increased enrollment in the fall of 2004, the sharing of our superintendent with the Bennett Community School District for the 2005-06 fiscal year, higher interest rates for investing, fees received for a new before-school program, an increase in our surtax dollars received and additional Teacher Quality Salary and Professional Development programs received from the state. Although we had an across-the-board 4.1% package increases in wages, the total cost of wages was reduced due to a new hire being hired at a lower wage and the reduction of a kindergarten classroom because of enrollment decline. However our expenditures increased slightly due to special education expenditures, transportation costs, additional costs of superintendent sharing, and general annual increases to utilities, supplies and maintenance services. The General Fund balance was reduced as a result of the District board decision to reduce the levy required for fiscal 2006 using some of carryover fund balance.

### **USING THIS ANNUAL REPORT**

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending.

Fund financial statements report Delwood Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Delwood Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

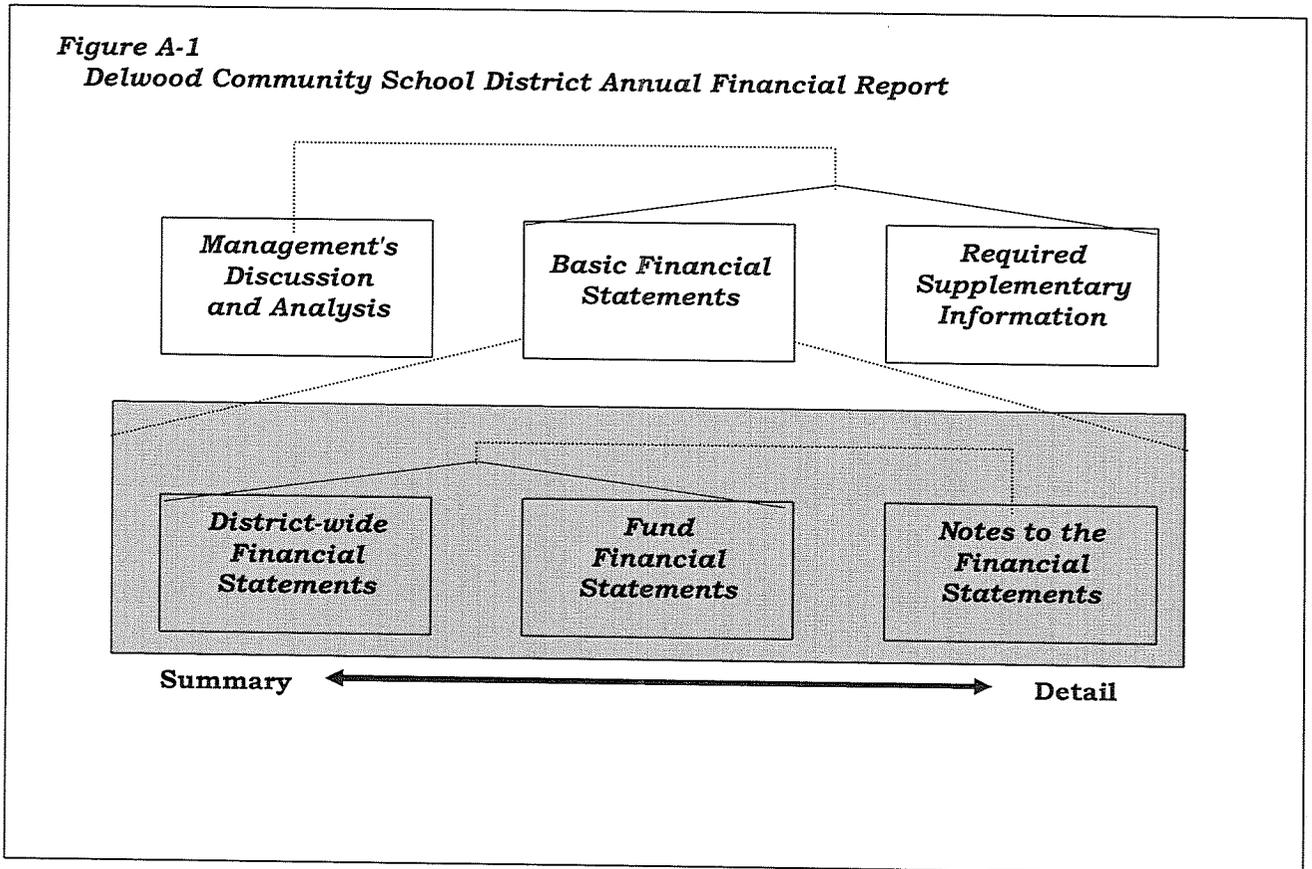


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**  
**Major Features of the Government-wide and Fund Financial Statements**

