

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

## Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	21
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	22
Statement of Revenues, Expenses, and Changes in Net Assets	H	23
Statement of Cash Flows	I	24
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	25
Statement of Changes in Fiduciary Net Assets	K	26
Notes to Financial Statements		27-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	40
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	2	41
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	44
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		45-46
Schedule of Findings		47-49



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Independent Auditor's Report

To the Board of Education of  
Eastern Allamakee Community School District:

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

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

The financial statements of KHS Booster Club have not been audited, and we were not engaged to audit the Booster Club financial statements as part of our audit of the Eastern Allamakee Community School District's basic financial statements. The Booster Club's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Booster Club's financial statements and because we did not apply any auditing procedures to the Booster Club's financial statements, we do not express an opinion on the discretely presented component unit.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 17, 2006, on our consideration of Eastern Allamakee Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 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 Eastern Allamakee Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein). For 2005 we did not issue an opinion on the discretely presented component unit and we issued unqualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. Our opinions for 2004 and 2003 were unqualified. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 17, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Eastern Allamakee Community School District's GASB 34 annual financial report presents its discussion and analysis of the district's financial performance during the fiscal year ended June 30, 2006. The analysis focuses on the district's financial performance as a whole.

Please read it in conjunction with District's financial statements, which immediately follow this section.

### 2006 FINANCIAL HIGHLIGHTS

The general fund revenues increased from \$3,641,695 in fiscal 2005 to \$3,832,981 in fiscal 2006 while the general fund expenditures increased from \$3,552,049 in fiscal 2005 to \$3,958,210 in fiscal 2006. This resulted in a decrease in the district's general fund balance from \$844,944 in fiscal 2005 to a fund balance of \$710,420 in fiscal 2006 that is a decrease of 15.92 percent from the previous year.

The increase in general fund revenues was attributed to an increase in state funds and federal funds. The increase in expenditures was attributed to an increase in the costs for both instruction and support services.

The district receives Local Option Sales Tax that is being used for building repairs, maintenance and the construction of the new additions.

On March 2, 2004, the voters of the Eastern Allamakee Community School District over-whelmingly approved a ten year extension to the instructional support levy. This money is used to support the educational program portion of the general fund.

On September 12, 2004 the constituents of the Eastern Allamakee Community School District passed \$5,320,000 bond issue for the construction of an addition to the elementary at New Albin and to construct a new middle school in Lansing. The bond referendum passed 67.6% yes and 32.4% no. The Eastern Allamakee Community School District was also in the process of constructing a physical fitness center. The total cost was \$339,020. Of the total amount of the construction, various individuals and businesses donated \$154,670.

### USING THIS ANNUAL REPORT

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the district:

The first two statements are *government-wide financial* statements that provide both short-term and long-term information about the district's overall financial status.

The remaining statements are *fund financial statements* that focus on the individual parts of the district, reporting the district's operations in more detail than the government-wide statements.

The *government funds* 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.

*Proprietary funds* statements offer short-term and long-term financial information about the activities the district operates like businesses, such as food services

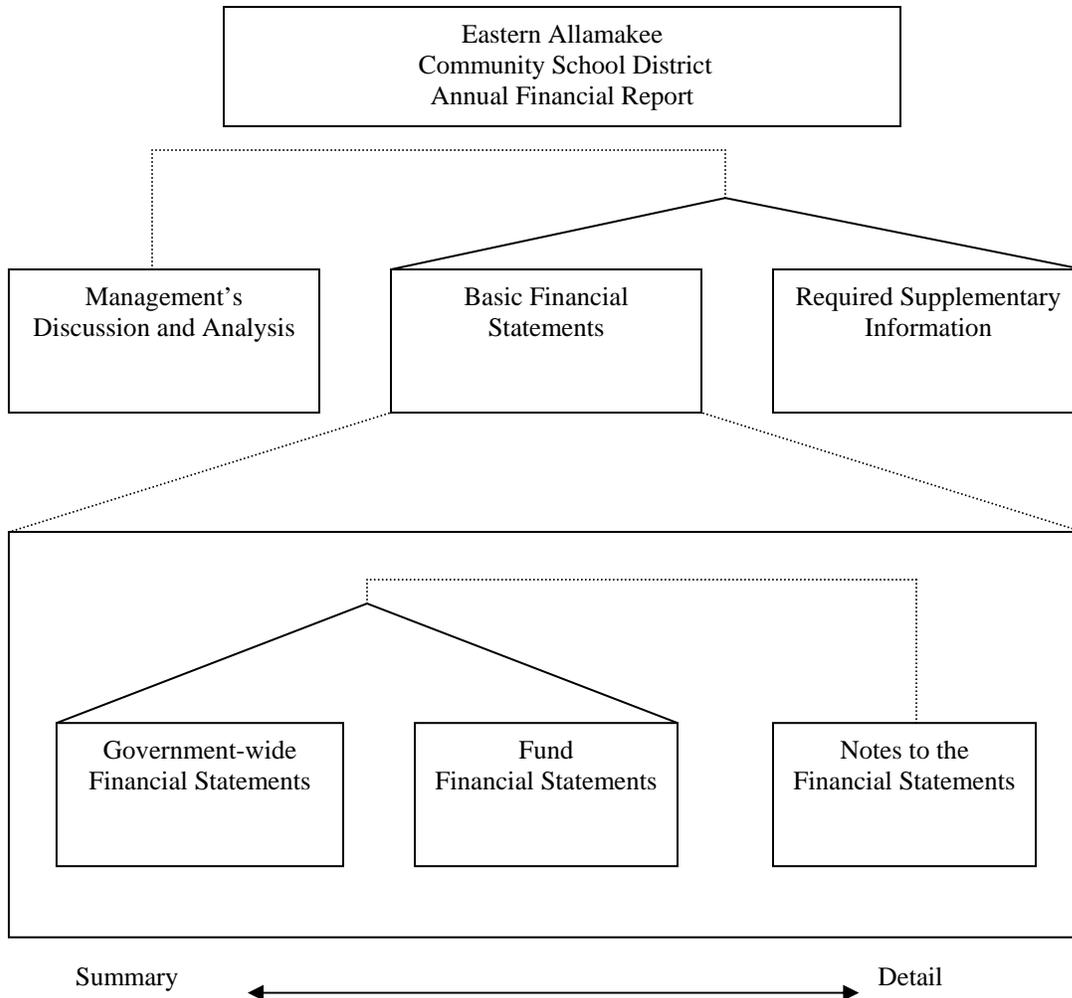
Fiduciary fund statements provide financial information about activities for which Eastern Allamakee Community School District acts solely as an agent or custodian for the benefit of others.

