

**ESTHERVILLE LINCOLN CENTRAL  
COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2006**



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ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

**(Before September 2005 Election)**

Tony Condon	President	2006
Karen Butler	Vice President	2006
Gary Feddern	Board Member	2005
Don Schiltz	Board Member	2005
Gordon Juhl	Board Member	2006
Nancy Anderson	Board Member	2007
Molly Anderson	Board Member	2007

**(After September 2005 Election)**

Tony Condon	President	2006
Karen Butler	Vice President	2006
Mike Karels	Board Member	2008
Don Schiltz	Board Member	2008
Gordon Juhl	Board Member	2006
Nancy Anderson	Board Member	2007
Molly Anderson	Board Member	2007

**SCHOOL OFFICIALS**

Richard Magnuson	Superintendent	2006
Linda Niles	District Secretary	Indefinite
Harold White	Attorney	Indefinite

## Independent Auditors' Report

To the Board of Education of the  
Estherville Lincoln Central Community School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Estherville Lincoln Central 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*, we have also issued our report dated October 23, 2006, on our consideration of Estherville Lincoln Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and pages 38 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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 Estherville Lincoln Central Community School District's basic financial statements. We did not previously audit, 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. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Williams & Company P.C.*  
Certified Public Accountants

Spencer, Iowa  
October 23, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Estherville Lincoln Central 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 decreased from \$11,987,695 in fiscal 2005 to \$11,496,062 in fiscal 2006, while General Fund expenditures increased from \$11,662,626 in fiscal 2005 to \$11,822,804 in fiscal 2006. The District's General Fund balance decreased from \$1,396,630 in fiscal 2005 to \$1,070,388 in fiscal 2006, a 23.4% decrease.
- The decrease in General Fund revenues was attributable to a decrease in federal grant revenue due mainly to the expiration of the 21<sup>st</sup> Century grant. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's General Fund revenue for fiscal 2006. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- Interest rates improved and earnings in the General Fund increased from \$77,381 in fiscal year 2005 to \$95,950 in fiscal year 2006.
- Beginning July 1, 2003 the District engaged Dakotacare as third party administrator for its self-insured employee health plan which is maintained in an Internal Service Fund. The net assets in the fund are \$1,231,021 at June 30, 2006 and increased by 49.5% from year ending June 30, 2005.
- On March 1, 2004 the Regional Wellness Center opened for business. The Regional Wellness Center is a joint effort between the local, state, county governments and private citizens. The District owns the facility and operating activities are recorded as a business type activity.

### 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 Estherville Lincoln Central 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 Estherville Lincoln Central 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 Estherville Lincoln Central Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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 non-major Special Revenue Funds, Debt Service Fund, and Permanent Fund. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

**Figure A-1**  
**GASB 34 Estherville Lincoln Central Community School District Annual Financial Report**

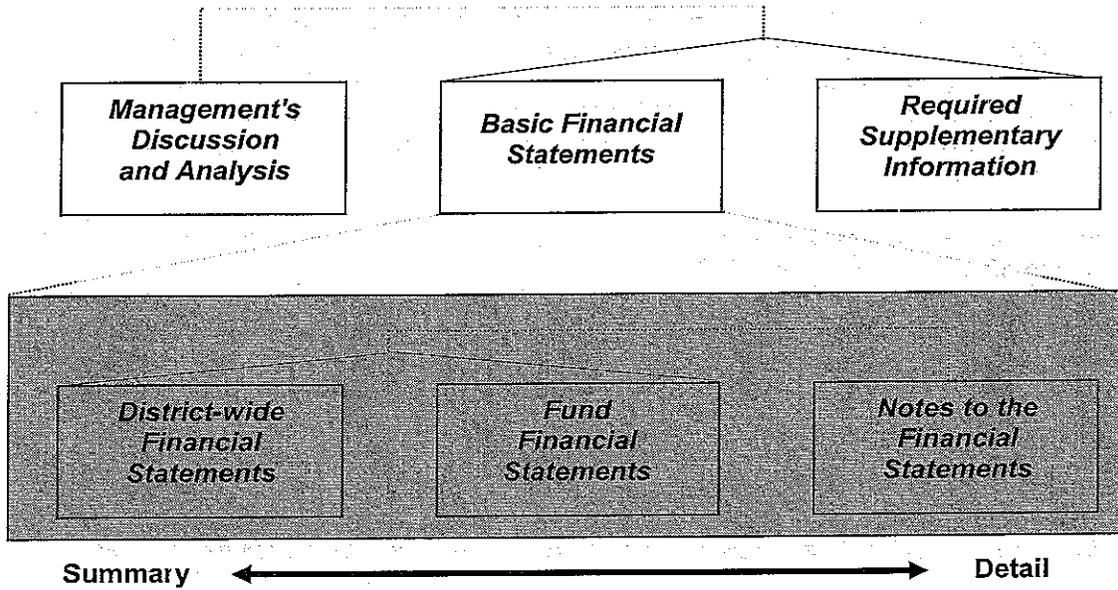


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <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

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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, child care program and Wellness Center are 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, Capital Projects Fund and Permanent 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 three Enterprise Funds, the School Nutrition Fund, the Child Care Fund, and the Wellness Center Fund.

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

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

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. The District's fiduciary fund includes the Regional Wellness Scholarship fund. This fund is a Private-Purpose Trust Fund. The Private-Purpose Trust Fund accounts for outside donations for scholarships for individual students.

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 includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

## 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		Business-type		Total School		Total % Change 2005-06
	Activities		Activities		District		
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$ 9,055,811	\$ 9,185,779	\$ 457,575	\$ 856,936	\$ 9,513,386	\$ 10,042,715	5.6%
Capital assets	3,695,616	3,943,361	5,295,237	5,239,938	8,990,853	9,183,299	2.1%
Total assets	12,751,427	13,129,140	5,752,812	6,096,874	18,504,239	19,226,014	3.9%
Long-term obligations	1,510,242	1,094,670	-	-	1,510,242	1,094,670	-27.5%
Other Liabilities	5,417,531	5,299,503	139,487	137,140	5,557,018	5,436,643	-2.2%
Total liabilities	6,927,773	6,394,173	139,487	137,140	7,067,260	6,531,313	-7.6%
Net assets:							
Invested in capital assets,							
net of related debt	2,403,574	2,954,346	5,295,237	5,239,938	7,698,811	8,194,284	6.4%
Restricted	218,991	717,886	-	-	218,991	717,886	227.8%
Unrestricted	3,201,089	3,062,735	318,088	719,796	3,519,177	3,782,531	7.5%
Total net assets	\$ 5,823,654	\$ 6,734,967	\$ 5,613,325	\$ 5,959,734	\$11,436,979	\$12,694,701	11.0%

The District's combined net assets at June 30, 2005 were \$ 11,436,979 and increased to \$ 12,694,701 at June 30, 2006. This improvement in net assets came from both its governmental activities and proprietary funds, due to the substantial reduction in liabilities, increase in net assets in the internal service fund, and increased revenues in the Regional Wellness Center.

Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$498,895, or 227.8% over the prior year.

Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements) increased by 7.5%. This increase in unrestricted net assets was due to the substantial reduction in liabilities, the increase in net assets in the internal service fund, and the increase in revenues of the Regional Wellness Center. Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4 shows the changes in net assets.