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

#### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 2,356,532	\$ 2,183,832	\$ 1,007	\$ 1,057	\$ 2,357,539	\$ 2,184,889	7.90%
Capital assets	<u>1,010,981</u>	<u>994,748</u>	<u>13,499</u>	<u>15,407</u>	<u>1,024,480</u>	<u>1,010,155</u>	1.42%
Total assets	<u>3,367,513</u>	<u>3,178,580</u>	<u>14,506</u>	<u>16,464</u>	<u>3,382,019</u>	<u>3,195,044</u>	5.85%
Long-term obligations	330,000	409,861	-	-	330,000	409,861	-19.48%
Other liabilities	<u>847,728</u>	<u>758,339</u>	<u>-</u>	<u>4,184</u>	<u>847,728</u>	<u>762,523</u>	11.17%
Total liabilities	<u>1,177,728</u>	<u>1,168,200</u>	<u>-</u>	<u>4,184</u>	<u>1,177,728</u>	<u>1,172,384</u>	0.46%
Net assets							
Invested in capital assets, net of related debt	680,981	604,748	13,499	15,407	694,480	620,155	11.98%
Restricted	716,827	614,323	-	-	716,827	614,323	16.69%
Unrestricted	<u>791,977</u>	<u>791,309</u>	<u>1,007</u>	<u>(3,127)</u>	<u>792,984</u>	<u>788,182</u>	0.61%
Total net assets	<u>\$ 2,189,785</u>	<u>\$ 2,010,380</u>	<u>\$ 14,506</u>	<u>\$ 12,280</u>	<u>\$ 2,204,291</u>	<u>\$ 2,022,660</u>	8.98%

The District's combined net assets increased by approximately 9%, or \$181,631, from the prior year. At the current time the largest portion of the District's net assets is in cash and cash equivalents. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$102,504, or approximately 17%

from the prior year. The increase in restricted net assets was primarily a result of funds received from our Local Option Sales and Service tax retained for two reasons: first to pay principal and interest payments on a revenue bond for a building project and second \$59,000 was held as part of a 28E sharing agreement with the Maquoketa Community School District for LOSST dollars to follow the students. (The committee decided to hold spending the money until 2006/2007 when it would be used towards the second stage of Maquoketa's high school building project). Management Fund dollars were also increased to meet the July 2007 insurance payment. The Physical Plant and Equipment Fund increased due to building improvement projects which were bid but not completed until after fiscal year end and board decision to hold off purchasing a bus for another year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$4,802, or approximately 1%. While it was the board's goal to reduce the carryover fund balance by reducing the levy rate for fiscal year 2006, events happened after approving the budget such as sharing .3 of the superintendent position, reducing the kindergarten classrooms to one and hiring a teacher to replace another with a lower step and lane placement, caused the unrestricted balance to increased slightly.

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

Figure A-4

	Change in Net Assets						
	Governmental Activities		Business Type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program revenues							
Charges for service and sales	\$ 159,346	\$ 151,088	\$ 26,609	\$ 31,193	\$ 185,955	\$ 182,281	2.02%
Operating grants and contributions	237,374	225,705	21,543	20,976	258,917	246,681	4.96%
General revenues							
Property tax	699,020	812,627	-	-	699,020	812,627	-13.98%
Sales and services tax	155,152	139,169	-	-	155,152	139,169	11.48%
Unrestricted state grants	1,096,017	905,264	-	-	1,096,017	905,264	21.07%
Unrestricted investment earnings	63,785	34,342	185	110	63,970	34,452	85.68%
Contributions and donations	96	11,762	-	-	96	11,762	-99.18%
Loss on disposal of assets	-	(23,674)	-	-	-	(23,674)	-100.00%
Other	<u>4,787</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,787</u>	<u>-</u>	0.00%
Total revenues	<u>2,415,577</u>	<u>2,256,283</u>	<u>48,337</u>	<u>52,279</u>	<u>2,463,914</u>	<u>2,308,562</u>	6.73%
Program expenses							
Governmental activities							
Instruction	1,409,490	1,414,970	-	-	1,409,490	1,414,970	-0.39%
Support services	657,284	650,140	-	-	657,284	650,140	1.10%
Non-instructional programs	25,236	25,617	54,292	53,189	79,528	78,806	0.92%
Other expenses	<u>135,981</u>	<u>170,569</u>	<u>-</u>	<u>-</u>	<u>135,981</u>	<u>170,569</u>	-20.28%
Total expenses	<u>2,227,991</u>	<u>2,261,296</u>	<u>54,292</u>	<u>53,189</u>	<u>2,282,283</u>	<u>2,314,485</u>	-1.39%
Excess before transfers	187,586	(5,013)	(5,955)	(910)	181,631	(5,923)	-3166.54%
Transfers	<u>(8,181)</u>	<u>(8,527)</u>	<u>8,181</u>	<u>8,527</u>	<u>-</u>	<u>-</u>	0.00%
Change in net assets	<u>\$ 179,405</u>	<u>\$ (13,540)</u>	<u>\$ 2,226</u>	<u>\$ 7,617</u>	<u>\$ 181,631</u>	<u>\$ (5,923)</u>	-3166.54%

In fiscal 2006, property tax and unrestricted state grants account for 74.3% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were \$2,463,914 of which \$2,415,577 was for governmental activities and \$48,337 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.73% increase in revenues and a 1.39% decrease in expenses. Property tax decreased \$113,607 in 2006 from 2005. However, unrestricted state grants increased \$190,753 to fund increases in expenditures. The decreases in expenses related to salary changes for new staff, offering only one kindergarten classroom due to enrollment, sharing the .3 position for superintendent, board decision not to buy a bus and bid projects which were completed after the fiscal year end. The state revenues increased because of an enrollment increase in the fall of 2004 and many of the state programs are based on the size of enrollment. Property tax decreased because of the board decision to reduce the levy and use some of the carry over balances.