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.

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

Figure A-1  
Eastern Allamakee Community School District's Annual Finance Report

Figure A-1



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

**Fiduciary Funds**

	<b>Government-wide Statements</b>	<b>Governmental funds</b>	<b>Fund Financial Statements</b>	
			<b>Propriety Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	Entire district	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs.
<b>Required financial Statements</b>	Statement of net assets  Statement of activities	Balance sheet  Statement of revenues, expenditures and changes in fund balance	Statement of net assets Statement of revenues, expenses and changes in fund Net assets  Statement of cash Flows	Statement of fiduciary net assets  Statement of changes in fiduciary net assets
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/ Liability Information</b>	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
<b>Type of inflow/ Outflow Information</b>	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 Statements**

The Government-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 revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-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, respectfully.

To assess the District's overall health, you need to 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 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 would be 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:

**Government Funds:** Most of the District's basic services are included in government 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 the year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps you 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 Government-wide statements, additional information in exhibits following the governmental funds statements explains the relationship of differences between the two statements.

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

**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 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.

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

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

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other organizations.

**Financial Analysis of the District as a Whole**

Net assets. The District’s combined net assets showed an increase for the year ending June 30, 2006 compared to June 30, 2005. The increase was in three areas: net assets, net liabilities and invested in capital assets net of related debt.

Figure A-3

Condensed Statement of Net Assets - (expressed in thousands)

	Governmental Activities		Business-Type Activities		Total Eastern Allamakee		Total Change %
	2005	2006	2005	2006	2005	2006	2005-2006
Current & Other assets	\$8,906	\$4,840	\$2	\$1	\$8,908	\$4,841	- 45.66 %
Capital assets	\$1,191	\$5,969	\$31	\$26	\$1,222	\$5,995	390.59 %
<b>Total assets</b>	<b>\$10,097</b>	<b>\$10,809</b>	<b>\$33</b>	<b>\$27</b>	<b>\$10,130</b>	<b>\$10,836</b>	<b>6.97 %</b>
Current liabilities	\$2,387	\$2,800	\$20	\$20	\$2,407	\$2,820	17.21 %
Long-term obligations	\$5,462	\$5,410	\$0	\$0	\$5,462	\$5,410	- .95 %
<b>Total liabilities</b>	<b>\$7,849</b>	<b>\$8,210</b>	<b>\$20</b>	<b>\$20</b>	<b>\$7,869</b>	<b>\$8,230</b>	<b>4.60 %</b>
<b>Net assets</b>							
Invested capital assets	\$1,047	\$1,406	\$31	\$26	\$1,078	\$1,432	32.96 %
Net of debt							
Restricted	\$358	\$408	\$0	\$0	\$358	\$408	13.97 %
Unrestricted	\$843	\$785	\$(18)	\$(19)	\$825	\$766	- 7.15 %
<b>Total net assets</b>	<b>\$2,248</b>	<b>\$2,599</b>	<b>\$13</b>	<b>\$7</b>	<b>\$2,261</b>	<b>\$2,606</b>	<b>15.31 %</b>

Current and other assets balance decrease is due to bond money spent by year-end. Capital assets increased due to the remodeling and construction of new buildings.

Long-term liabilities remained the same due to the bonds still outstanding at the end of the fiscal year.

Invested in capital assets net of related debt increased due to fitness center construction and construction of new buildings.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District’s restricted net assets increased approximately \$49,862 or 14% over the prior year. The increase was primarily a result of local option sales tax monies and physical plant and equipment monies that were not spent during fiscal year 2006.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$58,993 or 7%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

**Changes in net assets – Figure A-4 shows the changes in net assets for years ended June 30, 2006 and 2005**

Figure A-4  
Changes in Net Assets - (expressed in thousands)

	Governmental Activities		Business Type Activities		Total Eastern Allamakee CSD	
	2005	2006	2005	2006	2005	2006
<b>Revenues:</b>						
Program revenues						
Charges for service and sales	\$250	\$256	\$117	\$116	\$367	\$372
Operating grants, contributions and restricted interest	\$519	\$704	\$79	\$82	\$598	\$786
Capital Grants	\$146	\$219	\$0	\$0	\$146	\$219
<b>General Revenues</b>						
Property tax levied for:						
General purposes	\$1,460	\$1,385	\$0	\$0	\$1,460	\$1,385
Debt Service	\$0	\$301	\$0	\$0	\$0	\$301
Capital outlay	\$49	\$50	\$0	\$0	\$49	\$50
Income surtax	\$121	\$144	\$0	\$0	\$121	\$144
Local option sales tax	\$245	\$236	\$0	\$0	\$245	\$236
Unrestricted state grants	\$1,460	\$1,492	\$0	\$0	\$1,460	\$1,492
Unrestricted investment earnings	\$27	\$35	\$0	\$0	\$27	\$35
Other	\$22	\$9	\$0	\$0	\$22	\$9
<b>Total revenues</b>	<b>\$4,299</b>	<b>\$4,831</b>	<b>\$196</b>	<b>\$198</b>	<b>\$4,495</b>	<b>\$5,029</b>
<b>Program expenses:</b>						
Governmental activities						
Instruction	\$2,370	\$2,577	\$0	\$0	\$2,370	\$2,577
Support services	\$1,342	\$1,469	\$0	\$0	\$1,342	\$1,469
Non-instructional programs	\$1	\$1	\$213	\$215	\$214	\$216
Other	\$335	\$422	\$0	\$0	\$335	\$422
<b>Total expenses</b>	<b>\$4,048</b>	<b>\$4,469</b>	<b>\$213</b>	<b>\$215</b>	<b>\$4,261</b>	<b>\$4,684</b>
Transfers	\$0	(\$11)	\$0	\$11	\$0	\$0
<b>Change in net assets</b>	<b>\$251</b>	<b>\$351</b>	<b>\$(17)</b>	<b>\$(6)</b>	<b>\$234</b>	<b>\$345</b>