Figure A-4 – Changes in Net Assets

	Governmental		Business-type		Total		Total % Change 2005-06
	Activities		Activities		School District		
	2005	2006	2005	2006	2005	2006	
Revenues:							
Program revenues:							
Charges for services	\$ 553,587	\$ 935,326	\$ 805,760	\$ 821,773	\$ 1,359,347	\$ 1,757,099	29.3%
Operating grants, contributions, and restricted interest	2,472,224	1,801,401	394,309	688,281	2,866,533	2,489,682	-11.0%
Capital grants, contributions and restricted interest	173,811	762	-	-	173,811	762	-99.6%
General revenues:							
Property tax	3,810,763	4,199,493	-	-	3,810,763	4,199,493	10.0%
Local Option	704,638	669,605	-	-	704,638	669,605	-5.0%
Unrestricted state grants	5,512,743	5,584,650	-	-	5,512,743	5,584,650	-4%
Unrestricted investment earnings	115,658	141,018	-	19,366	115,658	160,384	38.7%
Gains on Disposal of Fixed Asset	-	500	-	-	-	500	100.0%
Other	751,328	87,565	-	-	751,328	87,565	-88.4%
Transfers	-	-127,332	-	127,332	-	-	-
<b>Total revenues</b>	<b>14,094,752</b>	<b>13,292,988</b>	<b>1,200,069</b>	<b>1,656,752</b>	<b>15,294,821</b>	<b>14,949,740</b>	<b>-2.3%</b>
Program expenses:							
Governmental activities:							
Instruction	8,720,234	8,329,026	-	-	8,720,234	8,329,026	-4.5%
Support services	3,354,347	3,438,144	-	-	3,354,347	3,438,144	2.5%
Non-instructional programs	-	-	1,172,413	1,321,817	1,172,413	1,321,817	12.7%
Other expenses	576,108	727,878	-	-	576,108	727,878	26.3%
<b>Total expenses</b>	<b>12,650,689</b>	<b>12,495,048</b>	<b>1,172,413</b>	<b>1,321,817</b>	<b>13,823,102</b>	<b>13,816,865</b>	<b>-1.1%</b>
<b>Change in net assets</b>	<b>\$ 1,444,063</b>	<b>\$ 797,940</b>	<b>\$ 27,656</b>	<b>\$ 334,935</b>	<b>\$ 1,471,719</b>	<b>\$ 1,132,875</b>	<b>-23.0%</b>

In fiscal 2006, property tax and unrestricted state grants account for 73.6% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 91.1% of the revenue from business type activities.

The District's total revenues were approximately \$15 million of which \$13.3 million was for governmental activities and \$1.7 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 2.3% decrease in revenues and a 1.1% decrease in expenses.

## Governmental Activities

Revenues for governmental activities were \$13,292,988 and expenses were \$12,495,048.

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		
	2005	2006	% Change 2005-06	2005	2006	% Change 2005-06
Instruction	\$ 8,720,234	\$ 8,329,026	-4.5%	\$ 6,322,274	\$ 6,187,524	-2.1%
Support Services	3,354,347	3,438,144	2.5%	3,005,741	3,263,410	8.6%
Other expenses	576,108	727,878	26.3%	123,052	306,625	149.2%
<b>Totals</b>	<b>\$ 12,650,689</b>	<b>\$ 12,495,048</b>	<b>-1.2%</b>	<b>\$ 9,451,067</b>	<b>\$ 9,757,559</b>	<b>3.2%</b>

- The cost financed by users of the District's programs was \$935,326.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,802,163.
- The net cost of governmental activities was financed with \$4,869,098 in property and other taxes and \$5,584,650 in unrestricted state grants.

## Business Type Activities

Revenues for business type activities were \$1,656,752 representing a 38.1% increase over the prior year while expenses totaled \$1,321,817 a 12.7% increase over 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.

The District's business type activities also include the Regional Wellness Center. During fiscal year ending June 30, 2006 the balance of contributions pledged for the capital campaign was transferred to the operating fund, this was part of the 38.1% in revenues.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Estherville Lincoln Central 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 \$2,973,755, a decrease from last year's ending fund balances of \$3,165,516.

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## Governmental Fund Highlights

- The District's decreasing General Fund financial position is the result of many factors. Decreases during the year in tax and grants resulted in a decrease in revenues. The District's increase in General Fund expenditures required the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,396,630 to \$1,070,388, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$31,733 in fiscal 2005 to a deficit of \$ 3,435 in fiscal 2006. While tax revenues remained approximately the same, the District struggled to maintain its deteriorating facilities and keep up with technology.
- The Capital Projects Fund balance increased slightly and the district is using sales tax revenues to pay off its revenue bonds for the improvements made in the year 2000.

## Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$ 116,692 at June 30, 2005 to \$163,323 at June 30, 2006, representing an increase of approximately 40%. The District improved its breakfast and school lunch program to provide students with the a-la-carte options with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets.

Regional Wellness Center Fund assets increased from \$ 5,400,614 at June 30, 2005 to \$ 5,691,760, an increase of approximately 5.3%. This was due to the transfer of pledge contributions from the ELC Foundation for the building project.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Estherville Lincoln Central Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with additional grant revenues and contributions to the Regional Wellness Center,

The District's revenues were \$961,122 less than budgeted revenues, a variance of 6.8%.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The District did not exceed its budget in any functional areas for the year ended June 30, 2006.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$9.1 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of .9% increase from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$503,515.

The original cost of the District's capital assets was \$14.7 million. Governmental funds account for \$9.1 million, with the remainder of \$5.6 million accounted for in the Proprietary, School Nutrition Fund and Regional Wellness Center Fund.

Figure A-6 – Capital Assets, Net of Depreciation

	Governmental		Business Type		Total School		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2006	2005	2006	2005	2006	2005-2006
Land	\$ 72,023	\$ 72,023	\$ -	\$ -	\$ 72,023	\$ 72,023	0.0%
Buildings	2,542,057	2,551,382	5,070,969	4,939,287	7,613,026	7,490,669	-1.6%
Improvements other than buildings	242,518	387,275	-	-	242,518	387,275	59.7%
Furniture and equipment	911,038	932,681	267,231	300,651	1,178,269	1,233,332	4.7%
<b>Totals</b>	<b>\$ 3,767,636</b>	<b>\$ 3,943,361</b>	<b>\$ 5,338,200</b>	<b>\$ 5,239,938</b>	<b>\$ 9,105,836</b>	<b>\$ 9,183,299</b>	<b>0.9%</b>

**Long-Term Debt**

At June 30, 2006, the District had \$1,627,144 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 16.6% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In April 2000, the District adopted a resolution providing for the issuance of \$2,750,000 in School Infrastructure Sales and Services Tax Revenue Bonds. The District had total outstanding bonded indebtedness at June 30, 2006 of \$985,000.

Figure A-7 – Outstanding Long-Term Obligations

	Total School		Total
	District		Change
	June 30,		June 30,
	2005	2006	2005-2006
Revenue Bonds	\$ 1,280,000	\$ 985,000	-23.0%
Early Retirement	670,116	642,144	-4.2%
<b>Total</b>	<b>\$ 1,950,116</b>	<b>\$ 1,627,144</b>	<b>-16.6%</b>

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## **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:

- On December 5, 2006, voters of the district approved a bond referendum by over 81% for the construction, demolition and improvement of K-12 buildings throughout the district. The plans provide for all facilities to be located on one campus, this should help the district run more efficiently and hopefully reduce General Fund operating expenditures.
- The District has experienced declining enrollment for the past three years and will have to maintain or reduce expenditures, this becomes a difficult task with rising insurance, salary and instructional materials costs.
- The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, at least one bus per year must be replaced. To pay for these buses, the District will use the Physical Plant and Equipment Levy Fund.
- The District will negotiate a new salary agreement with the Education Association during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The District has invested funds in Technology, primarily from state funds allocated to the District designated specifically for Technology. The state has eliminated these funds, and without funds available the District must find other resources or let our technology become out dated.