### Governmental Activities

Revenues for governmental activities were \$2,415,577 and expenses were \$2,227,991. In a difficult budget year, the District was able to monitor the budget by trimming expenses to match available revenues.

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

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 1,409,490	\$ 1,414,970	-0.4%	\$ 1,165,577	\$ 1,118,740	4.2%
Support services	657,284	650,140	1.1%	597,260	646,381	-7.6%
Non-instructional programs	25,236	25,617	-1.5%	14,486	25,617	-43.5%
Other expenses	<u>135,981</u>	<u>170,569</u>	<u>-20.3%</u>	<u>53,948</u>	<u>93,765</u>	<u>-42.5%</u>
Total expenses	<u>\$ 2,227,991</u>	<u>\$ 2,261,296</u>	<u>-1.5%</u>	<u>\$ 1,831,271</u>	<u>\$ 1,884,503</u>	<u>-2.8%</u>

- The cost financed by users of the District's programs was \$159,346.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$237,374.
- The net cost of governmental activities was financed with \$854,172 in property and other taxes and \$1,096,17 in unrestricted state grants.

## **Business Type Activities**

Revenues for business type activities were \$48,337 representing a 7.5% decrease over the prior year while expenses were \$54,292, a 2.1% increase from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006 the District modestly increased meal prices five cents per meal. The revenues, decreased because of a drop enrollment for the 2005-2006 school year. Expenses increased because of wage increases, need for substitutes in food service because of the leaves of regular employees and food costs prices.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,510,025, a significant increase over last year's ending fund balances of \$1,427,446.

### **Governmental Fund Highlights**

- The General Fund balance decreased slightly from \$793,261 to \$793,198. The District board felt the General fund financial position was stable enough to reduce the levy rate by using carry over fund balance. In 2004-05, the General fund balance decreased from \$848,253 to \$793,261. The board decision was to continue to decrease the carry over balance.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$407,472 in fiscal 2005 to \$433,510 in fiscal 2006. The balance increased because the board budgeted to purchase a new bus, but then chose to wait on that purchase for another year and bids for a new roof for \$65,000 were not completed until the 2006/2007 fiscal year.
- The Capital Projects Fund balance increased by \$47,190. The District ended fiscal 2005 with a balance of \$192,069. The District ended fiscal 2006 with a balance of \$239,259. The increase was due to a 28E agreement with the Maquoketa Community School District. Approximately \$60,000 was held for projects that will not be starting until the spring of 2007. The 28E agreement allows Local Option Sales and Service taxes to follow the student with our whole grade sharing agreement with the Maquoketa District.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$12,280 at June 30, 2005 to \$14,506 at June 30, 2006, representing an increase of approximately 18%. For fiscal 2006 the increase in net assets was due to a board decision to transfer the balances owed to the general fund for 2004/2005 and 2005/2006 from the general fund into the nutrition fund. The board feels the program is beneficial to student education and chose to support the deficits.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Delwood Community School District amended its annual budget once by \$14,600 due to state coding changes for before and after school support.

The District's receipts were \$728 less than budgeted receipts, a variance of less than .1%. Although not a substantial difference, the decrease was due to the unknown variables of grant funding.

Total expenditures were \$503,197 less than budgeted, due partially to the District's budget for the General Fund. It is the District's practice to budget expenditures to provide enough authority to cover unexpected costs that could occur during the year. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. At the time of budgeting, it is unknown in which fiscal year the invoicing of the summer building improvements are going to happen, budget authority is often put in the two different years for the same project.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$1,024,480, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. This represents a net increase of 1.4% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$42,925.

The original cost of the District's capital assets was \$2,060,027. Governmental funds account for \$2,037,133, with the remainder of \$22,894 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings and improvements category. The District's buildings and improvements totaled \$885,919 at June 30, 2006, compared to \$862,834 reported at June 30, 2005. This significant increase resulted from new carpet installation for the landing, stairways and corridors, new sound proof folding stage doors, asbestos removal around the windows in preparation for new windows to be installed in 2006/2007, new concrete pads north of the building and fence work to meet safety issues on the playground area. It is the board's goal to retain their building and site in quality condition for a pleasant learning environment. Again the board chose to increase technology by purchasing more computers for the classrooms.