For the 2005-2006 school year property tax and unrestricted state grants account for 66.8 percent of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 90.5 percent of total expenses. (See Figure A-4 Governmental Revenues and Governmental Expenditures)

**Governmental Activities**

Revenues for governmental activities were \$4,831,750 while expenses amounted to \$4,468,585.

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

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

	Total Cost Of Services		Net Cost of Services	
	2005	2006	2005	2006
Instruction	\$2,370	\$2,577	\$1,750	\$1,777
Support Services	\$1,642	\$1,469	\$1,337	\$1,455
Non-instructional Support	\$1	\$1	\$1	\$1
Other Expenses	\$335	\$422	\$45	\$56

A portion of the cost financed by users of the District's programs was \$256,010.

The federal and state government subsidized certain programs with grants and contributions totaling \$704,176.

The net cost portion of governmental activities was financed with \$1,736,439 in property tax and \$1,492,117 in unrestricted state foundation aid.

### Business-Type Activities

Revenues of the District's business-type activities were \$197,833 and expenses were \$215,746 for a loss of \$17,913 before transfers. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

### Financial Analysis of the District's Funds

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

The total revenues increased from \$4,234,314 at the end of fiscal year 2005 to \$4,722,359 at the end of fiscal year 2006. The difference was created in the following areas: local property tax decreased from \$1,540,002 at the end of fiscal 2005 to \$1,492,656 at the end of fiscal 2006, state sources increased from \$1,782,328 to \$1,915,366 during that same time period; the Capital Projects Fund increased from \$340,371 to \$352,765 during the same period, and Debt Service increased from 0 in 2005 to \$303,059 in 2006. The nonmajor governmental funds decreased from \$252,248 to \$233,554 at the same time. This left a net increase of \$488,045 or 11.53 %

During the same time total expenditures increased from \$4,398,355 at the end of fiscal 2005 to \$9,270,240 or an increase of \$4,871,885 or 110.77%. The increases were in the areas of capital projects and debt service.

The reserved fund balance decreased slightly for the talented and gifted program. The capital projects' unreserved fund decreased from 5,306,680 in 2005 to 860,243 in 2006 due to the building project. At the same time the nonmajor governmental increased \$33,703 from the previous year or 15.11%.

### Business-Type Highlights

The school nutrition fund decreased by an amount of \$5,976 from June 30, 2005 to June 30, 2006. This left the account with a total net asset of \$7,217 or a decrease of 45.23%.

### Budgetary Highlights

In accordance with the Code of Iowa, the Board of Directors annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Over the course of the year, the District amended its budget one time to reflect additional expenditures in the instruction, support services and non-instructional programs functions. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund and Capital Projects Funds. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General

Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services area due to the timing of expenditures at year-end and due to year-end account reclassifications as required by the Department of Education's new chart of accounts.

### Capital Assets

The Eastern Allamakee Community School District had a total of \$2,172,326 of capital assets being depreciated. Of this amount \$1,067,645 was total accumulated depreciation which left a net amount of \$1,104,681 total capital assets being depreciated. This was an increase of \$307,276 or 38.53%.

At June 30, 2006 the District had completed construction and equipped a fitness center for approximately \$340,000 and was nearing completion on a \$5.1 million project to remodel the elementary center and add on to the high school. At year-end the District had committed \$734,000 to complete the projects.

Figure A-6  
Capital Assets, net of depreciation

	Governmental Activities		Business-Type Activities		Total Eastern Allamakee CSD		Total Change %
	2005	2006	2005	2006	2005	2006	
Land	\$7,167	\$7,167	\$0	\$0	\$7,167	\$7,167	0.0%
Construction in Progress	\$386,479	\$4,857,428	\$0	\$0	\$386,479	\$4,857,428	1156.84%
Building	\$692,668	\$941,298	\$0	\$0	\$692,668	\$941,298	35.89%
Improvement other than Buildings	\$2,100	\$1,025	\$0	\$0	\$2,100	\$1,025	-51.19%
Furniture and equipment	\$102,637	\$162,358	\$30,783	\$25,843	\$133,420	\$188,201	41.06%
Total	\$1,191,051	\$5,969,276	\$30,783	\$25,843	\$1,221,834	\$5,995,119	390.67%

### Long Term Debt

At year-end, the District had \$5,282,030 in general obligation bonds, early retirement and compensated absences. This represents a decrease of \$45,029 from year 2005. A six-year early retirement package was approved in the amount of \$53,463. District's voters authorized the issuance of \$5,320,000 in general obligation bonds and the bonds were sold in fiscal 2005. Repayment of those bonds began in 2006.

**Figure A-8  
Outstanding Long-Term Obligations**

	Total Eastern 2005	Allamakee CSD 2006	Total Change %
General Obligation Bonds	\$5,320,000	\$5,225,000	-1.79%
Early Retirement	\$4,500	\$53,463	1088.07%
Compensated Salaries	\$2,559	\$3,567	39.39%
Total	\$5,327,059	\$5,282,030	-0.85%

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

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

The official student enrollment count taken in September 2006 showed that the enrollment had decreased by 7 students.