## **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 Kate Woods District Secretary/Treasurer and Business Manager, Estherville Lincoln Central Community School District, 301 N 6<sup>th</sup> Street, Estherville, Iowa, 51334.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and Pooled Investments	\$ 4,642,995	\$ 812,591	\$ 5,455,586
Receivables:			
Property Tax	113,389	-	113,389
Succeeding Year Property Tax	4,092,674	-	4,092,674
Accounts	18,020	-	18,020
Due From Other Governments	266,876	32,585	299,461
Prepaid Expenses	2,574	-	2,574
Inventories	49,251	11,760	61,011
Capital Assets, Net of Accumulated Depreciation	3,943,361	5,239,938	9,183,299
<b>Total Assets</b>	<u>13,129,140</u>	<u>6,096,874</u>	<u>19,226,014</u>
<b>Liabilities</b>			
Accounts Payable	223,783	18,435	242,218
Salaries and Benefits Payable	77,903	23,039	100,942
Accrued Interest Payable	4,486	-	4,486
Due to Other Governments	362,288	-	362,288
Unearned Revenue	1,880	95,666	97,546
Deferred Revenue - Succeeding Year Property Tax	4,092,674	-	4,092,674
Long Term Liabilities:			
Portion Due Within One Year:			
Bonds Payable	310,000	-	310,000
Notes Payable	4,015	-	4,015
Early Retirement	222,474	-	222,474
Portion Due After One Year:			
Bonds Payable	675,000	-	675,000
Early Retirement	419,670	-	419,670
<b>Total Liabilities</b>	<u>6,394,173</u>	<u>137,140</u>	<u>6,531,313</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	2,954,346	5,239,938	8,194,284
Restricted For:			
Phase III	774	-	774
Medicaid (10%)	6,558	-	6,558
Other Special Revenue Purposes	710,554	-	710,554
Unrestricted	3,062,735	719,796	3,782,531
<b>Total Net Assets</b>	<u>\$ 6,734,967</u>	<u>\$ 5,959,734</u>	<u>\$ 12,694,701</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction:				
Regular Instruction	\$ 4,644,114	\$ 173,057	\$ 626,370	\$ 762
Special Instruction	2,504,566	363,900	590,665	-
Other Instruction	1,180,346	381,598	5,150	-
Support Services:				
Student Services	470,360	-	97,932	-
Instructional Staff Services	450,017	-	60,031	-
Administration Services	1,100,011	-	-	-
Operation and Maintenance	1,081,022	5,553	-	-
Transportation Services	336,734	11,218	-	-
Other Expenditures:				
Facilities Acquisition	50,187	-	-	-
Long-term Debt Interest	68,836	-	-	-
AEA Flowthrough	421,253	-	421,253	-
Depreciation (unallocated)*	187,602	-	-	-
<b>Total Governmental Activities</b>	<b>12,495,048</b>	<b>935,326</b>	<b>1,801,401</b>	<b>762</b>
<b>Business-Type Activities:</b>				
Non-instructional Programs:				
Nutrition Services	537,215	282,645	299,452	-
Childcare Center	131,825	90,091	35,830	-
Wellness Center	652,777	449,037	352,999	-
<b>Total Business-Type Activities</b>	<b>1,321,817</b>	<b>821,773</b>	<b>688,281</b>	<b>-</b>
<b>Total School District</b>	<b>\$ 13,816,865</b>	<b>\$ 1,757,099</b>	<b>\$ 2,489,682</b>	<b>\$ 762</b>

**General Revenues:**

Property Tax Levied For:
General Purposes
Management Levy
Capital Outlay
Local Option Sales Tax
Unrestricted State Grants
Unrestricted Investment Earnings
Gains on Disposal of Assets
Other
Transfers
<b>Total General Revenues &amp; Transfers</b>
Change in Net Assets
Net Assets Beginning of Year
Prior Period Adjustments
Net Assets Beginning of Year, Restated
Net Assets End of Year

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

See Accompanying Notes to Financial Statements

<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
\$ (3,843,925)	\$ -	\$ (3,843,925)
(1,550,001)	-	(1,550,001)
(793,598)	-	(793,598)
(372,428)	-	(372,428)
(389,986)	-	(389,986)
(1,100,011)	-	(1,100,011)
(1,075,469)	-	(1,075,469)
(325,516)	-	(325,516)
(50,187)	-	(50,187)
(68,836)	-	(68,836)
-	-	-
(187,602)	-	(187,602)
<u>(9,757,559)</u>	-	<u>(9,757,559)</u>
-	44,882	44,882
-	(5,904)	(5,904)
-	149,259	149,259
-	188,237	188,237
<u>(9,757,559)</u>	<u>188,237</u>	<u>(9,569,322)</u>
3,406,944	-	3,406,944
472,022	-	472,022
320,527	-	320,527
669,605	-	669,605
5,584,650	-	5,584,650
141,018	19,366	160,384
500	-	500
87,565	-	87,565
(127,332)	127,332	-
<u>10,555,499</u>	<u>146,698</u>	<u>10,702,197</u>
<u>797,940</u>	<u>334,935</u>	<u>1,132,875</u>
5,818,817	5,613,325	11,432,142
118,210	11,474	129,684
<u>5,937,027</u>	<u>5,624,799</u>	<u>11,561,826</u>
<u>\$ 6,734,967</u>	<u>\$ 5,959,734</u>	<u>\$ 12,694,701</u>

See Accompanying Notes to Financial Statements

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Management	Capital Project	Nonmajor Governmental Funds	Total
<b>Assets</b>					
Cash and Pooled Investments	\$ 1,283,398	\$ 129,174	\$ 1,162,383	\$ 730,506	\$ 3,305,461
Receivables:					
Property Tax	90,087	14,089	-	9,213	113,389
Succeeding Year Property Tax	3,255,643	500,001	-	337,030	4,092,674
Accounts	17,132	-	-	888	18,020
Due From Other Governments	159,858	-	107,018	-	266,876
Due From Other Funds	-	-	-	265	265
Prepaid Expenses	2,574	-	-	-	2,574
Inventories	49,251	-	-	-	49,251
Total Assets	<u>4,857,943</u>	<u>643,264</u>	<u>1,269,401</u>	<u>1,077,902</u>	<u>7,848,510</u>
<b>Liabilities and Equity</b>					
<b>Liabilities:</b>					
Accounts Payable	89,576	223,286	-	26,883	339,745
Salaries and Benefits Payable	77,903	-	-	-	77,903
Due to Other Governments	362,288	-	-	-	362,288
Due to Other Funds	265	-	-	-	265
Unearned Revenue	1,880	-	-	-	1,880
Deferred Revenue:					
Succeeding Year Property Tax	3,255,643	500,001	-	337,030	4,092,674
Total Liabilities	<u>3,787,555</u>	<u>723,287</u>	<u>-</u>	<u>363,913</u>	<u>4,874,755</u>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Phase III	774	-	-	-	774
Medicaid(10%)	6,558	-	-	-	6,558
Prepaid Expenses	2,574	-	-	-	2,574
Inventories	49,251	-	-	-	49,251
<b>Unreserved for:</b>					
General Fund	1,011,231	-	-	-	1,011,231
Special Revenue Fund-	-	(80,023)	-	713,989	633,966
Capital Project Fund	-	-	1,269,401	-	1,269,401
Total Fund Balances	<u>1,070,388</u>	<u>(80,023)</u>	<u>1,269,401</u>	<u>713,989</u>	<u>2,973,755</u>
Total Liabilities and Equity	<u>\$ 4,857,943</u>	<u>\$ 643,264</u>	<u>\$ 1,269,401</u>	<u>\$ 1,077,902</u>	<u>\$ 7,848,510</u>