Figure A-6

## Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Land	\$ 600	\$ 600	\$ -	\$ -	\$ 600	\$ 600	0.00%
Construction in progress	-	4,413	-	-	-	4,413	-100.00%
Buildings and improvements	885,919	862,834	-	-	885,919	862,834	2.68%
Improvements, other than buildings	23,521	20,756	-	-	23,521	20,756	13.32%
Furniture and equipment	<u>100,941</u>	<u>106,145</u>	<u>13,499</u>	<u>15,407</u>	<u>114,440</u>	<u>121,552</u>	-5.85%
Totals	<u>\$1,010,981</u>	<u>\$994,748</u>	<u>\$13,499</u>	<u>\$15,407</u>	<u>\$1,024,480</u>	<u>\$1,010,155</u>	1.42%

**Long-Term Debt**

At June 30, 2006, the District had \$330,000 in revenue bonds outstanding. This represents a decrease of approximately 19% from last year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7

## Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Revenue bonds	\$ 330,000	\$390,000	-15.38%
Early retirement	<u>-</u>	<u>19,861</u>	-100.00%
Total	<u>\$ 330,000</u>	<u>\$409,861</u>	-19.48%

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

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

- The District's enrollment decreased from 261 in the fall of 2004 to 244 in the fall of 2005. Since much of the district's revenue is determined by the number of students, this will have a negative effect on FY07 budget. However, in the fall of 2006 enrollment was up to 260.1
- Clinton and Jackson county property tax valuations for the 2005/2006 budget was \$59,796,127 a .25% increase from the prior year. For the 2006/2007 budget the property tax valuation increased to \$65,159,883 a 9.2% increase.
- Iowa's legislature increased allowable growth for FY06 to 4%, 2% higher than FY05.

- The District is supporting a quality after school program with some dollars coming from parent fees, some from grants and some from district funding. We feel it offers a safe environment with additional educational opportunities. In FY06 the District chose to offer a before school program funded by parent fees.
- Insurance costs are continuing to increase including health insurance, property, casualty and vehicles.
- In March 2006 the Delwood Community School District and the Delwood Education Association settled a two year contract at 4.5 total package increase for the first year (2006/2007) and for the second year (2007/2008).
- The District has remained financially stable during the legislative cut back's of the past few years and have projected to remain independent for years to come. While the Delwood District has one of the lowest levy rates of the state, Delwood has the ability to levy more because of its \$3,000,000 carry over "spending authority".
- The District continues to offer a strong education as evidenced by student achievement data.
- The District has a very experienced teaching staff that supports student learning and a very supportive non-certified staff.
- The District maintains reliable transportation vehicles, modern equipment and technology, modern media center and retains their building in quality condition.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jane L. Goodenow, District Secretary/Treasurer and Business Manager or Superintendent Mary Jo Hainstock, Delwood Community School District, 311 Delmar Avenue, P.O. Box 292, Delmar, Iowa 52037 (Phone 563-674-4164).

## Basic Financial Statements

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

<b>ASSETS</b>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,520,544	\$ 512	\$ 1,521,056
Receivables			
Property tax			
Delinquent	14,907	-	14,907
Succeeding year	741,765	-	741,765
Accounts receivable	159	-	159
Due from other governments	79,157	-	79,157
Inventories	-	495	495
Capital assets, net of accumulated depreciation	<u>1,010,981</u>	<u>13,499</u>	<u>1,024,480</u>
Total assets	<u>3,367,513</u>	<u>14,506</u>	<u>3,382,019</u>
 <b>LIABILITIES</b>			
Accounts payable	41	-	41
Salaries and benefits payable	104,701	-	104,701
Accrued interest payable	1,221	-	1,221
Deferred revenue - succeeding year property tax	741,765	-	741,765
Long-term liabilities			
Portion due within one year			
Bonds payable	60,000	-	60,000
Portion due after one year			
Bonds payable	<u>270,000</u>	<u>-</u>	<u>270,000</u>
Total liabilities	<u>1,177,728</u>	<u>-</u>	<u>1,177,728</u>
 <b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,285,729	13,499	1,299,228
Restricted for			
Management levy	34,384	-	34,384
Capital projects	239,259	-	239,259
Physical plant and equipment levy	433,510	-	433,510
Other special revenue purposes	9,674	-	9,674
Unrestricted	<u>187,229</u>	<u>1,007</u>	<u>188,236</u>
Total net assets	<u>\$ 2,189,785</u>	<u>\$ 14,506</u>	<u>\$ 2,204,291</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

<u>Functions/Programs</u>	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Governmental activities	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Instruction						
Regular instruction	\$ 976,689	\$ 103,662	\$ 106,379	\$ (766,648)	\$ -	\$ (766,648)
Special instruction	429,957	-	33,872	(396,085)	-	(396,085)
Other instruction	2,844	-	-	(2,844)	-	(2,844)
	1,409,490	103,662	140,251	(1,165,577)	-	(1,165,577)
Support services						
Student services	14,646	-	1,134	(13,512)	-	(13,512)
Instructional staff services	104,240	50	72	(104,118)	-	(104,118)
Administration services	245,144	44,312	-	(200,832)	-	(200,832)
Operation and maintenance of plant services	142,429	533	-	(141,896)	-	(141,896)
Transportation services	150,825	259	13,664	(136,902)	-	(136,902)
	657,284	45,154	14,870	(597,260)	-	(597,260)
Non-instructional programs	25,236	10,530	220	(14,486)	-	(14,486)
Other expenditures						
Facilities acquisition	37,507	-	3,000	(34,507)	-	(34,507)
Long-term debt interest	18,378	-	-	(18,378)	-	(18,378)
AEA flowthrough	79,033	-	-	(79,033)	-	(79,033)
Depreciation (unallocated) *	1,063	-	79,033	77,970	-	77,970
	135,981	-	82,033	(53,948)	-	(53,948)
Total governmental activities	2,227,991	159,346	237,374	(1,831,271)	-	(1,831,271)