The state of Iowa's settlement with Alliant Energy cost the District \$35,930.12 for the next year.

The district will continue to use private transportation for another year.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers and private 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 any questions about this report or need additional financial information, contact Marian Verdon, School Board Secretary/Treasurer/Business Manager, Eastern Allamakee Community School District, 569 Center Street, Lansing, IA 52151

## BASIC FINANCIAL STATEMENTS

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit - KHS Booster Club
	\$	\$	\$	\$
<b>Assets</b>				
Cash and cash equivalents	2,545,074	325	2,545,399	5,004
Receivables:				
Property tax:				
Delinquent	20,305	-	20,305	-
Succeeding year	1,856,336	-	1,856,336	-
Accounts	1,295	-	1,295	-
Accrued interest	1,586	-	1,586	-
Due from other governments	277,384	-	277,384	-
Inventories	-	1,108	1,108	-
Bond issue costs	138,170	-	138,170	-
Capital assets, net of accumulated depreciation	5,969,276	25,843	5,995,119	-
<b>Total assets</b>	<b>10,809,426</b>	<b>27,276</b>	<b>10,836,702</b>	<b>5,004</b>
<b>Liabilities</b>				
Accounts payable	540,167	12	540,179	-
Salaries and benefits payable	367,562	17,271	384,833	-
Accrued interest payable	36,102	-	36,102	-
Deferred revenue:				
Succeeding year property tax	1,856,336	-	1,856,336	-
Other	-	2,776	2,776	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	200,000	-	200,000	-
Bond premium	6,948	-	6,948	-
Termination benefits	6,918	-	6,918	-
Compensated absences	3,567	-	3,567	-
Portion due after one year:				
General obligation bonds payable	5,025,000	-	5,025,000	-
Bond premium	121,009	-	121,009	-
Termination benefits	46,545	-	46,545	-
<b>Total liabilities</b>	<b>8,210,154</b>	<b>20,059</b>	<b>8,230,213</b>	<b>-</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit - KHS Booster Club
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	1,406,138	25,843	1,431,981	-
Restricted for:				
Gifted and talented program	6,751	-	6,751	-
Management levy	70,045	-	70,045	-
Physical plant and equipment levy	74,235	-	74,235	-
Other special revenue purposes	58,967	-	58,967	-
Local option sales tax capital projects	198,381	-	198,381	-
Unrestricted	<u>784,755</u>	<u>(18,626)</u>	<u>766,129</u>	<u>5,004</u>
<b>Total net assets</b>	<u><u>2,599,272</u></u>	<u><u>7,217</u></u>	<u><u>2,606,489</u></u>	<u><u>5,004</u></u>

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<b>Program Revenues</b>			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,832,552	90,591	478,308	-
Special instruction	307,871	18,442	24,585	-
Other instruction	436,224	132,840	54,785	-
	<u>2,576,647</u>	<u>241,873</u>	<u>557,678</u>	<u>-</u>
Support services:				
Student services	88,435	-	-	-
Instructional staff services	266,487	-	-	-
Administration services	418,984	-	-	-
Operation and maintenance of plant services	323,528	140	-	-
Transportation services	371,748	13,997	103	-
	<u>1,469,182</u>	<u>14,137</u>	<u>103</u>	<u>-</u>
Non-instructional programs	<u>1,131</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	-	-	-	219,162
Long-term debt interest	223,961	-	-	-
AEA flowthrough	146,395	-	146,395	-
Depreciation (unallocated)*	51,269	-	-	-
	<u>421,625</u>	<u>-</u>	<u>146,395</u>	<u>219,162</u>
Total governmental activities	4,468,585	256,010	704,176	219,162
Business type activities:				
Non-instructional programs:				
Food service operations	215,746	116,127	81,706	-
Total primary government	4,684,331	372,137	785,882	219,162
Component Units:				
KHS Booster Club	97,065	45,202	-	-
Total	<u>4,781,396</u>	<u>417,339</u>	<u>785,882</u>	<u>219,162</u>

**General Revenues:**

Property taxes levied for:
General purposes
Debt service
Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other
Total general revenues

Transfers

  Total general revenues and transfers

**Change in net assets**

Net assets beginning of year
Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets  
Primary Government

Governmental Activities	Business Type Activities	Total	Component Unit
\$	\$	\$	\$
(1,263,653)	-	(1,263,653)	-
(264,844)	-	(264,844)	-
(248,599)	-	(248,599)	-
<u>(1,777,096)</u>	<u>-</u>	<u>(1,777,096)</u>	<u>-</u>
(88,435)	-	(88,435)	-
(266,487)	-	(266,487)	-
(418,984)	-	(418,984)	-
(323,388)	-	(323,388)	-
(357,648)	-	(357,648)	-
<u>(1,454,942)</u>	<u>-</u>	<u>(1,454,942)</u>	<u>-</u>
(1,131)	-	(1,131)	-
219,162	-	219,162	-
(223,961)	-	(223,961)	-
-	-	-	-
<u>(51,269)</u>	<u>-</u>	<u>(51,269)</u>	<u>-</u>
<u>(56,068)</u>	<u>-</u>	<u>(56,068)</u>	<u>-</u>
<u>(3,289,237)</u>	<u>-</u>	<u>(3,289,237)</u>	<u>-</u>
-	(17,913)	(17,913)	-
(3,289,237)	(17,913)	(3,307,150)	-
-	-	-	(51,863)
<u>(3,289,237)</u>	<u>(17,913)</u>	<u>(3,307,150)</u>	<u>(51,863)</u>
1,385,202	-	1,385,202	-
301,491	-	301,491	-
49,746	-	49,746	-
144,078	-	144,078	-
236,291	-	236,291	-
1,492,117	-	1,492,117	-
34,640	252	34,892	304
8,836	-	8,836	-
3,652,401	252	3,652,653	304
<u>(11,665)</u>	<u>11,665</u>	<u>-</u>	<u>-</u>
<u>3,640,736</u>	<u>11,917</u>	<u>3,652,653</u>	<u>304</u>
351,499	(5,996)	345,503	(51,559)
<u>2,247,773</u>	<u>13,213</u>	<u>2,260,986</u>	<u>56,563</u>
<u>2,599,272</u>	<u>7,217</u>	<u>2,606,489</u>	<u>5,004</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Capital Projects Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	970,202	1,312,998	-	261,874	2,545,074
Receivables:					
Property tax:					
Delinquent	15,749	-	3,526	1,030	20,305
Succeeding year	1,442,755	-	312,099	101,482	1,856,336
Accounts	1,295	-	-	-	1,295
Accrued interest	-	1,374	-	212	1,586
Interfund receivable	386	13,374	-	-	13,760
Due from other governments	227,999	49,385	-	-	277,384
<b>Total assets</b>	<b>2,658,386</b>	<b>1,377,131</b>	<b>315,625</b>	<b>364,598</b>	<b>4,715,740</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	17,259	516,888	-	6,020	540,167
Salaries and benefits payable	367,562	-	-	-	367,562
Interfund payable	-	-	13,374	386	13,760
Deferred revenue:					
Succeeding year property tax	1,442,755	-	312,099	101,482	1,856,336
Other	120,390	-	-	-	120,390
Total liabilities	1,947,966	516,888	325,473	107,888	2,898,215
Fund balances:					
Reserved for:					
Gifted and talented program	6,751	-	-	-	6,751
Unreserved reported in:					
General fund	703,669	-	-	-	703,669
Special revenue funds	-	-	-	256,710	256,710
Capital projects funds	-	860,243	-	-	860,243
Debt service fund	-	-	(9,848)	-	(9,848)
Total fund balances	710,420	860,243	(9,848)	256,710	1,817,525
<b>Total liabilities and fund balances</b>	<b>2,658,386</b>	<b>1,377,131</b>	<b>315,625</b>	<b>364,598</b>	<b>4,715,740</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

\$

<b>Total fund balances of governmental funds (Exhibit C)</b>	1,817,525
<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.	5,969,276
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	120,390
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.	(36,102)
Bond issue costs are expensed when incurred in the governmental fund financial statements, but for the government-wide financial statements they are capitalized and amortized over the life of the bonds.	138,170
Long-term liabilities, including bonds payable, unamortized bond premiums, compensated absences and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(5,409,987)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>2,599,272</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects Fund	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,492,656	226,079	302,860	88,507	2,110,102
Tuition	56,451	-	-	-	56,451
Other	99,058	116,474	-	144,989	360,521
Intermediate sources	350	-	-	-	350
State sources	1,915,366	10,212	199	58	1,925,835
Federal sources	269,100	-	-	-	269,100
Total revenues	<u>3,832,981</u>	<u>352,765</u>	<u>303,059</u>	<u>233,554</u>	<u>4,722,359</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	1,770,066	-	-	11,084	1,781,150
Special instruction	307,871	-	-	-	307,871
Other instruction	300,360	-	-	132,250	432,610
	<u>2,378,297</u>	<u>-</u>	<u>-</u>	<u>143,334</u>	<u>2,521,631</u>
Support services:					
Student services	86,852	-	-	1,583	88,435
Instructional staff services	265,808	-	-	679	266,487
Administration services	401,849	-	-	8,463	410,312
Operation and maintenance of plant services	315,023	-	-	42,774	357,797
Transportation services	363,986	-	-	1,957	365,943
	<u>1,433,518</u>	<u>-</u>	<u>-</u>	<u>55,456</u>	<u>1,488,974</u>
Non-instructional programs	-	-	-	1,131	1,131
Other expenditures:					
Facilities acquisition	-	4,704,442	-	-	4,704,442
Long-term debt:					
Principal	-	-	95,000	-	95,000
Interest and fiscal charges	-	-	312,667	-	312,667
AEA flowthrough	146,395	-	-	-	146,395
	<u>146,395</u>	<u>4,704,442</u>	<u>407,667</u>	<u>-</u>	<u>5,258,504</u>
Total expenditures	<u>3,958,210</u>	<u>4,704,442</u>	<u>407,667</u>	<u>199,921</u>	<u>9,270,240</u>
Excess (deficiency) of revenues over (under) expenditure	<u>(125,229)</u>	<u>(4,351,677)</u>	<u>(104,608)</u>	<u>33,633</u>	<u>(4,547,881)</u>
Other financing sources (uses):					
Sales of materials and equipment	2,370	-	-	-	2,370
Operating transfers in	-	-	94,760	-	94,760
Operating transfers out	(11,665)	(94,760)	-	-	(106,425)
Total other financing sources (uses)	<u>(9,295)</u>	<u>(94,760)</u>	<u>94,760</u>	<u>-</u>	<u>(9,295)</u>
Net change in fund balances	(134,524)	(4,446,437)	(9,848)	33,633	(4,557,176)
Fund balances beginning of year	844,944	5,306,680	-	223,077	6,374,701
Fund balances end of year	<u>710,420</u>	<u>860,243</u>	<u>(9,848)</u>	<u>256,710</u>	<u>1,817,525</u>

See notes to financial statements.

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		(4,557,176)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Donated capital assets	104,060	
Expenditures for capital assets	4,740,679	
Depreciation expense	<u>(65,095)</u>	4,779,644
Capital assets with remaining basis in excess of the sales price were disposed of during the year. A loss on the sale is recorded for the Statement of Activities, while in the governmental funds a revenue for the sales price is recorded.		(1,419)
Income surtaxes and other receivables not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		4,379
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		95,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		81,758
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Termination benefits	(48,963)	
Compensated absences	<u>(1,008)</u>	(49,971)
For governmental fund financial statements bond premiums are recorded as revenue when received, but for the Statement of Activities bond premiums are amortized over the life of the bonds.		6,948
For governmental fund financial statements bond issue costs are recorded as an expenditure when incurred, but for the Statement of Activities bond issue costs are capitalized and amortized over the life of the bonds.		<u>(7,664)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>351,499</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Fund

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	325
Inventories	1,108
Capital assets, net of accumulated depreciation	<u>25,843</u>
<b>Total assets</b>	<u>27,276</u>
<b>Liabilities</b>	
Accounts payable	12
Salaries and benefits payable	17,271
Deferred revenue	<u>2,776</u>
<b>Total liabilities</b>	<u>20,059</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	25,843
Unrestricted	<u>(18,626)</u>
<b>Total net assets</b>	<u><u>7,217</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>116,127</u>
Operating expenses:	
Non-instructional programs:	
Salaries	68,083
Benefits	38,569
Purchased services	788
Supplies	103,366
Depreciation	4,940
	<u>215,746</u>
Operating gain (loss)	<u>(99,619)</u>
Non-operating revenue:	
State sources	2,524
Federal sources	79,182
Interest income	252
Total non-operating revenue	<u>81,958</u>
Gain (loss) before transfers	(17,661)
Transfers in	<u>11,665</u>
Change in net assets	(5,996)
Net assets beginning of year	<u>13,213</u>
Net assets end of year	<u><u>7,217</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	115,882
Cash payments to employees for services	(106,399)
Cash payments to suppliers for goods or services	<u>(92,500)</u>
Net cash used by operating activities	<u>(83,017)</u>
Cash flows from non-capital financing activities:	
Transfer from General Fund	11,665
State grants received	2,524
Federal grants received	<u>67,517</u>
Net cash provided by non-capital financing activities	<u>81,706</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>252</u>
Net increase (decrease) in cash and cash equivalents	(1,059)
Cash and cash equivalents at beginning of year	<u>1,384</u>
Cash and cash equivalents at end of year	<u><u>325</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(99,619)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	11,665
Depreciation	4,940
Decrease (increase) in inventories	(23)
(Decrease) increase in accounts payable	12
(Decrease) increase in salaries and benefits payable	253
(Decrease) increase in deferred revenue	<u>(245)</u>
Net cash used in operating activities	<u><u>(83,017)</u></u>

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

During the year ended June 30, 2006, the District received \$11,665 of federal commodities.

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Fund

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	13,131
Accrued interest receivable	<u>57</u>
<b>Total Assets</b>	13,188
<b>Liabilities</b>	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>13,188</u></u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Fund

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	450
Deductions	
Support services:	
Scholarships awarded	<u>1,000</u>
Change in net assets	(550)
Net assets beginning of year	<u>13,738</u>
Net assets end of year	<u><u>13,188</u></u>

# EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

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

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

#### A. Reporting Entity

For financial reporting purposes, Eastern Allamakee 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 KHS Booster Club is included in the financial statements as a discretely presented component unit.

The KHS Booster Club was established exclusively to benefit the activities of the Eastern Allamakee Community School District. The Booster Club's financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Booster Club's financial statements have not been audited.

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's long-term debt.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations. The Agency Fund has no assets or liabilities at June 30, 2006.

#### 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 accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as

soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

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

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	15-50 years
Improvements other than buildings	10-20 years
Furniture and equipment	5-25 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for

and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Salaries and Benefits Payable – Payroll and related expenditures 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation days for subsequent use. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for used vacation days. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

## 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 an investment in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
	<u>\$</u>
Diversified Portfolio	<u>1,155,037</u>

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

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

### 3. Interfund Receivables and Payables

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>
		\$
Capital Projects Fund	Debt Service Fund	13,374

This loan was for cash flow purposes.

### 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>
		\$
Debt Service Fund	Capital Projects Fund	94,760
Nonmajor School Nutrition Fund	General Fund	11,665

These transfers moved revenues from the funds statutorily required to collect the resources to the funds statutorily required to expend the resources.

### 5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	386,479	4,632,307	161,358	4,857,428
Land	7,167	-	-	7,167
Total capital assets not being deprec.	<u>393,646</u>	<u>4,632,307</u>	<u>161,358</u>	<u>4,864,595</u>
Capital assets being depreciated:				
Buildings	1,649,806	298,824	-	1,948,630
Improvements other than buildings	23,500	-	-	23,500
Furniture and equipment	168,692	74,966	43,462	200,196
Total capital assets being deprec.	<u>1,841,998</u>	<u>373,790</u>	<u>43,462</u>	<u>2,172,326</u>
Less accumulated depreciation for:				
Buildings	957,138	50,194	-	1,007,332
Improvements other than buildings	21,400	1,075	-	22,475
Furniture and equipment	66,055	13,826	42,043	37,838
Total accumulated depreciation	<u>1,044,593</u>	<u>65,095</u>	<u>42,043</u>	<u>1,067,645</u>
Total capital assets being depreciated, net	<u>797,405</u>	<u>308,695</u>	<u>1,419</u>	<u>1,104,681</u>
Governmental activities capital assets, net	<u>1,191,051</u>	<u>4,941,002</u>	<u>162,777</u>	<u>5,969,276</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	153,984	-	-	153,984
Less accumulated depreciation	<u>123,201</u>	<u>4,940</u>	<u>-</u>	<u>128,141</u>
Business type activities capital Assets, net	<u>30,783</u>	<u>4,940</u>	<u>-</u>	<u>25,843</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	2,439
Other	3,614
Support Services:	
Operation and maintenance of plant services	1,968
Transportation	5,805
	<u>13,826</u>
Unallocated depreciation	<u>51,269</u>
Total depreciation expense – governmental activities	<u>65,095</u>
Business type activities:	
Food services	<u>4,940</u>

## 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
	\$	\$	\$	\$	\$
General obligation bonds	5,320,000	-	95,000	5,225,000	200,000
Termination benefits	4,500	53,463	4,500	53,463	6,918
Compensated absences	2,559	3,567	2,559	3,567	3,567
<b>Total</b>	<b>5,327,059</b>	<b>57,030</b>	<b>102,059</b>	<b>5,282,030</b>	<b>210,485</b>

### Termination Benefits

The District offered a voluntary early retirement plan to its employees during 2006. To qualify the eligible employee's age plus years of service with the Eastern Allamakee Community School District must total 70. The application for early retirement was subject to approval by the Board of Education.

The retiree will be given  $\frac{1}{4}$  year of benefits for each year of employment completed in the Eastern Allamakee Community School District.

The initial annual benefit was \$6,000 and will increase by 3% each year.

At June 30, 2006, the District has an obligation to one participant with a total liability of **\$53,963**. Actual early retirement expenditures for the year ended June 30, 2006 totaled **\$4,500**.

### General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of November 2004			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	4.00	200,000	214,614	414,614
2008	4.00	210,000	206,514	416,514
2009	4.00	215,000	198,114	413,114
2010	4.00	230,000	189,314	419,314
2011	4.00-4.10	235,000	180,114	415,114
2012-2016	4.00-4.50	1,335,000	740,267	2,075,267
2017-2021	4.00-4.20	1,635,000	440,796	2,075,796
2022-2024	4.20-4.375	1,165,000	89,593	1,254,593
		<u>5,225,000</u>	<u>2,259,326</u>	<u>7,484,326</u>

## 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and

2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$121,239, \$105,716 and \$108,499 respectively, equal to the required contributions for each year.

**8. Risk Management**

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

**9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$146,395 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.

**10. Construction Commitment**

The District has entered into contracts totaling \$5,277,144 for high school and elementary construction projects. As of June 30, 2006 costs of \$4,542,752 had been incurred against the contracts. The balances totaling \$734,392 will be paid as work on the projects progresses.

**11. Lease Commitment**

The District entered into a contract to lease copy machines. The payments the District will make over the next three years are as follows:

<u>Year Ended June 30</u>	<u>Lease Payment</u>
	\$
2007	8,700
2008	8,700
2009	7,975

**12. Deficit Fund Balances**

At June 30, 2006 the District had a \$9,848 deficit fund balance in the Debt Service Fund.

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,527,074	116,379	2,643,453	2,599,854	2,599,854	43,599
Intermediate sources	350	-	350	2,000	2,000	(1,650)
State sources	1,925,835	2,524	1,928,359	1,838,483	1,838,483	89,876
Federal sources	269,100	79,182	348,282	158,200	158,200	190,082
Total revenues	<u>4,722,359</u>	<u>198,085</u>	<u>4,920,444</u>	<u>4,598,537</u>	<u>4,598,537</u>	<u>321,907</u>
Expenditures:						
Instruction	2,521,631	-	2,521,631	2,732,381	3,132,381	610,750
Support services	1,488,974	-	1,488,974	1,197,500	1,347,500	(141,474)
Non-instructional programs	1,131	215,746	216,877	174,000	249,000	32,123
Other expenditures	5,258,504	-	5,258,504	5,863,241	5,863,241	604,737
Total expenditures	<u>9,270,240</u>	<u>215,746</u>	<u>9,485,986</u>	<u>9,967,122</u>	<u>10,592,122</u>	<u>1,106,136</u>
Excess (deficiency) of revenues over (under) expenditures	(4,547,881)	(17,661)	(4,565,542)	(5,368,585)	(5,993,585)	1,428,043
Other financing sources (uses) net	<u>(9,295)</u>	<u>11,665</u>	<u>2,370</u>	<u>1,000</u>	<u>1,000</u>	<u>1,370</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(4,557,176)	(5,996)	(4,563,172)	(5,367,585)	(5,992,585)	1,429,413
Balance beginning of year	<u>6,374,701</u>	<u>13,213</u>	<u>6,387,914</u>	<u>6,443,660</u>	<u>6,443,660</u>	<u>(55,746)</u>
Balance end of year	<u><u>1,817,525</u></u>	<u><u>7,217</u></u>	<u><u>1,824,742</u></u>	<u><u>1,076,075</u></u>	<u><u>451,075</u></u>	<u><u>1,373,667</u></u>

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$625,000.

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

OTHER SUPPLEMENTARY INFORMATION

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds				Total
	Management	Student	Physical	District	
	Levy	Activity	Plant and	Support	
		Equipment	Trust		
	\$	\$	\$	\$	\$
Cash and pooled investments	123,060	32,979	73,653	32,182	261,874
Receivables:					
Property tax:					
Delinquent	448	-	582	-	1,030
Succeeding year	50,000	-	51,482	-	101,482
Accrued interest	-	-	-	212	212
<b>Total assets</b>	<b>173,508</b>	<b>32,979</b>	<b>125,717</b>	<b>32,394</b>	<b>364,598</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	6,020	-	-	6,020
Interfund payables	-	386	-	-	386
Deferred revenue:					
Succeeding year property tax	50,000	-	51,482	-	101,482
Total liabilities	50,000	6,406	51,482	-	107,888
Fund balances:					
Unreserved reported in:					
Special revenue funds	123,508	26,573	74,235	32,394	256,710
<b>Total liabilities and fund balances</b>	<b>173,508</b>	<b>32,979</b>	<b>125,717</b>	<b>32,394</b>	<b>364,598</b>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds				Total
	Management	Student	Physical	District	
	Levy	Activity	Plant and	Support	
	Fund	Equipment	Trust		
		Levy	Funds		
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	38,535	-	49,972	-	88,507
Other	8,832	133,426	1,622	1,109	144,989
State sources	25	-	33	-	58
Total revenues	<u>47,392</u>	<u>133,426</u>	<u>51,627</u>	<u>1,109</u>	<u>233,554</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	11,084	-	-	-	11,084
Other instruction	-	132,250	-	-	132,250
Support services:					
Student services	1,583	-	-	-	1,583
Instructional staff services	679	-	-	-	679
Administration services	8,463	-	-	-	8,463
Operation and maintenance					
of plant services	42,774	-	-	-	42,774
Transportation services	1,957	-	-	-	1,957
Non-instructional programs	1,131	-	-	-	1,131
Total expenditures	<u>67,671</u>	<u>132,250</u>	<u>-</u>	<u>-</u>	<u>199,921</u>
Excess (deficiency) of revenues over (under) expenditures	(20,279)	1,176	51,627	1,109	33,633
Other financing sources (uses):	-	-	-	-	-
Net change in fund balances	(20,279)	1,176	51,627	1,109	33,633
Fund balances beginning of year	<u>143,787</u>	<u>25,397</u>	<u>22,608</u>	<u>31,285</u>	<u>223,077</u>
Fund balances end of year	<u>123,508</u>	<u>26,573</u>	<u>74,235</u>	<u>32,394</u>	<u>256,710</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
<b>KHS</b>					
Class of 2005	596	-	596	-	-
Class of 2006	2,973	27,952	29,891	(500)	534
Class of 2007	1,097	6,352	2,982	-	4,467
Class of 2008	889	635	-	-	1,524
Class of 2009	-	700	-	-	700
Art club	534	-	-	-	534
Annual	836	9,993	8,404	-	2,425
Athletics	5,836	44,614	42,666	-	7,784
Cheerleaders	473	50	68	-	455
Band	419	1,367	1,494	-	292
FCCLA	103	-	103	-	-
Speech	29	1,360	1,513	224	100
Drama	1,394	2,858	2,824	(224)	1,204
Ecology club	543	-	543	-	-
Juice machine	4,496	7,650	9,293	-	2,853
Music parents	739	40	500	-	279
National Honor Society	1,172	817	1,392	-	597
Pep club	-	7	-	-	7
SADD	210	-	-	-	210
Spanish club	1,035	4,011	3,160	-	1,886
Student council	856	2,097	2,322	-	631
Talon newspaper	172	46	-	-	218
Weightlifting	500	-	500	-	-
Prom	-	3,071	2,614	500	957
Vocal music	2,292	8,618	8,777	-	2,133
<b>LMS</b>					
Athletics	197	1,821	3,008	1,402	412
Music	115	358	625	201	49
Student council	40	1,578	2,068	1,681	1,231
Concessions	687	671	277	(402)	679
Magazine sales	-	6,503	3,591	(2,882)	30
Audubon Ark Adventure	280	490	90	-	680
Cheerleaders	108	-	-	-	108
Ending accruals 2005	(3,224)	(233)	(3,457)	-	-
Ending accruals 2006	-	-	6,406	-	(6,406)
	-	-	-	-	-
Total	<u>25,397</u>	<u>133,426</u>	<u>132,250</u>	<u>-</u>	<u>26,573</u>

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

		Balance Beginning of Year	Additions	Deductions	Balance End of Year
		\$	\$	\$	\$
	<b>Assets</b>				
Cash		5,269	-	5,269	-
	<b>Liabilities</b>				
Other liabilities		5,269	-	5,269	-

## EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,110,102	1,883,323	1,786,569	1,748,626
Tuition	56,451	36,030	30,613	25,045
Other	360,521	336,031	229,960	311,363
Intermediate sources	350	1,820	-	-
State sources	1,925,835	1,782,395	1,615,572	1,730,076
Federal sources	269,100	194,916	135,862	113,488
Total revenues	<u>4,722,359</u>	<u>4,234,515</u>	<u>3,798,576</u>	<u>3,928,598</u>
Expenditures:				
Instruction:				
Regular instruction	1,781,150	1,491,721	1,707,671	1,563,704
Special instruction	307,871	356,590	437,691	372,620
Other instruction	432,610	489,739	379,177	418,681
Support services:				
Student services	88,435	82,832	102,811	97,535
Instructional staff services	266,487	155,797	69,352	162,172
Administration services	410,312	422,530	343,133	430,014
Operation and maintenance of plant services	357,797	320,418	288,364	238,868
Transportation services	365,943	343,822	293,306	225,092
Non-instructional programs	1,131	783	1,280	1,205
Other expenditures:				
Facilities acquisition	4,704,442	589,262	264,333	100,550
Long-term debt:				
Principal	95,000	-	-	22,623
Interest and other charges	312,667	-	-	1,979
AEA flowthrough	146,395	144,861	146,843	158,186
Total expenditures	<u>9,270,240</u>	<u>4,398,355</u>	<u>4,033,961</u>	<u>3,793,229</u>

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

To the Board of Education of  
Eastern Allamakee Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Eastern Allamakee Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 17, 2006. We did not issue an opinion on the KHS Booster Club, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Booster Club. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

### Compliance and Other Matters

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

October 17, 2006

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

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

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

District Response: We did amend our budget but year-end expenditures were more than anticipated.

Conclusion: Response accepted.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u> \$
Martin Brennan, Board President, Owner of Brennan Construction Company	Fuel tank rental	960

The transaction does not appear to represent a conflict of interest since the amount was less than \$2,500 as allowed by the Code of Iowa.

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

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

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

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

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

EASTERN ALLAMAKEE COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-J Deficit Balances: The District has a \$9,848 deficit fund balance in the Debt Service Fund at June 30, 2006.

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

District Response: The deficit will be covered by future property tax collections..

Conclusion: Response accepted.