See Accompanying Notes to Financial Statements

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Total Fund Balance - Governmental Funds (page 17)	\$ 2,973,755
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	3,943,361
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.	(4,486)
Internal service funds are used by management to charge the cost of certain activities, such as health insurance, to individual funds. The assets and liabilities of the Internal Service Funds are:	
Current assets	1,326,992
Accounts payable	<u>(95,970)</u>
	1,231,022
Long-term liabilities, including bonds payable and the long term portion of early retirement, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,408,685)</u>
Total Net Assets - Governmental Activities (page 14)	<u>\$ 6,734,967</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	General	Management	Capital Projects	Nonmajor Governmental Funds	Total
<b>Revenues:</b>					
<b>Local Sources:</b>					
Local Tax	\$ 3,406,944	\$ 472,022	\$ 669,605	\$ 320,527	\$ 4,869,098
Tuition	486,143	-	-	-	486,143
Other	216,859	11,454	62,180	387,204	677,697
State Sources	6,591,480	466	-	305	6,592,251
Federal Sources	794,636	-	-	-	794,636
<b>Total Revenues</b>	<b>11,496,062</b>	<b>483,942</b>	<b>731,785</b>	<b>708,036</b>	<b>13,419,825</b>
<b>Expenditures:</b>					
<b>Current:</b>					
<b>Instruction:</b>					
Regular Instruction	4,762,576	89,319	-	2,438	4,854,333
Special Instruction	2,572,677	10,047	-	-	2,582,724
Other Instruction	857,060	-	-	351,202	1,208,262
<b>Support Services:</b>					
Student Services	471,972	13,464	-	-	485,436
Instructional Staff Services	456,872	46,095	-	87,992	590,959
Administration Services	963,068	186,576	-	3,500	1,153,144
Operation and Maintenance	1,016,993	88,686	-	2,350	1,108,029
Transportation Services	300,333	16,459	-	65,064	381,856
<b>Other Expenditures:</b>					
Facilities Acquisition	-	-	135,395	190,135	325,530
Long Term Debt:					
Principal	-	-	-	303,028	303,028
Interest and Fiscal Charges	-	-	-	70,200	70,200
AEA Flowthrough	421,253	-	-	-	421,253
<b>Total Expenditures</b>	<b>11,822,804</b>	<b>450,646</b>	<b>135,395</b>	<b>1,075,909</b>	<b>13,484,754</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<b>(326,742)</b>	<b>33,296</b>	<b>596,390</b>	<b>(367,873)</b>	<b>(64,929)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds from Sale of Capital Assets	500	-	-	-	500
Transfers In	-	-	-	375,293	375,293
Transfers Out	-	-	(442,532)	(60,093)	(502,625)
<b>Total Other Financing Sources (Uses)</b>	<b>500</b>	<b>-</b>	<b>(442,532)</b>	<b>315,200</b>	<b>(126,832)</b>
<b>Net Change in Fund Balances</b>	<b>(326,242)</b>	<b>33,296</b>	<b>153,858</b>	<b>(52,673)</b>	<b>(191,761)</b>
Fund Balances - Beginning of Year	1,003,507	24,914	1,100,386	785,164	2,913,971
Prior Period Adjustment	393,123	(138,233)	15,157	(18,502)	251,545
Fund Balances - Beginning of Year, Restated	1,396,630	(113,319)	1,115,543	766,662	3,165,516
<b>Fund Balances - End of Year</b>	<b>\$ 1,070,388</b>	<b>\$ (80,023)</b>	<b>\$ 1,269,401</b>	<b>\$ 713,989</b>	<b>\$ 2,973,755</b>

See Accompanying Notes to Financial Statements

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2006**

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Net Change in Fund Balances - Total Governmental Funds (page 19)	\$ (191,761)
<p>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:</p>	
Capital outlays	512,027
Depreciation expense	<u>(336,302)</u>
	175,725
<p>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.</p>	303,028
<p>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.</p>	1,359
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported expenditures in the governmental funds.</p>	
Early retirement	101,559
<p>Internal service funds are used by management to charge the costs of health insurance and benefits to individual funds. The net revenue of the Internal Services Funds is reported with governmental activities net of the amount allocated to business-type activities.</p>	
Change in net assets	<u>408,030</u>
Change in Net Assets - Governmental Activities (page 16)	<u>\$ 797,940</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	Business-Type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	School Nutrition	Childcare Center	Wellness Center	Total	
<b>Assets</b>					
Current Assets:					
Cash and Pooled Investments	\$ 51,629	\$ 131,656	\$ 629,306	\$ 812,591	\$ 1,326,992
Accounts Receivable	19,131	241	13,213	32,585	-
Due from Other Funds	-	966	-	966	-
Inventories	11,760	-	-	11,760	-
Total Current Assets	<u>82,520</u>	<u>132,863</u>	<u>642,519</u>	<u>857,902</u>	<u>1,326,992</u>
Noncurrent Assets:					
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	93,358	-	5,146,580	5,239,938	-
Total Noncurrent Assets	<u>93,358</u>	<u>-</u>	<u>5,146,580</u>	<u>5,239,938</u>	<u>-</u>
<b>Total Assets</b>	<u>175,878</u>	<u>132,863</u>	<u>5,789,099</u>	<u>6,097,840</u>	<u>1,326,992</u>
<b>Liabilities and Fund Equity</b>					
Current Liabilities:					
Accounts Payable	6,534	445	11,456	18,435	95,971
Due to Other Funds	966	-	-	966	-
Accrued Payroll	5,055	11,888	6,096	23,039	-
Unearned Revenues	-	15,879	79,787	95,666	-
Total Current Liabilities	<u>12,555</u>	<u>28,212</u>	<u>97,339</u>	<u>138,106</u>	<u>95,971</u>
<b>Total Liabilities</b>	<u>12,555</u>	<u>28,212</u>	<u>97,339</u>	<u>138,106</u>	<u>95,971</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	93,358	-	5,146,580	5,239,938	-
Unrestricted	69,965	104,651	545,180	719,796	1,231,021
<b>Total Net Assets</b>	<u>\$ 163,323</u>	<u>\$ 104,651</u>	<u>\$ 5,691,760</u>	<u>\$ 5,959,734</u>	<u>\$ 1,231,021</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Business-Type Activities -Enterprise Funds				Governmental Activities Internal Service Funds
	School Nutrition	Childcare Center	Wellness Center	Total	
Operating Revenues:					
Charges for Services	\$ 276,677	\$ 89,563	\$ 449,037	\$ 815,277	\$ 1,813,349
Miscellaneous	5,968	528	352,999	359,495	6,782
Total Operating Revenue	<u>282,645</u>	<u>90,091</u>	<u>802,036</u>	<u>1,174,772</u>	<u>1,820,131</u>
Operating Expenses:					
Non-Instructional Programs:					
Food Service Operations:					
Salaries and Benefits	261,689	-	-	261,689	-
Food	237,910	-	-	237,910	-
Other	37,616	-	-	37,616	-
Community Service Operations:					
Salaries and Benefits	-	120,020	301,630	421,650	-
Purchased Services	-	591	41,723	42,314	-
Supplies	-	10,367	148,010	158,377	-
Other	-	847	161,414	162,261	-
Other Enterprise Operations:					
Claims Expense	-	-	-	-	1,155,993
Administrative Fees and Other	-	-	-	-	256,108
Total Operating Expense	<u>537,215</u>	<u>131,825</u>	<u>652,777</u>	<u>1,321,817</u>	<u>1,412,101</u>
Operating Income(Loss)	<u>(254,570)</u>	<u>(41,734)</u>	<u>149,259</u>	<u>(147,045)</u>	<u>408,030</u>
Non-Operating Revenues:					
Transfers	-	-	127,332	127,332	-
Interest Income	1,749	3,062	14,555	19,366	-
State Sources	6,889	32,122	-	39,011	-
Federal Sources	292,563	3,708	-	296,271	-
Total Non-Operating Revenue	<u>301,201</u>	<u>38,892</u>	<u>141,887</u>	<u>481,980</u>	<u>-</u>
Change in Net Assets	46,631	(2,842)	291,146	334,935	408,030
Net Assets - Beginning of Year	100,877	107,493	5,364,745	5,573,115	822,991
Prior Period Adjustment	15,815	-	35,869	51,684	-
Net Assets - Beginning of Year, as Restated	<u>116,692</u>	<u>107,493</u>	<u>5,400,614</u>	<u>5,624,799</u>	<u>822,991</u>
Net Assets - End of Year	<u>\$ 163,323</u>	<u>\$ 104,651</u>	<u>\$ 5,691,760</u>	<u>\$ 5,959,734</u>	<u>\$ 1,231,021</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Business Type Activities:</u> <u>Enterprise Funds</u>	
	<u>School</u> <u>Nutrition</u>	<u>Childcare</u> <u>Center</u>
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers	\$ 276,678	\$ 98,451
Other Operating Receipts	5,627	-
Cash Payments for Goods and Services	(263,418)	(12,404)
Cash Payments for Salaries and Benefits	(256,635)	(114,700)
Net Cash Provided (Used) by Operating Activities	<u>(237,748)</u>	<u>(28,653)</u>
<b>Cash Flows From Non-Capital Financing Activities</b>		
State Grants Received	6,889	340
Federal Grants Received	274,398	50,501
Net Cash Provided by Non-Capital Financing Activities	<u>281,287</u>	<u>50,841</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Transfers	-	-
Acquisition of Capital Assets	(64,657)	-
Net Cash (Used) by Capital and Related Financing Activities	<u>(64,657)</u>	<u>-</u>
<b>Cash Flows From Investing Activities:</b>		
Interest on Investments	<u>1,749</u>	<u>3,062</u>
<b>Net Increase (Decrease) In Cash and Cash Equivalents</b>	(19,369)	25,250
<b>Cash and Cash Equivalents At Beginning of Year</b>	<u>70,998</u>	<u>106,406</u>
<b>Cash and Cash Equivalents At End of Year</b>	<u>\$ 51,629</u>	<u>\$ 131,656</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>		
Income (Loss) from operations	\$ (254,570)	\$ (41,734)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	9,459	-
Commodities used	8,722	-
(Increase) Decrease in Assets and Increase (Decrease) in Liabilities:		
Accounts Receivable	-	(7,493)
Inventories	(3,068)	-
Accounts Payable	5,345	(599)
Accrued Salaries and Benefits	5,055	5,320
Deferred Revenue	(8,691)	15,853
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (237,748)</u>	<u>\$ (28,653)</u>
<b>Non-Cash Investing, Capital and Financing Activities:</b>		
Federal Food Commodities Received	<u>\$ 37,448</u>	

See Accompanying Notes to Financial Statements

Business Type Activities: Enterprise Funds		Governmental Activities: Internal Service Funds
Wellness Center	Total	
\$ 431,520	\$ 806,649	\$ 1,813,924
355,462	361,089	-
(207,856)	(483,678)	(1,435,882)
(303,165)	(674,500)	-
<u>275,961</u>	<u>9,560</u>	<u>378,042</u>
-	7,229	-
-	324,899	-
-	<u>657,027</u>	-
127,332	127,332	-
(4,295)	(68,952)	-
<u>123,037</u>	<u>58,380</u>	-
14,555	19,366	-
413,553	744,333	378,042
215,753	393,157	948,950
<u>\$ 629,306</u>	<u>\$ 812,591</u>	<u>\$ 1,326,992</u>
\$ 149,259	\$ (147,045)	\$ 408,030
157,754	167,213	-
-	8,722	-
(13,213)	(20,706)	13,572
-	(3,068)	-
(11,258)	(6,512)	(43,560)
(1,537)	8,838	-
(5,044)	2,118	-
<u>\$ 275,961</u>	<u>\$ 9,560</u>	<u>\$ 378,042</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private Purpose Trust Scholarship</u>
<b>Assets</b>	
Cash and Pooled Investments	\$ 1,547
<b>Total Assets</b>	<u>1,547</u>
<b>Net Assets</b>	
Unrestricted	1,547
<b>Total Net Assets</b>	<u>\$ 1,547</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
<b>Additions:</b>	
Local Sources:	
Gifts and Contributions	\$ 150
Interest Income	149
Total Additions	299
<b>Deductions:</b>	
Support Services:	
Scholarships Awarded	3,589
<b>Change in Net Assets</b>	<b>(3,290)</b>
<b>Net Assets Beginning of Year</b>	<b>4,837</b>
<b>Net Assets End of Year</b>	<b>\$ 1,547</b>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Estherville Lincoln Central Community School District was formed when voters of both the Estherville and Lincoln Central Community School Districts approved a merger as of July 1, 1997. The merger was accomplished by splitting the Lincoln Central School District with a neighboring school.

The Estherville Lincoln Central Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Estherville and Gruver, Iowa, the predominate agricultural territory in Emmet County and portions of Dickinson County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

**A. Reporting Entity**

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

**B. Basis of Presentation**

District-wide financial statements - The statement of net assets and the statement of activities report information on all of the non fiduciary activities of the District. For the most part, the effect of inter fund 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 non fiduciary 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.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 that are 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 that are 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. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non major 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 receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.
- The **Management Fund** is utilized to account for the payment of unemployment benefits, early retirement benefits, insurance agreements, and costs of liability insurance and judgments or settlements relating to liability.
- The **Capital Projects Fund** is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

- The **School Nutrition Fund** is used to account for the food service operations of the District.
- The **Childcare Center Fund** is used to account for the childcare service operations of the District.
- The **Wellness Center Fund** is used to account for the Wellness Center operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary fund is the RWC Scholarship/Endowment fund. Funds are donated by private individuals and are to be used for memberships at the Regional Wellness Center operated by the District.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary fund financial statements are reported using the "economic resources measurement focus". The District-wide and proprietary fund financial statements are reported using the accrual basis of accounting. 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 judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

Note 1 – **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 the governmental funds are 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 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become 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.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair 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.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	\$ 10,000
Improvements other than buildings	\$ 10,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,000

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

Buildings	50 years
Improvements other than buildings	20 - 50 years
Furniture and equipment	5 - 15 Years

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

Deferred Revenue - Although certain 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, excluding grant receivables.

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

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

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

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

**E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006 disbursements did not exceed the amounts budgeted in any category.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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.

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$2,420,365 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit Risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

**Note 3 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital Assets Not Being Depreciated:				
Land	\$ 72,023	\$ -	\$ -	\$ 72,023
Capital Assets Being Depreciated:				
Land Improvements	475,184	168,184	-	643,368
Buildings	5,753,449	86,717	-	5,840,166
Equipment	2,444,511	257,126	55,000	2,646,637
Total Capital Assets Being Depreciated	<u>8,673,144</u>	<u>512,027</u>	<u>55,000</u>	<u>9,130,171</u>
Less: Accumulated Depreciation for:				
Land Improvements	232,666	23,427	-	256,093
Buildings	3,211,392	77,392	-	3,288,784
Equipment	1,533,473	235,483	55,000	1,713,956
Total Accumulated Depreciation	<u>4,977,531</u>	<u>336,302</u>	<u>55,000</u>	<u>5,258,833</u>
Total Capital Assets Being Depreciated, Net	<u>3,695,613</u>	<u>175,725</u>	<u>-</u>	<u>3,871,338</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,767,636</u>	<u>\$ 175,725</u>	<u>-</u>	<u>\$ 3,943,361</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 3 – CAPITAL ASSETS (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Business Type Activities:</b>				
Nutrition Fund				
Equipment	\$ 60,197	\$ 64,656	\$ -	\$ 124,853
Regional Wellness Center				
Buildings	5,267,296	-	-	5,267,296
Equipment	264,524	4,295	-	268,819
	<u>5,499,625</u>	<u>4,295</u>	<u>-</u>	<u>5,536,115</u>
Total Capital Assets Being Depreciated	<u>5,592,017</u>	<u>68,951</u>	<u>-</u>	<u>5,660,968</u>
Less Accumulated Depreciation for:				
Nutrition Fund				
Equipment	22,036	9,459	-	31,495
Regional Wellness Center				
Buildings	196,327	131,682	-	328,009
Equipment	35,454	26,072	-	61,526
	<u>231,781</u>	<u>157,754</u>	<u>-</u>	<u>389,535</u>
Total Accumulated Depreciation	<u>253,817</u>	<u>167,213</u>	<u>-</u>	<u>421,030</u>
Business-Type Activity Capital Assets, Net	<u>\$ 5,338,200</u>	<u>\$ (98,262)</u>	<u>\$ -</u>	<u>\$ 5,239,938</u>

Depreciation expense was charged by the District as follows:

**Governmental Activities:**

Instruction:	
Regular	\$ 52,874
Support Services:	
Student Services	15,166
Instructional Staff	33,261
Administration	3,277
Operation and Maintenance	450
Transportation	<u>43,672</u>
	148,700
Unallocated Depreciation	<u>187,602</u>
Total Depreciation Expense – Governmental Activities	<u>\$ 336,302</u>

**Business-type Activities:**

Food Services	\$ 9,459
Wellness Center	<u>157,754</u>
	<u>\$ 167,213</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 4 – DUE FROM AND DUE TO OTHER FUNDS**

The detail of inter fund receivables and payables at June 30, 2006 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental:	General	\$ 265
Student Activity		
Childcare Center	School Nutrition	966

The General Fund is repaying the Activity Fund for revenues that should have been recorded in the Activity Fund. The Nutrition Fund is repaying the Childcare Fund for revenues that should have been recorded in the Childcare Fund. The balance will be repaid by June 30, 2007.

**Note 5 – 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>
Wellness Center	Nonmajor Governmental: Inman Trust	\$ 50,000
Wellness Center	Capital Projects Fund	\$ 77,332
Nonmajor Governmental: Debt Service	Capital Projects Fund	\$ 365,200
Nonmajor Governmental: Debt Service	Nonmajor Governmental: Physical Plant and Equipment Levy	\$ 8,028
		<u>\$ 560,000</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources

**Note 6 – LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Local Option Tax Revenue Bonds	\$1,280,000	\$ -	\$ 295,000	\$ 985,000	\$ 310,000
Notes Payable	12,043	-	8,028	4,015	4,015
Early Retirement	670,116	126,583	154,555	642,144	222,474
<b>Total Long-Term Liabilities</b>	<u>\$1,962,159</u>	<u>\$ 126,583</u>	<u>\$ 457,583</u>	<u>\$1,631,159</u>	<u>\$ 536,489</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 6 – LONG-TERM LIABILITIES (Continued)**

**Bonds Payable**

The District adopted a resolution, on April 10, 2000, providing for the issuance of \$2,750,000 in School Infrastructure Sales and Services Tax Revenue Bonds, Series 2000A. As part of the resolution, the District will deposit all local option tax revenue into the local option sales and services tax revenue fund for the payment and interest on the bonds.

Details of the District's June 30, 2006 local option tax revenue bonded indebtedness are as follows:

<u>Year Ending June 30</u>	<u>Interest Rates</u>	<u>Bond Issue of April 10, 2000</u>	
		<u>Principal</u>	<u>Interest</u>
2007	5.55 %	\$ 310,000	\$ 53,828
2008	5.40	330,000	36,623
2009	5.45	345,000	18,803
	Total	<u>\$ 985,000</u>	<u>\$ 109,254</u>

**Notes Payable**

During 1989 the District received an interest free loan from the U.S. Environmental Protection Agency. The notes are payable from the Physical Plant and Equipment Levy Fund. Details of the District's indebtedness under the agreements at June 30, 2006 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 4,015	\$ -
Total	<u>\$ 4,015</u>	<u>\$ -</u>

During the year ended June 30, 2006, the District made payments totaling \$8,028 under the agreements.

**Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will provide insurance premium assistance to age 65 for the retiree. The amount of the assistance is the single insurance premium rate at the time of the retiree's last year of employment. Early retirement benefits paid during the year ended June 30, 2006, totaled \$154,555. During fiscal year 2006, the District also offered a one time early retirement incentive to eligible employees that offered insurance benefit, salary or a combination of both. There were 26 retired individuals receiving benefits at June 30, 2006.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$414,509, \$395,360 and \$384,843, respectively, equal to the required contributions for each year.

**Note 8 – RISK MANAGEMENT**

Estherville Lincoln Central 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.

**Note 9 – HEALTH CARE COVERAGE**

The District maintains the Insurance Internal Service Fund to account for the District's employee health care coverage program which is self-insured by the District beginning July 1, 2003. Aggregate stop-loss insurance and specific stop-loss insurance are covered through third-party insurance policies. Revenues are recognized from payroll deduction and District contributions. As of June 30, 2006, a liability of \$95,970 has been recorded, which represents estimated claims incurred but not yet reported.

Changes in the medical claims liability amounts were:

Liability, Beginning of Year	\$ 133,323
Current Year Claims and Changes in Estimates	1,160,392
Claim Payments	<u>1,197,744</u>
Liability, End of Year	<u>\$ 95,971</u>

**Note 10 – 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 \$421,253 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.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

**Note 11 – PRIOR PERIOD ADJUSTMENTS**

In the financial statements for the year ended June 30, 2005, errors were made in recording certain receivables, payables, capital assets, and transfers. The errors have been corrected and have had the following effect on the beginning fund balances:

<b>Governmental Fund Financial Statements</b>				
	<b>General Fund</b>	<b>Management Fund</b>	<b>Capital Projects Fund</b>	<b>Nonmajor Governmental Funds</b>
<b>Governmental Funds:</b>				
Beginning Fund Balance, As Previously Reported	\$1,003,507	\$ 24,914	\$1,110,386	\$ 50,235
Prior Period Adjustments:				
Forest Ridge Payable	300,657	-	-	-
Property Tax Receivable	66,990	10,655	56,680	6,974
Transfer	25,476	-	-	(25,476)
Early Retirement	-	(148,888)	-	-
Construction Payable	-	-	(41,523)	-
Total Prior Period Adjustments	<u>393,123</u>	<u>(138,233)</u>	<u>15,157</u>	<u>(18,502)</u>
Beginning Fund Balance, As Restated	<u>\$1,396,630</u>	<u>\$ (113,319)</u>	<u>\$1,115,543</u>	<u>\$ 31,733</u>

The prior period adjustments for the governmental funds are to correct the following errors:

- A payable to Forest Ridge was incorrectly recorded in prior years. Per the agreement, Forest Ridge students are funded by the State of Iowa during the same year the District remits payment. The District had been recording a payable for the following year's amount in error.
- Property tax receivable was not recorded in prior years based on the current financial resources measurement focus, which considers revenues to be measurable and available if they are collected within 60 days after year end.
- A transfer was made for items that were purchased out of the PPEL fund, but should have been purchased in the General fund. The transfer was not made in the year of purchase in error.
- The current portion of early retirement was not recorded in the governmental funds as of June 30, 2005 as required by the Code of Iowa.
- A payable for the construction of the Wellness Center was overstated in 2005, based on the construction contract amount. The project costs were overstated in error.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2006**

Note 11 – PRIOR PERIOD ADJUSTMENTS (Continued)

<b>Proprietary Fund Financial Statements</b>		
	<b>Nutrition Fund</b>	<b>Wellness Center</b>
<b>Proprietary Funds:</b>		
Beginning Fund Balance, As Previously Reported	\$100,877	\$ 5,364,745
Prior Period Adjustments:		
Depreciation Adjustment	(899)	3,673
Equipment Adjustment	7,993	32,196
Commodity Inventory Adjustment	8,721	-
Total Prior Period Adjustments	15,815	35,869
Beginning Fund Balance, As Restated	<u>\$116,692</u>	<u>\$ 5,400,614</u>

The prior period adjustments for the proprietary funds are to correct the following errors:

- Depreciation expense was incorrectly calculated, in accordance with the District's useful life guidelines in the prior period.
- Assets were not capitalized according to the District's capitalization policy.
- In the prior years, commodity inventory was being recorded as inventory with the offset being deferred revenue rather than the change in the inventory being posted to commodities consumed.

<b>Government-Wide Financial Statements</b>		
	<b>Governmental Activities</b>	<b>Business- Type Activities</b>
Beginning Net Assets, As Previously Reported	\$ 5,818,817	\$ 5,613,325
Prior Period Adjustments:		
Total Governmental Fund Adjustments	251,545	-
Less: Adjustment for Early Retirement	(148,888)	-
	102,657	-
Total Proprietary Fund Adjustments	-	51,684
Internal Service Fund Adjustment	40,210	(40,210)
Income Surtax Adjustment	(394,456)	-
Capital Asset Adjustment	72,023	-
Total Prior Period Adjustments:	118,210	11,474
Beginning Net Assets, As Restated	<u>\$ 5,937,027</u>	<u>\$ 5,624,799</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**Note 11 – PRIOR PERIOD ADJUSTMENTS (Continued)**

The prior period adjustments for the government-wide financial statements are to correct the following errors in addition to the ones listed previously:

- See the governmental fund above for the early retirement adjustment explanation.
- In the prior year, the internal service fund was allocated to both the proprietary fund and the governmental fund. In accordance with governmental accounting standards, the internal service fund should only be allocated to the fund that primarily benefits from its service which happens to be the governmental funds.
- In the prior year, the income surtax revenue that was estimated to be received in the following year was incorrectly recorded as a receivable and revenue. Governmental accounting standards require that these tax collections be recorded as revenue in the year they are received.
- At the time of the conversion to GASB 34, land of \$72,023 was inadvertently omitted from the financial statements.

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**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET  
AND ACTUAL, ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND - CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Governmental	Proprietary	Final to
	Original	Amended	Funds Actual	Funds Actual	Actual Variance
<b>Receipts:</b>					
Local Sources:					
Local Taxes	\$ 5,179,702	\$ 5,179,702	\$ 4,919,085	\$ -	\$ 260,617
Tuition	401,800	401,800	512,184	-	(110,384)
Other	1,259,500	1,259,500	822,659	1,193,833	(756,992)
Intermediate Sources	-	-	1,150	-	(1,150)
State Sources	6,598,923	6,598,923	6,593,286	8,898	(3,261)
Federal Sources	768,137	768,137	834,105	283,984	(349,952)
Total Receipts	<u>14,208,062</u>	<u>14,208,062</u>	<u>13,682,469</u>	<u>1,486,715</u>	<u>(961,122)</u>
<b>Expenditures:</b>					
Instruction	8,881,000	9,004,644	8,755,273	-	249,371
Support Services	3,678,000	3,756,506	3,649,450	-	107,056
Non-instructional Programs	1,162,000	1,265,000	-	1,194,613	70,387
Other Expenditures	1,430,553	1,530,073	1,213,206	-	316,867
Total Expenditures	<u>15,151,553</u>	<u>15,556,223</u>	<u>13,617,929</u>	<u>1,194,613</u>	<u>743,681</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(943,491)	(1,348,161)	64,540	292,102	(1,704,803)
<b>Other Financing Sources (Uses):</b>					
Transfers In	423,228	423,228	375,294	127,332	(79,398)
Transfers Out	(423,228)	(423,228)	(502,626)	-	79,398
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(127,332)</u>	<u>127,332</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	(943,491)	(1,348,161)	(62,792)	419,434	(1,704,803)
<b>Fund Balance at Beginning of Year</b>	<u>2,529,881</u>	<u>727,736</u>	<u>3,368,253</u>	<u>393,157</u>	<u>(3,033,674)</u>
<b>Fund Balance at End of Year</b>	<u>\$ 1,586,390</u>	<u>\$ (620,425)</u>	<u>\$ 3,305,461</u>	<u>\$ 812,591</u>	<u>\$ (4,738,477)</u>

**ESTHERVILLE LINCOLN CENTRAL 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 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 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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$404,670.

As noted previously, the actual results of operations are presented in accordance with generally accepted accounting principles, which differ in certain respects from those practices used in the preparation of the 2005-2006 budget. For purposes of preparing the budget comparison on page 40, the actual expenses have been adjusted to the cash basis, which is consistent with the District's budgeted expenditures/expenses. The adjustments required to convert the expenditures/expenses to cash basis at the end of the year are as follows:

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 13,682,469	\$ (262,644)	\$ 13,419,825
Expenditures	13,617,929	(133,175)	13,484,754
Net	64,540	(129,469)	(64,929)
Other Financing Sources (Uses)	(127,332)	500	(126,832)
Beginning Fund Balance	3,368,253	(202,737)	3,165,516
Ending Fund Balance	<u>\$ 3,305,461</u>	<u>\$ (331,706)</u>	<u>\$ 2,973,755</u>

	Proprietary Funds		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 1,486,715	\$ 42,705	\$ 1,529,420
Expenditures	1,194,613	127,204	1,321,817
Net	292,102	(84,499)	207,603
Other Financing Sources (Uses)	127,332	-	127,332
Beginning Fund Balance	393,157	5,231,642	5,624,799
Ending Fund Balance	<u>\$ 812,591</u>	<u>\$ 5,147,143</u>	<u>\$ 5,959,734</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 GOVERNMENTAL NONMAJOR FUNDS  
 JUNE 30, 2006

	Student Activity	Physical Plant and Equipment	Debt Service	Inman Trust	Sanborn Endowment	Total
<b>Assets</b>						
Cash and Pooled Investments	\$ 166,111	\$ 12,666	\$ -	\$ 405,732	\$ 145,997	\$ 730,506
Receivables:						
Property Tax	-	9,213	-	-	-	9,213
Succeeding Year Property Tax	-	337,030	-	-	-	337,030
Accounts	888	-	-	-	-	888
Due from Other Funds	265	-	-	-	-	265
<b>Total Assets</b>	<u>167,264</u>	<u>358,909</u>	<u>-</u>	<u>405,732</u>	<u>145,997</u>	<u>1,077,902</u>
<b>Liabilities</b>						
Accounts Payable	1,569	25,314	-	-	-	26,883
Deferred Revenue:						
Succeeding Year Property Tax	-	337,030	-	-	-	337,030
<b>Total Liabilities</b>	<u>1,569</u>	<u>362,344</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>363,913</u>
<b>Fund Balance</b>						
Unreserved for:						
Special Revenue Fund	165,695	(3,435)	-	405,732	-	567,992
Permanent Fund	-	-	-	-	145,997	145,997
<b>Total Fund Balance</b>	<u>165,695</u>	<u>(3,435)</u>	<u>-</u>	<u>405,732</u>	<u>145,997</u>	<u>713,989</u>
<b>Total Liabilities and Fund Balance</b>	<u>\$ 167,264</u>	<u>\$ 358,909</u>	<u>\$ -</u>	<u>\$ 405,732</u>	<u>\$ 145,997</u>	<u>\$ 1,077,902</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT**  
**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL-NONMAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Student Activity	Physical Plant and Equipment	Debt Service	Inman Trust	Sanborn Endowment	Total
<b>Revenues:</b>						
Local Sources:						
Local tax	\$ -	\$ 320,527	\$ -	\$ -	\$ -	\$ 320,527
Other	381,598	231	-	511	4,864	387,204
State Sources	-	305	-	-	-	305
Total Revenues	<u>381,598</u>	<u>321,063</u>	<u>-</u>	<u>511</u>	<u>4,864</u>	<u>708,036</u>
<b>Expenditures:</b>						
Current:						
Instruction:						
Regular Instruction	-	2,438	-	-	-	2,438
Other Instruction	349,137	-	-	2,065	-	351,202
Support Services:						
Instructional Staff Services	3,276	84,716	-	-	-	87,992
Administration Services	-	3,500	-	-	-	3,500
Operation and Maintenance	-	2,350	-	-	-	2,350
Transportation Services	-	65,064	-	-	-	65,064
Other Expenditures:						
Facilities Acquisition	-	190,135	-	-	-	190,135
Long Term Debt:						
Principal	-	-	303,028	-	-	303,028
Interest and Fiscal Charges	-	-	70,200	-	-	70,200
Total Expenditures	<u>352,413</u>	<u>348,203</u>	<u>373,228</u>	<u>2,065</u>	<u>-</u>	<u>1,075,909</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>29,185</u>	<u>(27,140)</u>	<u>(373,228)</u>	<u>(1,554)</u>	<u>4,864</u>	<u>(367,873)</u>
Other Financing Sources (Uses):						
Transfers In	-	-	373,228	2,065	-	375,293
Transfers Out	-	(8,028)	-	(50,000)	(2,065)	(60,093)
Total Other Financing Sources (Uses)	<u>-</u>	<u>(8,028)</u>	<u>373,228</u>	<u>(47,935)</u>	<u>(2,065)</u>	<u>317,265</u>
Net Change in Fund Balances	29,185	(35,168)	-	(49,489)	2,799	(52,673)
Fund Balances - Beginning of Year	136,510	50,235	-	455,221	143,198	785,164
Prior Period Adjustments	-	(18,502)	-	-	-	(18,502)
Fund Balances - Beginning of Year, Restated	<u>136,510</u>	<u>31,733</u>	<u>-</u>	<u>455,221</u>	<u>143,198</u>	<u>766,662</u>
Fund Balances - End of year	<u>\$ 165,695</u>	<u>\$ (3,435)</u>	<u>\$ -</u>	<u>\$ 405,732</u>	<u>\$ 145,997</u>	<u>\$ 713,989</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF INDIVIDUAL STUDENT ACTIVITY ACCOUNT ACTIVITY  
FOR THE YEAR ENDED JUNE 30, 2006**

	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Elementary	\$ 16,373	70,376	62,177	\$ 24,572
High School Activity	41,265	80,516	62,676	59,105
Athletics	13,992	165,338	157,575	21,755
Middle School	64,880	65,368	69,985	60,263
Total	<u>\$ 136,510</u>	<u>\$ 381,598</u>	<u>\$ 352,413</u>	<u>\$ 165,695</u>

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
COMPARISON OF TAXES AND INTERGOVERNMENTAL REVENUES AND RECEIPTS  
FOR THE YEARS ENDED JUNE 30, 2006, 2005, 2004, 2003**

	Modified Accrual Basis			
	2006	2005	2004	2003
<b>Revenues:</b>				
Local Sources:				
Local Tax	\$ 4,869,098	\$ 4,515,401	\$ 5,139,351	\$ 4,919,676
Tuition	486,143	1,121,539	432,742	333,834
Other	677,697	641,058	2,543,339	2,439,292
State Sources	6,592,251	6,566,433	6,400,290	6,583,495
Federal Sources	794,636	1,270,901	1,292,861	1,251,866
<b>Total</b>	<u>13,419,825</u>	<u>14,115,332</u>	<u>15,808,583</u>	<u>15,528,163</u>
<b>Expenditures:</b>				
Instruction:				
Regular Instruction	4,854,333	5,005,459	5,331,064	5,306,952
Special Instruction	2,582,724	2,522,207	2,584,254	2,508,109
Other Instruction	1,208,262	1,327,093	856,602	885,306
Support Services:				
Student Services	485,436	731,119	748,194	739,275
Instructional Staff Services	590,959	186,431	183,830	284,860
Administration Services	1,153,144	1,090,947	1,081,985	1,068,412
Operation and Maintenance	1,108,029	1,116,373	924,990	894,963
Transportation Services	381,856	338,691	302,291	270,929
Non-Instructional Programs	-	4,396	1,413	997
Other Expenditures:				
Facilities acquisition	325,530	152,996	2,145,456	3,582,920
Long-Term Debt:				
Principal	303,028	283,028	268,028	362,987
Interest and other charges	70,200	85,462	99,893	118,813
AEA flowthrough	421,253	419,600	420,910	456,537
<b>Total</b>	<u>\$ 13,484,754</u>	<u>\$ 13,263,802</u>	<u>\$ 14,948,910</u>	<u>\$ 16,481,060</u>

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
<b>Direct:</b>			
U.S. Department of Education			
21st Century Community Learning Center	84.287	FY 06	\$ 92,596
Total Direct			<u>92,596</u>
<b>Indirect:</b>			
U.S. Department of Agriculture			
Iowa Department of Education:			
Food Distribution	10.550	FY 06	34,409
School Nutrition Cluster Programs:			
National School Lunch Program	10.555	FY 06	197,146
School Breakfast Program	10.553	FY 06	41,074
Child & Adult Care Food Program	10.558	FY 06	3,708
Summer Food Service Program	10.559	FY 06	16,894
			<u>258,822</u>
U.S. Department of Education			
Iowa Department of Education:			
Title I Program	84.010	General	150,230
Title I Program	84.013	Delinquent	53,669
			<u>203,899</u>
Migrant Education	84.011	FY 06	21,157
Special Education	84.027	FY 06	76,341
Vocational Education -Grants to States	84.048	FY 06	13,961
Safe & Drug Free Schools	84.186	FY 06	8,079
Even Start	84.213	FY 06	125,045
Funds for the Improvement of Education	84.215	FY 06	30,444
Tech Prep Education	84.243	FY 06	2,300
Title V - Innovative Education Program Strategies	84.298	FY 06	4,519
Advanced Placement Program	84.330	FY 06	208
Comprehensive School Reform	84.332	FY 06	52,399
Title III - English Language Acquisition State Grants	84.365	FY 06	1,206
Federal Teacher Quality Program	84.367	FY 06	61,821
Grants for State Assessments and Related Activities	84.369	FY 06	7,632
U.S. Department of Health and Human Services:			
Child Care Development Block Grants	93.575	FY 06	32,122
Medical Assistance Program	93.778	FY 06	87,970
Learn & Serve America	94.004	FY 06	4,069
Total Indirect			<u>1,026,403</u>
Total Direct and Indirect			<u>\$ 1,118,999</u>

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

**Independent Auditors' 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 the  
Estherville Lincoln Central 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 Estherville Lincoln Central 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 23, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Estherville Lincoln Central Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 Estherville Lincoln Central Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

Compliance

As part of obtaining reasonable assurance about whether Estherville Lincoln Central 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 grants, 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*.

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

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Estherville Lincoln Central 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.

*Williams & Company, P.C.*  
Certified Public Accountants

Spencer, Iowa  
October 23, 2006



Certified Public Accountants

**Independent Auditors' Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

To the Board of Education of the  
Estherville Lincoln Central Community School District:

**Compliance**

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

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estherville Lincoln Central Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Estherville Lincoln Central Community School District's compliance with those requirements.

In our opinion, Estherville Lincoln Central Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

**Internal Control Over Compliance**

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

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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might

be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider item 06-III-A to be a material weakness.

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

*Williams + Company, P.C.*  
Certified Public Accountants

Spencer, Iowa  
October 23, 2006

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

**PART I – SUMMARY OF INDEPENDENT AUDITOR’S RESULTS**

- (A) An unqualified opinion was issued on the financial statements.
- (B) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including a material weakness.
- (C) The audit did not disclose any non-compliance, which is material to the financial statements.
- (D) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (E) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (F) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (G) Major programs were as follows:
  - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
  - CFDA Number 84.027 – Special Education
  - CFDA Number 84.287 – 21<sup>st</sup> Century Community Learning Centers
  - CFDA Number 84.367 – Federal Teacher Quality Program
  - CFDA Number 10.555 – National School Lunch Program
- (H) The dollar threshold used to distinguish between Type A and Type B was \$300,000.
- (I) Estherville Lincoln Central Community School District did not qualify as a low-risk auditee.

**PART II – FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**INSTANCES OF NON-COMPLIANCE:** No matters were reported.

**REPORTABLE CONDITIONS:**

**06-II-A Financial Accounting – Segregation of Duties**

Observation – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District’s financial statements.

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

Response – The District feels that additional personnel would not be cost effective. However, management and the school board will review procedures and investigate available alternatives.

Conclusion – Response accepted.

ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006

**PART III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**INSTANCES OF NON-COMPLIANCE:** No matters were reported.

**REPORTABLE CONDITIONS:**

**CFDA Number 84.010 – Title I Grants to Local Educational Agencies**  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

**CFDA Number 84.027 – Special Education**  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

**CFDA Number 84.287 – 21<sup>st</sup> Century Community Learning Centers**  
Federal Award Year: 2006  
U.S. Department of Education

**CFDA Number 84.367 – Federal Teacher Quality Program**  
Federal Award Year: 2006  
U.S. Department of Education  
Passed through the Iowa Department of Education

**CFDA Number 10.555 – National School Lunch Program**  
Federal Award Year: 2006  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education

**06-III-A Financial Accounting – Segregation of Duties**

Observation – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements.

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

Response – The District feels that additional personnel would not be cost effective. However, management and the school board will review procedures and investigate available alternatives.

Conclusion – Response accepted.

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2006**

**PART IV – OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING**

- 06-IV-A: Certified Budget – Disbursements for the year ended June 30, 2006 did not exceed the amended certified budget amounts.
- 06-IV-B: Questionable Disbursements – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- 06-IV-C: Travel Expense – No expenditures of Estherville Lincoln Central Community School District were for travel expenses of spouses of District officials or employees.
- 06-IV-D: Business Transactions – No business transactions between the District and the District officials or employees were noted.
- 06-IV-E: Board Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.
- 06-IV-F: Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- 06-IV-G: Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- 06-IV-H: Certified Annual Report – The Certified Annual Report was filed timely with the Department of Education.
- 06-IV-I: Deficit Balances – Several student activity accounts had deficit balances at June 30, 2006.

Recommendation – We recommend that the District should investigate alternatives to significantly reduce and/or eliminate this deficit.

Response – The District is aware of this situation and will investigate alternatives to significantly reduce and/or eliminate this deficit by June 30, 2007.

Conclusion – Response accepted

**ESTHERVILLE LINCOLN CENTRAL COMMUNITY SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
YEAR ENDED JUNE 30, 2006**

05-I-A Segregation of Duties - It was noted that one individual reconciles the bank accounts, performs record-keeping functions, maintains detail accounts receivable records, performs collections, and records postings for the office.

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

Current Status – This finding still exists at June 30, 2006 (See Comment 06-II-A).