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs (continued)</u></b>						
Business type activities						
Non-instructional programs						
Nutrition services	\$ 54,292	\$ 26,609	\$ 21,543	-	\$ (6,140)	\$ (6,140)
Total	<u>\$ 2,282,283</u>	<u>\$ 185,955</u>	<u>\$ 258,917</u>	<u>(1,831,271)</u>	<u>(6,140)</u>	<u>(1,837,411)</u>
<b><u>General Revenues</u></b>						
Taxes levied for						
General purposes				639,203	-	639,203
Capital projects				59,817	-	59,817
Sales and services tax for capital projects				155,152	-	155,152
Unrestricted state grants				1,096,017	-	1,096,017
Unrestricted investment earnings				63,785	185	63,970
Contributions and donations				96	-	96
Miscellaneous				4,787	-	4,787
Transfers				(8,181)	8,181	-
Total general revenues and transfers				<u>2,010,676</u>	<u>8,366</u>	<u>2,019,042</u>
Change in net assets				179,405	2,226	181,631
Net assets, beginning of year				2,010,380	12,280	2,022,660
Net assets, end of year				<u>\$ 2,189,785</u>	<u>\$ 14,506</u>	<u>\$ 2,204,291</u>

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

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet  
Governmental Funds

June 30, 2006

	<u>General</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and pooled investments	\$ 834,617	\$ 429,116	\$ 214,151	\$ 42,660	\$ 1,520,544
Receivables					
Property tax					
Delinquent	12,112	1,397	-	1,398	14,907
Succeeding year	636,605	65,160	-	40,000	741,765
Accounts receivable	159	-	-	-	159
Due from other funds	-	2,997	-	-	2,997
Due from other governments	54,049	-	25,108	-	79,157
Total assets and other debits	<u>\$ 1,537,542</u>	<u>\$ 498,670</u>	<u>\$ 239,259</u>	<u>\$ 84,058</u>	<u>\$ 2,359,529</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ 41	\$ -	\$ -	\$ -	\$ 41
Salaries and benefits payable	104,701	-	-	-	104,701
Due to other fund	2,997	-	-	-	2,997
Deferred revenue					
Succeeding year property tax	636,605	65,160	-	40,000	741,765
Total liabilities	<u>744,344</u>	<u>65,160</u>	<u>-</u>	<u>40,000</u>	<u>849,504</u>
Fund balances					
Unreserved					
Special revenue funds	-	433,510	-	44,058	477,568
Other governmental	793,198	-	239,259	-	1,032,457
Total fund balances	<u>793,198</u>	<u>433,510</u>	<u>239,259</u>	<u>44,058</u>	<u>1,510,025</u>
Total liabilities and fund balances	<u>\$ 1,537,542</u>	<u>\$ 498,670</u>	<u>\$ 239,259</u>	<u>\$ 84,058</u>	<u>\$ 2,359,529</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2006

Exhibit D

Total fund balances of governmental funds	\$ 1,510,025
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,010,981
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.	(1,221)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(330,000)</u>
Net assets of governmental activities	<u>\$ 2,189,785</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 578,815	\$ 59,774	\$ 155,152	\$ 59,975	\$ 853,716
Tuition	85,099	-	-	-	85,099
Other	114,627	17,474	8,655	6,244	147,000
State sources	1,251,307	43	-	-	1,251,350
Federal sources	76,824	-	-	42	76,866
Total revenues	<u>2,106,672</u>	<u>77,291</u>	<u>163,807</u>	<u>66,261</u>	<u>2,414,031</u>
Expenditures					
Current					
Instruction					
Regular instruction	973,996	-	-	21,250	995,246
Special instruction	427,745	-	-	-	427,745
Other instruction	-	-	-	2,637	2,637
	<u>1,401,741</u>	<u>-</u>	<u>-</u>	<u>23,887</u>	<u>1,425,628</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

	<u>General</u>	<u>Special Revenue</u> <u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Expenditures (continued)					
Current (continued)					
Support services					
Student services	\$ 24,034	-	-	-	\$ 24,034
Instructional staff services	84,781	11,994	-	-	96,775
Administration services	233,159	-	-	7,323	240,482
Operation and maintenance of plant services	124,837	-	-	16,147	140,984
Transportation services	<u>125,365</u>	<u>-</u>	<u>-</u>	<u>8,404</u>	<u>133,769</u>
Non-instructional programs	592,176	11,994	-	31,874	636,044
Other expenditures	<u>24,150</u>	<u>-</u>	<u>-</u>	<u>1,086</u>	<u>25,236</u>
Facilities acquisition					
Long-term debt	-	42,259	37,507	-	79,766
Principal	-	-	-	60,000	60,000
Interest and fiscal charges	-	-	-	19,110	19,110
AEA flowthrough	<u>79,033</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>79,033</u>
Total expenditures	<u>79,033</u>	<u>42,259</u>	<u>37,507</u>	<u>79,110</u>	<u>237,909</u>
	<u>2,097,100</u>	<u>54,253</u>	<u>37,507</u>	<u>135,957</u>	<u>2,324,817</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

	<u>General</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 9,572	\$ 23,038	\$ 126,300	\$ (69,696)	\$ 89,214
Other financing sources (uses)					
Sale of materials and supplies	1,546	-	-	-	1,546
Interfund operating transfers in	413	3,000	-	79,110	82,523
Interfund operating transfers (out)	(11,594)	-	(79,110)	-	(90,704)
Total other financing sources (uses)	<u>(9,635)</u>	<u>3,000</u>	<u>(79,110)</u>	<u>79,110</u>	<u>(6,635)</u>
Net change in fund balances	(63)	26,038	47,190	9,414	82,579
Fund balance, beginning of year	<u>793,261</u>	<u>407,472</u>	<u>192,069</u>	<u>34,644</u>	<u>1,427,446</u>
Fund balance, end of year	<u>\$ 793,198</u>	<u>\$ 433,510</u>	<u>\$ 239,259</u>	<u>\$ 44,058</u>	<u>\$ 1,510,025</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances-Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds \$ 82,579

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are 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	\$ 57,250	
Depreciation expense	<u>(41,017)</u>	16,233

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. 60,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		19,861
------------------	--	--------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 732

Change in net assets of governmental activities \$ 179,405

See notes to financial statements and Independent Auditor's Report.

DELWOOD SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
June 30, 2006

Exhibit G

	<u>Nonmajor School Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 512
Inventories	495
Capital assets, net of accumulated depreciation	<u>13,499</u>
Total assets	<u>14,506</u>
 <b>LIABILITIES</b>	 <u>-</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	13,499
Unrestricted	<u>1,007</u>
Total net assets	<u><u>\$ 14,506</u></u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended June 30, 2006

Exhibit H

	Nonmajor School <u>Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 26,609</u>
Operating expenses	
Non-instructional programs	
Salaries	23,024
Benefits	2,987
Purchased services	3,290
Supplies	23,083
Depreciation	<u>1,908</u>
Total operating expenses	<u>54,292</u>
Operating loss	<u>(27,683)</u>
Non-operating revenue	
Interest income	185
State sources	661
Federal sources	<u>20,882</u>
Total non-operating revenue	<u>21,728</u>
Net loss before transfers	(5,955)
Transfers, net	<u>8,181</u>
Net income	2,226
Net assets, beginning of year	<u>12,280</u>
Net assets, end of year	<u>\$ 14,506</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006

Exhibit I

	<u>Nonmajor School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 26,751
Cash payments to employees for services	(30,195)
Cash payments to suppliers for goods and services	(22,665)
Net cash used in operating activities	<u>(26,109)</u>
Cash flows from non-capital financing activities	
State grants received	661
Federal grants received	17,178
Net cash provided by non-capital financing activities	<u>17,839</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interfund operating transfers, net	8,181
Interest on investments	185
Net cash provided by investing activities	<u>8,366</u>
Net increase in cash and cash equivalents	96
Cash and cash equivalents, beginning of year	416
Cash and cash equivalents, end of year	<u><u>\$ 512</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$(27,683)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	1,908
Commodities used	3,704
Decrease in accounts receivable	142
Decrease in inventories	4
(Decrease) in due to other funds	(4,184)
Net cash used in operating activities	<u><u>\$(26,109)</u></u>

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

During the year ended June 30, 2006, the District received \$3,704 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Fund  
June 30, 2006

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
<b>Assets</b>	
Cash and pooled investments	\$ 134,131
<b>Liabilities</b>	<u>          -</u>
<b>Net assets</b>	
Reserved for scholarships	<u>\$ 134,131</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund  
For the Year Ended June 30, 2006

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 5,363
Deductions	
Support services	
Scholarships	<u>3,500</u>
Change in net assets	1,863
Net assets, beginning of year	<u>132,268</u>
Net assets, end of year	<u>\$ 134,131</u>

See notes to financial statements and Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The Delwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors before and after school programs for the community . The geographic area served includes the Cities of Delmar and Elwood, Iowa, and the agricultural territory in Clinton and Jackson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

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

The Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. This fund is created to deposit and expend money from the PPEL levy. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

The District reports no major proprietary funds. However, it reports one non-major proprietary fund, the School Nutrition fund, which is used to account for the food service operations of the District.

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

The 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.

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and 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.

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

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	5-40 years
Improvements other than buildings	15-20 years
Furniture and equipment	3-20 years

Salaries and Benefits Payable - Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements 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 and property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of unspent grant proceeds and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted in any of the functional areas or the General Fund unspent authorized budget.

**Note 2. Cash and Pooled Investments**

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

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

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

	Amortized
	Cost
Diversified Portfolio	<u>\$148,246</u>

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

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

**Note 3. Due From and Due to Other Funds**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Physical Plant and Equipment Levy Fund	General Fund	\$ 2,997

**Note 4. Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Physical Plant and Equipment Levy	General Fund	\$ 3,000
General Fund	School Nutrition	413
Debt Service	Capital Projects	79,110
School Nutrition	General Fund	<u>8,594</u>
Total		<u>\$ 91,117</u>

## Note 5. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 600	\$ -	\$ -	\$ 600
Construction in progress	4,413	-	(4,413)	-
Total capital assets, not being depreciated	<u>5,013</u>	<u>-</u>	<u>(4,413)</u>	<u>600</u>
Capital assets being depreciated:				
Buildings and improvements	1,079,590	42,293	-	1,121,883
Improvements other than buildings	37,763	4,379	-	42,142
Furniture and equipment	<u>864,785</u>	<u>14,991</u>	<u>(7,268)</u>	<u>872,508</u>
Total capital assets being depreciated	<u>1,982,138</u>	<u>61,663</u>	<u>(7,268)</u>	<u>2,036,533</u>
Less accumulated depreciation for:				
Buildings and improvements	216,756	19,208	-	235,964
Improvements other than buildings	17,007	1,614	-	18,621
Furniture and equipment	<u>758,640</u>	<u>20,195</u>	<u>(7,268)</u>	<u>771,567</u>
Total accumulated depreciation	<u>992,403</u>	<u>41,017</u>	<u>(7,268)</u>	<u>1,026,152</u>
Total capital assets being depreciated, net	<u>989,735</u>	<u>20,646</u>	<u>-</u>	<u>1,010,381</u>
Governmental activities capital assets, net	<u>\$ 994,748</u>	<u>\$ 20,646</u>	<u>\$ (4,413)</u>	<u>\$ 1,010,981</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 22,894	\$ -	\$ -	\$ 22,894
Less accumulated depreciation	<u>7,487</u>	<u>1,908</u>	<u>-</u>	<u>9,395</u>
Business type activities capital assets, net	<u>\$ 15,407</u>	<u>\$ (1,908)</u>	<u>\$ -</u>	<u>\$ 13,499</u>

Depreciation expense was charged to the following functions:

<b>Governmental activities</b>		
Instruction		
Regular		\$ 1,304
Special		5,209
Other		207
Support services		
Student support		2,606
Instructional staff		7,465
Administration		4,662
Operation and maintenance of plant		1,445
Transportation		17,056
Unallocated		<u>1,063</u>
Total governmental activities depreciation expense		<u>\$ 41,017</u>
<b>Business type activities</b>		
Food services		<u>\$ 1,908</u>

**Note 6. Long-term Liabilities**

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Revenue bonds	\$ 390,000	\$ -	\$(60,000)	\$ 330,000	\$ 60,000
Early retirement	<u>19,861</u>	<u>-</u>	<u>(19,861)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 409,861</u>	<u>\$ -</u>	<u>\$(79,861)</u>	<u>\$ 330,000</u>	<u>\$ 60,000</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits are received in four semi-annual payments beginning in the year following retirement. The payments are made through the District's special pay deferral plan.

Revenue Bonds Payable

On September 1, 2003, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds are to be used for an addition for a media center, cafeteria and kitchen. The bonds will be repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$500,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues will be deposited. Interest and principal on the bonds will be paid from the Sinking Fund. Details of the District's June 30, 2006 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 2003			
	Interest Rates	Interest	Principal	Total
2007	5.50	\$ 15,410	\$ 60,000	\$ 75,410
2008	5.25	12,110	65,000	77,110
2009	5.25	8,697	65,000	73,697
2010	3.70	5,285	70,000	75,285
2011	3.85	<u>1,347</u>	<u>70,000</u>	<u>71,347</u>
Totals		<u>\$ 42,849</u>	<u>\$ 330,000</u>	<u>\$ 372,849</u>

**Note 7. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$47,651, \$46,651 and \$48,386 respectively, equal to the required contributions for each year.

**Note 8. Risk Management**

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

**Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$79,033 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.

## Required Supplementary Information

**DELWOOD COMMUNITY SCHOOL DISTRICT**  
**Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual**  
**All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**For the Year Ended June 30, 2006**

	Governmental Funds	Proprietary Funds	Total Actual	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues						
Local sources	\$ 1,085,815	\$ 26,794	\$ 1,112,609	\$ 1,120,149	\$ 1,120,149	\$ (7,540)
Intermediate sources	-	-	-	13,500	13,500	(13,500)
State sources	1,251,350	661	1,252,011	1,225,447	1,225,447	26,564
Federal sources	76,866	20,882	97,748	104,000	104,000	(6,252)
Total revenues	<u>2,414,031</u>	<u>48,337</u>	<u>2,462,368</u>	<u>2,463,096</u>	<u>2,463,096</u>	<u>(728)</u>
Expenditures						
Instruction	1,425,628	-	1,425,628	1,734,500	1,734,500	308,872
Support services	636,044	-	636,044	732,960	732,960	96,916
Non-instructional programs	25,236	54,292	79,528	75,400	90,000	10,472
Other expenditures	237,909	-	237,909	324,846	324,846	86,937
Total expenditures	<u>2,324,817</u>	<u>54,292</u>	<u>2,379,109</u>	<u>2,867,706</u>	<u>2,882,306</u>	<u>503,197</u>
Excess (deficiency) of revenues over (under) expenditures	89,214	(5,955)	83,259	(404,610)	(419,210)	502,469
Other financing sources, net	<u>(6,635)</u>	<u>8,181</u>	<u>1,546</u>	<u>500</u>	<u>500</u>	<u>1,046</u>
Excess (deficiency) of revenues and other financing sources, net over (under) expenditures	82,579	2,226	84,805	(404,110)	(418,710)	503,515
Balance, beginning of year	<u>1,427,446</u>	<u>12,280</u>	<u>1,439,726</u>	<u>1,279,936</u>	<u>1,279,936</u>	<u>159,790</u>
Balance, end of year	<u>\$ 1,510,025</u>	<u>\$ 14,506</u>	<u>\$ 1,524,531</u>	<u>\$ 875,826</u>	<u>\$ 861,226</u>	<u>\$ 663,305</u>

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, Capital Projects 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 statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$14,600.

During the year ended June 30, 2006, District expenditures did not exceed the amounts budgeted in any of the four functions, nor did General Fund expenditures exceed unspent authorized budget.

## Other Supplementary Information

DELWOOD COMMUNITY SCHOOL DISTRICT  
 Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2006

Schedule 1

	<u>Management</u>	<u>Student Activity 5th &amp; 6th Grade Trip</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments	\$ 32,986	\$ 9,674	\$ 42,660
Receivables			
Property tax			
Delinquent	1,398	-	1,398
Succeeding year	40,000	-	40,000
Total assets	<u>\$ 74,384</u>	<u>\$ 9,674</u>	<u>\$ 84,058</u>
 <b>LIABILITIES AND FUND EQUITY</b>			
Liabilities			
Deferred revenue			
Succeeding year property tax	\$ 40,000	\$ -	\$ 40,000
Fund equity			
Unreserved fund balances	34,384	9,674	44,058
Total liabilities and fund equity	<u>\$ 74,384</u>	<u>\$ 9,674</u>	<u>\$ 84,058</u>

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended June 30, 2006

Schedule 2

	Special Revenue			
	Management	Student Activity	Debt	Total
	<u>Levy</u>	<u>5th &amp; 6th Grade Trip</u>	<u>Service</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ 59,975	\$ -	\$ -	\$ 59,975
Other	2,474	3,770	-	6,244
State sources	42	-	-	42
Total revenues	62,491	3,770	-	66,261
Expenditures				
Current				
Instruction				
Regular instruction	21,250	-	-	21,250
Other instruction	-	2,637	-	2,637
Support services				
Administration services	7,323	-	-	7,323
Operation and maintenance of plant services	16,147	-	-	16,147
Transportation services	7,215	1,189	-	8,404
Non-instructional programs	1,086	-	-	1,086
Other expenditures				
Long-term debt				
Principal	-	-	60,000	60,000
Interest and fiscal charges	-	-	19,110	19,110
Total expenditures	53,021	3,826	79,110	135,957
Excess (deficiency) of revenues over (under) expenditures	9,470	(56)	(79,110)	(69,696)
Other financing sources				
Interfund operating transfers in	-	-	79,110	79,110
Excess (deficiency) of revenues and other financing sources over (under) expenditures	9,470	(56)	-	9,414
Fund balances, beginning of year	24,914	9,730	-	34,644
Fund balances, end of year	\$ 34,384	\$ 9,674	\$ -	\$ 44,058

See accompanying Independent Auditor's Report.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 3

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 853,716	\$ 951,294	\$ 985,164	\$ 846,384
Tuition	85,099	119,719	87,935	78,158
Other	147,000	77,472	94,632	100,107
State sources	1,251,350	1,048,176	1,089,315	1,149,196
Federal sources	76,866	83,296	79,661	69,533
Total revenues	<u>\$ 2,414,031</u>	<u>\$ 2,279,957</u>	<u>\$ 2,336,707</u>	<u>\$ 2,243,378</u>
Expenditures				
Instruction				
Regular instruction	995,246	972,818	1,174,642	1,229,981
Special instruction	427,745	421,871	142,863	153,170
Other instruction	2,637	35,532	6,082	3,113
Support services				
Student services	24,034	29,342	68,414	75,151
Instructional staff services	96,775	104,658	78,877	143,934
Administration services	240,482	226,621	209,030	188,592
Operation and maintenance of plant services	140,984	155,101	131,227	97,044
Transportation services	133,769	137,182	100,440	90,442
Central support services	-	-	-	91
Non-instructional programs	25,236	30,369	5,883	4,825
Other expenditures				
Facilities acquisition	79,766	297,230	557,670	27,110
Long-term debt				
Principal	60,000	55,000	55,000	-
Interest and other charges	19,110	22,135	18,870	-
AEA flowthrough	79,033	76,804	79,308	85,354
Total expenditures	<u>\$ 2,324,817</u>	<u>\$ 2,564,663</u>	<u>\$ 2,628,306</u>	<u>\$ 2,098,807</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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

To the Board of Education  
Delwood Community School District

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Delwood Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated September 8, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing my audit, I considered Delwood Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My 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, I believe item (A) Segregation of Duties, is a material weakness.

## Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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 Delwood Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



Kay L. Chapman, CPA PC  
September 8, 2006

DELWOOD COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part II. Other Findings Related to Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2006 did not exceed the amended amounts budgeted.
2. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

DELWOOD COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant