

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
CRESCO, IOWA

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

JUNE 30, 2006

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HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2005 Election)		
Donald J. Conway	President	2006
Marilyn Reis	Vice President	2007
Bruce Weigel	Board Member	2006
Jan Carman	Board Member	2005
Brenda Kammer	Board Member	2005

<u>Board of Education</u>		
(After September 2005 Election)		
Donald J. Conway	President	2006
Marilyn Reis	Vice President	2007
Jan Carman	Board Member	2008
Randall Richter	Board Member	2008
Bruce Weigel	Board Member (Resigned October 2005)	2006
Duane Bodermann	Board Member (Appointed October 2005)	2006

<u>School Officials</u>		
Brian Ney	Superintendent	2006
Janet Kreitzer	District Secretary/Treasurer	2006
Gruhn Law Firm	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Howard-Winneshiek 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 Howard-Winneshiek Community School District, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic 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, the business-type activities, each major fund, and the aggregate remaining fund information of Howard-Winneshiek 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 12, 2006 on our consideration of Howard-Winneshiek 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 52 through 54 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, 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 Howard-Winneshiek Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the 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.

Oskaloosa, Iowa
October 12, 2006

Howard-Winneshiek Community School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2006

The Howard-Winneshiek 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. Financial statements include a Change in Net Assets, a Condensed Statement of Net Assets and a Statement of Activities, which provide information about the activities of the District as a whole and present a long term view of the District's finances.

Financial Highlights

Factors Affecting 2006 Financial Statement ending June 30, 2006

General Fund revenues increased from \$11,824,318 to \$12,002,547 (\$178,229 difference) in fiscal year 2006 while General Fund expenditures increased from \$11,676,353 to \$11,965,932 (\$289,579 difference) in fiscal year 2006.

The increase in General Fund revenues was attributable to increases in local property taxes, state sources, and investment earnings received in fiscal 2006. The increase in expenditures was due primarily to an increase in transportation costs over \$100,000 and to salary and benefit increases in regular instruction.

Overview of the Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Howard-Winneshiek Community School District as a financial whole, or as an entire operating entity.

District-wide Financial Statements

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. Net assets and how they have changed are one way to measure the District's financial health or position.

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

Governmental activities: Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.

Business-type activities: The District charges fees to help it cover the costs of certain services it provides. The District's food service program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the district as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

- 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 can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Thus the governmental fund statements provide a detailed short-term view of how educational and operational services were funded as well as what funding is available in the near future to finance the District's programs. The difference between governmental activities reported in the statement of net assets and the statement of activities and the governmental funds is reconciled in the financial statements.
- Proprietary funds: Services for which the District charges a fee are generally reported in proprietary funds. This fund is reported in the same way as the District-wide statements. The District's proprietary fund is the *Enterprise, School Nutrition Fund*. This fund is used to account for the food service operations of the District.
- Fiduciary funds: The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District's fiduciary funds include the Agency Fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The District uses different funds in accordance with the Uniform Financial Accounting for Iowa Lea's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the General Fund and the Capital Projects Fund.

The School District as a Whole

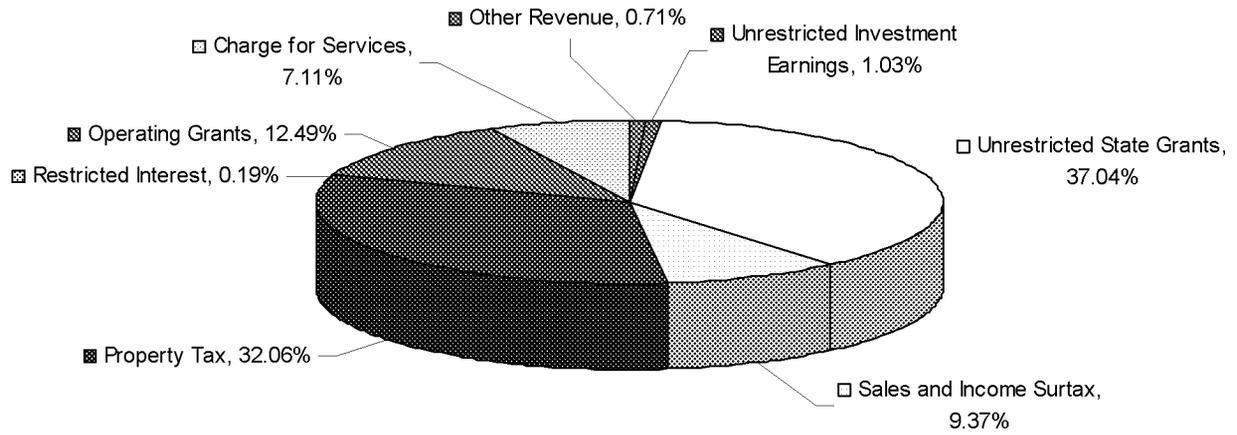
Overall district wide net assets improved \$760,660 for the year. Although total revenues decreased by 0.7 percent from the prior year and expenses increased by 3.8 percent from the prior year, the District continues to retire debt at a faster rate than capital assets are depreciating.

The following is a summary perspective of the statement of net assets of the District as a whole for the year ending June 30, 2006.

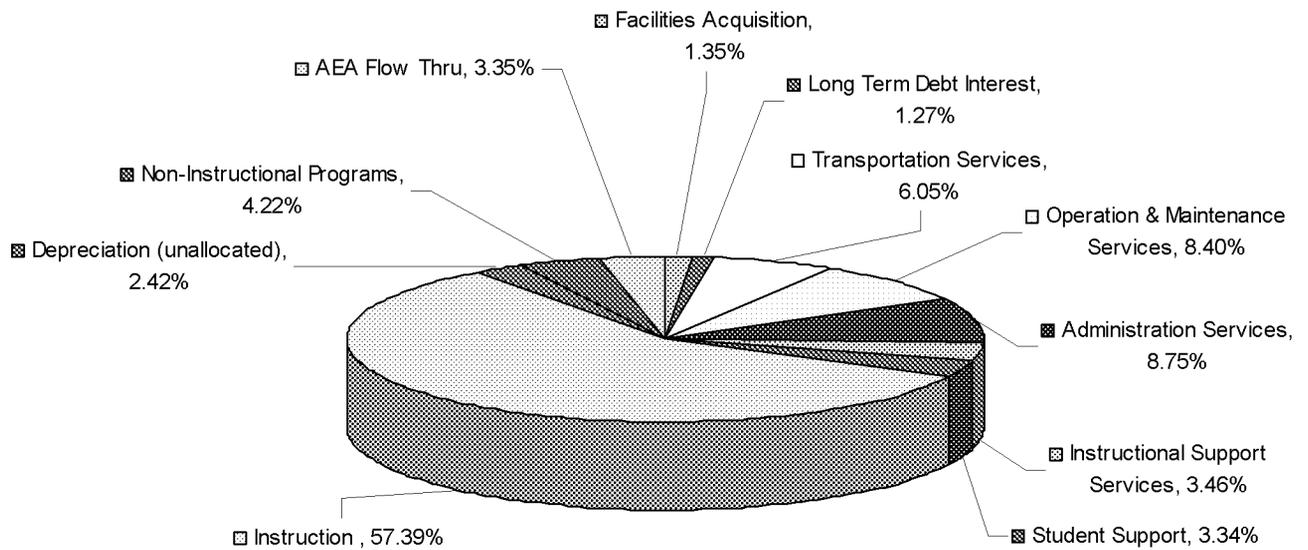
The Howard-Winneshiek Community School District's net assets at the end of the fiscal year 2006 totaled \$9,627,518.

	Changes in Net Assets						Total Percentage Change
	Governmental Activities		Business-type Activities		Total		
	2005	2006	2005	2006	2005	2006	
Revenue							
Program Revenue							
Charge for Services	611,873	715,334	321,707	333,199	933,580	1,048,533	12.31%
Operating Grants	1,844,789	1,609,298	234,820	232,556	2,079,609	1,841,854	-11.43%
Capital Grants and Restricted Interest	99,652	20,000	20,238	8,425	119,890	28,425	-76.29%
General Revenue							
Property Taxes	4,580,784	4,728,396			4,580,784	4,728,396	3.22%
Sales and Income Surtax	1,475,273	1,382,504			1,475,273	1,382,504	-6.29%
Unrestricted State Grants	5,488,494	5,462,569			5,488,494	5,462,569	-0.47%
Unrestricted Investment Earnings	61,670	150,868	849	1,404	62,519	152,272	143.56%
Other Revenue	116,866	102,938			116,866	102,938	-11.92%
Total Revenue	14,279,401	14,171,907	577,614	575,584	14,857,015	14,747,491	-0.74%
Program Expense							
Instruction	7,531,446	8,025,782			7,531,446	8,025,782	6.56%
Student Support	621,567	467,585			621,567	467,585	-24.77%
Instructional Support Services	560,822	484,526			560,822	484,526	-13.60%
Administration Services	1,189,431	1,203,294		21,031	1,189,431	1,224,325	2.93%
Operation & Maintenance Services	1,154,244	1,164,075		10,392	1,154,244	1,174,467	1.75%
Transportation Services	730,882	846,862			730,882	846,862	15.87%
Long Term Debt Interest	205,694	178,102			205,694	178,102	-13.41%
Facilities Acquisition	104,502	189,426			104,502	189,426	81.27%
AEA Flow Thru	466,256	467,927			466,256	467,927	0.36%
Non-Instructional Programs	20,168	16,509	569,549	573,411	589,717	589,920	0.03%
Depreciation (unallocated)	318,561	337,909			318,561	337,909	6.07%
Total Expenses	12,903,573	13,381,997	569,549	604,834	13,473,122	13,986,831	3.81%
Change in net assets	1,375,828	789,910	8,065	-29,250	1,383,893	760,660	
NET ASSETS beginning of year	7,373,926	8,749,754	109,039	117,104	7,482,965	8,866,858	
NET ASSETS End of Year	\$ 8,749,754	\$ 9,539,664	\$ 117,104	\$ 87,854	\$ 8,866,858	\$ 9,627,518	

Total Revenue by Percentage 2005-2006



Total Expenditures by Percentage 2005-2006



Condensed Statement of Net Assets

A comparative analysis of fiscal year 2005 to 2006 follows:

<u>Condensed Statement of Net Assets</u>							Total
	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2005	2006	2005	2006	2005	2006	2006
Current and Other Assets	\$8,919,437	\$9,354,125	\$98,367	\$73,480	\$9,017,804	\$9,427,605	4.54%
Capital Assets	9,516,648	9,132,061	52,844	51,916	\$9,569,492	\$9,183,977	-4.03%
Total Assets	18,436,085	18,486,186	151,211	125,396	18,587,296	18,611,582	0.13%
Long-Term Obligations	4,232,754	3,630,803	0	0	\$4,232,754	\$3,630,803	-14.22%
Other Liabilities	5,453,577	5,315,719	34,107	37,542	\$5,487,684	\$5,353,261	-2.45%
Total Liabilities	9,686,331	8,946,522	34,107	37,542	9,720,438	8,984,064	-7.58%
Invested in Capital Assets net of related debt	5,321,176	5,519,604	52,844	51,916	\$5,374,020	\$5,571,520	3.68%
Restricted	1,438,794	1,978,318	0	0	\$1,438,794	\$1,978,318	37.50%
Unrestricted	1,989,784	2,041,742	64,260	35,938	\$2,054,044	\$2,077,680	1.15%
Total Net Assets	<u>\$8,749,754</u>	<u>\$9,539,664</u>	<u>\$117,104</u>	<u>\$87,854</u>	<u>\$8,866,858</u>	<u>\$9,627,518</u>	<u>8.58%</u>

Financial Analysis of the District's Funds

The District's governmental funds reported combined fund balances of **\$3,469,698**, a **\$549,950** increase from the 2005 fiscal year end balance of **\$2,919,748**. The primary reason for the increase in combined fund balance for fiscal year 2006 was due to the increase in revenues in the General Fund. The District's General Fund (including the Instructional Support Fund) end of year cash balance increased \$98,488 to \$2,640,348 from the 2005 fiscal year end balance of \$2,541,860.

Proprietary Fund Highlights

In fiscal 2006 the revenues of the District's food service activities were \$575,584 and expenses were \$604,834. The School Nutrition Fund net assets decreased \$29,250 in fiscal year 2006. The District received \$24,567 in federal commodities.

Budgetary Highlights

In accordance with the Code of Iowa, the District's 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 as allowed by Iowa law to reflect the additional revenues and expenditures that may occur during the school year. 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 combined 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.

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 the actual expenditures during the year.

The following chart shows the original budget for the fiscal year 2006 as well as actual receipts and disbursements for the year:

Insert audit Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balance – Budget and Actual (Cash Basis) – All Governmental Funds

	Governmental Funds - Actual	Proprietary Fund - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 7,000,845	\$ 334,603	\$ 7,335,448	\$ 7,189,620	\$ 145,828
State sources	6,556,276	7,327	6,563,603	6,500,172	63,431
Federal sources	698,548	220,888	919,436	1,047,902	(128,466)
Total receipts	14,255,669	562,818	14,818,487	14,737,694	80,793
DISBURSEMENTS:					
Instruction	8,099,480	-	8,099,480	8,481,868	382,388
Support services	4,106,001	31,663	4,137,664	4,391,413	253,749
Non-instructional programs	16,265	562,396	578,661	636,000	57,339
Other expenditures	1,511,905	-	1,511,905	2,023,447	511,542
Total disbursements	13,733,651	594,059	14,327,710	15,532,728	1,205,018
Excess (deficiency) of receipts over (under) disbursements	522,018	(31,241)	490,777	(795,034)	1,285,811
Other financing sources, net	50,288	-	50,288	-	50,288
Excess (deficiency) of receipts and other financing sources over (under) disbursements	572,306	(31,241)	541,065	(795,034)	1,336,099
Balance beginning of year	3,722,419	61,726	3,784,145	2,067,131	1,717,014
Balance end of year	\$ <u>4,294,725</u>	\$ <u>30,485</u>	\$ <u>4,325,210</u>	\$ <u>1,272,097</u>	\$ <u>3,053,113</u>

Capital Assets and Debt Administration

Capital Assets

At the end of the 2006 fiscal year, the District had invested \$9,183,977, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, vehicles, technology and computers, audio-visual equipment, classroom equipment and transportation equipment. This amount represents a net decrease of \$385,515 or negative 4.03 percent from last year. More detailed information about capital assets is available in the Capital Assets chart below. Total depreciation expense for the year (excluding land) was \$561,215.

Capital Assets, (net of depreciation)

	Governmental Activities		Business-type Activities		Total School District		Total Percentage Change
	2005	2006	2005	2006	2005	2006	2005-06
Land (not being depreciated)	406,802	406,802	0	0	406,802	406,802	0.00%
Buildings	8,028,784	7,735,416	0	0	8,028,784	7,735,416	-3.65%
Improvements other than buildings	407,376	362,835	0	0	407,376	362,835	-10.93%
Furniture and Equipment	673,686	627,008	52,844	51,916	726,530	678,924	-6.55%
Total	9,516,648	9,132,061	52,844	51,916	9,569,492	9,183,977	-4.03%

Long-Term Debt

At June 30, 2006, the District had \$3,630,803 in general obligation and other long-term debt outstanding. This represents a decrease of 14.22% from last year. More detailed information about the District's long-term liabilities is available in the District's audit report Note 5 to the financial statements.

Outstanding Long-Term Obligations

	Total	Total	Total
	School District	School District	% Change
	2006	2005	2005-06
Early Retirement	18,346	37,282	-50.79%
General Obligation Bonds	2,090,000	2,555,000	-18.20%
Local Option Sales and Service Tax Revenue Bonds	150,000	150,000	0.00%
Capital Lease Purchase Agreement	<u>1,372,457</u>	<u>1,490,472</u>	<u>-7.92%</u>
Totals	<u><u>3,630,803</u></u>	<u><u>4,232,754</u></u>	<u><u>-14.22%</u></u>

On April 1, 2002, the District issued general obligation refunding bonds of \$3,830,000 with an interest rate of 4.50% to refund the June 1, 1993 general obligation bonds with interest rates from 4.80% to 5.80%. The June 1, 1993 general obligation bonds were called and refunded on May 1, 2002.

As a result of the refunding, the District will reduce its total debt service requirements over the life of the bonds by \$124,160, which will result in a present value economic gain of \$77,445.

In 2001 the District has entered into a 28E agreement with Northeast Iowa Community College for the construction, ownership, maintenance, and administration of a school building to be used jointly by the District and the College. At the end of five years, the College has the opportunity to acquire the project outright from the District for 100% of the remaining Debt Service plus the appraisal value of the real estate in the amount of \$105,000, subject to a 2% per annum escalation. If the College does not exercise their purchase option, the District has the option to purchase the facility for \$1 at the end of the ten years.

The District also has outstanding long term obligations payable from local option sales and tax revenue bonds, physical plant and equipment fund, and capital project funds as of June 30, 2006.

Factors bearing on the District's future

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

- Revenue received by the State of Iowa continues to be less than original projections. For fiscal year 2006 budget, state aid will fund 75% of the \$5,054 the District spends per student. Any reduction in state aid would adversely impact the District's ability to fund program and services at current levels.
- The district received a \$50,000 planning grant in 2005 for establishment of a charter school improvement initiative at Elma Elementary School. Howard-Winneshiek was awarded additional funds of \$175,000 in 2006 and will be awarded \$175,000 in 2007.
- The IPERS legislation has established employer contributions rates. The Iowa Senate agreed to a rate increase totaling two percentage points phased in over four years. Employers will pay 60 percent of the increase beginning July 1, 2007. The rate will increase from .0575 to 6.05%.
- The District experienced a decrease of 14.1 students in enrollment in 2006, and projections point to another decline in enrollment for 2007. Future enrollment stability is a critical element in maintaining a sound financial foundation. The District has reserves to handle a short-term dip in revenue. However, once the decline reaches a certain level the Board of Education will be faced with the challenge of reducing staff and/or programs or closing buildings to maintain a positive solvent position.
- We have continued to operate the after-school program with donations and fees. In 2007 the district will establish a separate childcare fund to accommodate the continued operation of the after-school program through donations and fees.
- In 2004 the District discontinued its transportation vehicle replacement program of two buses every year at an approximate cost of \$110,000 from the General Fund. The district will purchase one replacement bus in the 2008 fiscal year from the physical plant and equipment levy.
- In May, 2003, the patrons of the District approved a Howard County 1 cent local sales and services tax for school infrastructure projects which includes the payment or retirement of bonds previously issued for school infrastructure. The Board of Education will have the option to determine whether or not to use a portion of the proceeds for debt service tax levy reduction.
- The Board of Education has approved the construction of an early childhood development center. Partial funding is to be provided by the 1 cent local option sales tax revenue, not obligated by a debt service schedule. Other financing revenues include a Community Block Grant for \$600,000 less \$18,000 administrative fees and a bond sale.
- The negative change in net assets in the school Nutrition fund raises financial concerns as to the program's stability. Although student participation increases, food costs escalate. The Board of Education approved raising the breakfast and lunch ticket prices in 2007 in an effort to avoid subsidizing by the General Fund.

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 Janet Kreitzer, District Secretary/Treasurer and Business Manager, Howard-Winneshiek Community School District, 1000 Schroder Drive, Cresco, IA 52136

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Basic Financial Statements

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 4,294,725	\$ 30,485	\$ 4,325,210
Receivables:			
Property tax:			
Current year	88,515	-	88,515
Succeeding year	4,136,000	-	4,136,000
Income surtax	591,120	-	591,120
Accounts	1,700	-	1,700
Due from other governments	242,065	4,341	246,406
Inventories	-	38,654	38,654
Capital assets, net of accumulated depreciation (note 4)	9,132,061	51,916	9,183,977
Total assets	18,486,186	125,396	18,611,582
Liabilities			
Accounts payable	57,212	23	57,235
Salaries and benefits payable	1,017,777	37,519	1,055,296
Accrued interest payable	22,412	-	22,412
Deferred revenue:			
Succeeding year property tax	4,136,000	-	4,136,000
Other	72,455	-	72,455
Early retirement payable	9,863	-	9,863
Long-term liabilities (note 5):			
Portion due within one year:			
Early retirement	9,225	-	9,225
Bonds payable	485,000	-	485,000
Capital lease purchase agreement	210,000	-	210,000
Installment purchase agreement	20,738	-	20,738
Portion due after one year:			
Early retirement	9,121	-	9,121
Bonds payable	1,755,000	-	1,755,000
Capital lease purchase agreement	1,120,000	-	1,120,000
Installment purchase agreement	21,719	-	21,719
Total liabilities	8,946,522	37,542	8,984,064

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 5,519,604	\$ 51,916	\$ 5,571,520
Restricted for:			
Management levy	158,201	-	158,201
Physical plant and equipment levy	503,196	-	503,196
Other special revenue purposes	353,318	-	353,318
Debt service	20,091	-	20,091
Capital projects	923,754	-	923,754
Local option sales and services tax revenue bonds	15,000	-	15,000
State grants	4,758	-	4,758
Unrestricted	<u>2,041,742</u>	<u>35,938</u>	<u>2,077,680</u>
Total net assets	<u>\$ 9,539,664</u>	<u>\$ 87,854</u>	<u>\$ 9,627,518</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 4,992,580	\$ 234,676	\$ 646,898	\$ -
Special instruction	1,690,641	8,547	259,534	-
Other instruction	1,342,561	320,722	139,019	-
	<u>8,025,782</u>	<u>563,945</u>	<u>1,045,451</u>	<u>-</u>
Support services:				
Student services	467,585	114,905	25,386	-
Instructional staff services	484,526	-	10,400	-
Administration services	1,203,294	-	-	-
Operation and maintenance of plant services	1,164,075	4,870	-	-
Transportation services	846,862	31,314	56,384	-
	<u>4,166,342</u>	<u>151,089</u>	<u>92,170</u>	<u>-</u>
Non-instructional programs	<u>16,509</u>	<u>300</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	189,426	-	3,750	20,000
Long-term debt interest and fiscal charges	178,102	-	-	-
AEA flowthrough	467,927	-	467,927	-
Depreciation (unallocated) *	337,909	-	-	-
	<u>1,173,364</u>	<u>-</u>	<u>471,677</u>	<u>20,000</u>
Total governmental activities	<u>13,381,997</u>	<u>715,334</u>	<u>1,609,298</u>	<u>20,000</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,111,006)	\$ -	\$ (4,111,006)
(1,422,560)	-	(1,422,560)
(882,820)	-	(882,820)
(6,416,386)	-	(6,416,386)
(327,294)	-	(327,294)
(474,126)	-	(474,126)
(1,203,294)	-	(1,203,294)
(1,159,205)	-	(1,159,205)
(759,164)	-	(759,164)
(3,923,083)	-	(3,923,083)
(16,209)	-	(16,209)
(165,676)	-	(165,676)
(178,102)	-	(178,102)
-	-	-
(337,909)	-	(337,909)
(681,687)	-	(681,687)
(11,037,365)	-	(11,037,365)

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Business-Type Activities:				
Support services:				
Administration services	\$ 21,031	\$ -	\$ -	\$ -
Operation and maintenance of plant services	10,392	-	-	-
	<u>31,423</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	573,411	333,199	232,556	8,425
Total business-type activities	<u>604,834</u>	<u>333,199</u>	<u>232,556</u>	<u>8,425</u>
Total	\$ <u>13,986,831</u>	\$ <u>1,048,533</u>	\$ <u>1,841,854</u>	\$ <u>28,425</u>

General Revenues:

Property tax levied for:

General purposes
 Debt service
 Capital outlay
 Income surtax
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings
 Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$	-	\$ (21,031)	\$ (21,031)
	-	(10,392)	(10,392)
	-	(31,423)	(31,423)
	-	769	769
	-	(30,654)	(30,654)
	<u>(11,037,365)</u>	<u>(30,654)</u>	<u>(11,068,019)</u>
	4,325,083	-	4,325,083
	275,867	-	275,867
	127,446	-	127,446
	613,811	-	613,811
	768,693	-	768,693
	5,462,569	-	5,462,569
	150,868	1,404	152,272
	102,938	-	102,938
	<u>11,827,275</u>	<u>1,404</u>	<u>11,828,679</u>
	789,910	(29,250)	760,660
	<u>8,749,754</u>	<u>117,104</u>	<u>8,866,858</u>
\$	<u><u>9,539,664</u></u>	<u><u>87,854</u></u>	<u><u>9,627,518</u></u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 2,640,348	\$ 807,763	\$ 846,614	\$ 4,294,725
Receivables:				
Property tax:				
Current year	75,602	-	12,913	88,515
Succeeding year	3,543,000	-	593,000	4,136,000
Income surtax	363,766	-	227,354	591,120
Accounts	623	-	1,077	1,700
Due from other governments	108,541	133,524	-	242,065
	<hr/>			
Total assets	<u>\$ 6,731,880</u>	<u>\$ 941,287</u>	<u>\$ 1,680,958</u>	<u>\$ 9,354,125</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 52,148	\$ 1,950	\$ 3,114	\$ 57,212
Salaries and benefits payable	1,017,777	-	-	1,017,777
Deferred revenue:				
Succeeding year property tax	3,543,000	-	593,000	4,136,000
Other	436,221	-	227,354	663,575
Early retirement payable (note 5)	-	-	9,863	9,863
Total liabilities	<u>5,049,146</u>	<u>1,950</u>	<u>833,331</u>	<u>5,884,427</u>
Fund balance:				
Reserved for:				
State grants	4,758	-	-	4,758
Local option sales and services tax revenue bonds	-	15,000	-	15,000
Debt service	-	-	35,766	35,766
Unreserved:				
Reported in nonmajor Special Revenue Funds	-	-	811,861	811,861
Undesignated	1,677,976	924,337	-	2,602,313
Total fund balances	<u>1,682,734</u>	<u>939,337</u>	<u>847,627</u>	<u>3,469,698</u>
Total liabilities and fund balances	<u>\$ 6,731,880</u>	<u>\$ 941,287</u>	<u>\$ 1,680,958</u>	<u>\$ 9,354,125</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2006

Total fund balances of governmental funds	\$ 3,469,698
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,132,061
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	591,120
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.	(22,412)
Long-term liabilities, including bonds payable, early retirement, installment purchase agreements, and capital lease purchase agreements, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,630,803)</u>
Net assets of governmental activities	<u>\$ 9,539,664</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 4,413,974	\$ 768,693	\$ 904,653	\$ 6,087,320
Tuition	184,356	-	-	184,356
Other	237,025	43,794	420,091	700,910
State sources	6,543,558	-	609	6,544,167
Federal sources	623,634	3,750	-	627,384
Total revenues	<u>12,002,547</u>	<u>816,237</u>	<u>1,325,353</u>	<u>14,144,137</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	4,935,275	-	62,668	4,997,943
Special instruction	1,690,641	-	-	1,690,641
Other instruction	993,571	-	348,990	1,342,561
	<u>7,619,487</u>	<u>-</u>	<u>411,658</u>	<u>8,031,145</u>
Support services:				
Student services	467,585	-	-	467,585
Instructional staff services	503,050	-	-	503,050
Administration services	1,182,356	-	9,550	1,191,906
Operation and maintenance of plant services	1,035,957	-	106,664	1,142,621
Transportation services	689,570	-	91,945	781,515
	<u>3,878,518</u>	<u>-</u>	<u>208,159</u>	<u>4,086,677</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>16,509</u>	<u>16,509</u>
Other expenditures:				
Facilities acquisition	-	85,998	149,988	235,986
Long term debt:				
Principal	-	-	625,472	625,472
Interest and fiscal charges	-	-	180,759	180,759
AEA flowthrough	467,927	-	-	467,927
	<u>467,927</u>	<u>85,998</u>	<u>956,219</u>	<u>1,510,144</u>
Total expenditures	<u>11,965,932</u>	<u>85,998</u>	<u>1,592,545</u>	<u>13,644,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>36,615</u>	<u>730,239</u>	<u>(267,192)</u>	<u>499,662</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Capital Projects	Nonmajor Governmental Funds	Total
Other financing sources (uses):				
Sale of equipment	\$ 7,831	\$ -	\$ -	\$ 7,831
Interfund transfers in	-	-	531,031	531,031
Interfund transfers out	-	(307,400)	(223,631)	(531,031)
Installment purchase proceeds	-	-	42,457	42,457
Total other financing sources (uses)	<u>7,831</u>	<u>(307,400)</u>	<u>349,857</u>	<u>50,288</u>
Net change in fund balances	44,446	422,839	82,665	549,950
Fund balances beginning of year	<u>1,638,288</u>	<u>516,498</u>	<u>764,962</u>	<u>2,919,748</u>
Fund balances end of year	<u>\$ 1,682,734</u>	<u>\$ 939,337</u>	<u>\$ 847,627</u>	<u>\$ 3,469,698</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ 549,950

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

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

Expenditures for capital assets	\$ 167,275	
Depreciation expense	<u>(551,862)</u>	(384,587)

Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities. 19,939

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 625,472

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 2,657

Some expenses reported in the Statement of Activities, including early retirement, do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 18,936

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities. (42,457)

Change in net assets of governmental activities \$ 789,910

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Assets		
Cash and cash equivalents	\$ 30,485	\$ 4,614
Due from other governments	4,341	-
Inventories	38,654	-
Capital assets, net of accumulated depreciation	<u>51,916</u>	<u>-</u>
Total assets	<u>125,396</u>	<u>4,614</u>
Liabilities		
Accounts payable	23	-
Salaries and benefits payable	<u>37,519</u>	<u>-</u>
Total liabilities	<u>37,542</u>	<u>-</u>
Net Assets		
Invested in capital assets	51,916	-
Unrestricted	<u>35,938</u>	<u>4,614</u>
Total net assets	<u>\$ 87,854</u>	<u>\$ 4,614</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Operating revenues:		
Local sources:		
Charges for services	\$ 333,199	\$ 59,188
Operating expenses:		
Support services:		
Administration services	21,031	-
Operation and maintenance of plant services	10,392	-
Non-instructional programs	573,411	57,366
	<u>604,834</u>	<u>57,366</u>
Operating income (loss)	<u>(271,635)</u>	<u>1,822</u>
Non-operating revenues:		
Interest on investments	1,404	-
Capital contributions	8,425	-
State sources	7,327	-
Federal sources	225,229	-
Total non-operating revenues	<u>242,385</u>	<u>-</u>
Change in net assets	(29,250)	1,822
Net assets beginning of year	<u>117,104</u>	<u>2,792</u>
Net assets end of year	<u>\$ 87,854</u>	<u>\$ 4,614</u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Enterprise - School Nutrition	Internal Service - Flexible Benefits
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 312,604	\$ -
Cash received from miscellaneous operating activities	20,595	59,188
Cash payments to employees for services	(284,217)	(57,366)
Cash payments to suppliers for goods or services	<u>(285,275)</u>	<u>-</u>
Net cash provided by (used by) operating activities	<u>(236,293)</u>	<u>1,822</u>
Cash flows from non-capital financing activities:		
State grants received	7,327	-
Federal grants received	<u>196,321</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>203,648</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>1,404</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(31,241)	1,822
Cash and cash equivalents beginning of year	<u>61,726</u>	<u>2,792</u>
Cash and cash equivalents end of year	<u>\$ 30,485</u>	<u>\$ 4,614</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	<u>Enterprise - School Nutrition</u>	<u>Internal Service - Flexible Benefits</u>
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:		
Operating income (loss)	\$ (271,635)	\$ 1,822
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:		
Depreciation	9,353	-
Commodities used	24,567	-
(Increase) in inventories	(2,013)	-
(Decrease) in accounts payable	(360)	-
Increase in salaries and benefits payable	<u>3,795</u>	<u>-</u>
Net cash provided by (used by) operating activities	<u>\$ (236,293)</u>	<u>\$ 1,822</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$24,567 of federal commodities and \$8,425 of capital contributions

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2006

	<u>Agency</u>
Assets:	
Cash	\$ <u>6,347</u>
Liabilities:	
Other payables	<u>6,347</u>
Net assets	\$ <u><u>-</u></u>

See notes to financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

Howard-Winneshiek Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Cresco, Iowa and portions of the Cities of Ridgeway, Lime Springs, and Elma, Iowa, and agricultural territory in Howard and Winneshiek Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt 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.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those 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 restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The District reports the following major governmental funds:

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

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

The District reports the following proprietary funds:

The Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

The Internal Service, Flexible Benefits Fund is used to account for the flexible medical and child care benefits program offered by the District.

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, 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.

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

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

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

HOWARD-WINNESHIEK 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 statement of net assets and the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. 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.

The property tax revenue recognized in these funds becomes 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.

Income Surtax Receivable – Income surtax budgeted for the fiscal year ended June 30, 2006 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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. 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.

Asset Class	Amount
Land	\$ -
Buildings	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	5,000

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

Asset Class	Estimated Useful Lives
Buildings	15-50 years
Improvements other than buildings	8-15 years
Furniture and equipment	3-20 years

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

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

Deferred revenue in 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.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse employees for sick leave or vacation.

Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2006.

Long-term Liabilities – 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.

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

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. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

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.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 307,400
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>223,631</u>
Total		<u>\$ 531,031</u>

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

Note 4. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 406,802	\$ -	\$ -	\$ 406,802
Capital assets being depreciated:				
Buildings	12,338,369	-	-	12,338,369
Improvements other than buildings	551,722	-	-	551,722
Furniture and equipment	2,444,345	167,275	97,225	2,514,395
Total capital assets being depreciated	<u>15,334,436</u>	<u>167,275</u>	<u>97,225</u>	<u>15,404,486</u>
Less accumulated depreciation for:				
Buildings	4,309,585	293,368	-	4,602,953
Improvements other than buildings	144,346	44,541	-	188,887
Furniture and equipment	1,770,659	213,953	97,225	1,887,387
Total accumulated depreciation	<u>6,224,590</u>	<u>551,862</u>	<u>97,225</u>	<u>6,679,227</u>
Total capital assets being depreciated, net	<u>9,109,846</u>	<u>(384,587)</u>	<u>-</u>	<u>8,725,259</u>
Governmental activities capital assets, net	<u>\$ 9,516,648</u>	<u>\$ (384,587)</u>	<u>\$ -</u>	<u>\$ 9,132,061</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 4. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 324,670	\$ 8,425	\$ -	\$ 333,095
Less accumulated depreciation	271,826	9,353	-	281,179
Business-type activities capital assets, net	<u>\$ 52,844</u>	<u>\$ (928)</u>	<u>\$ -</u>	<u>\$ 51,916</u>

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction:	
Regular	\$ 41,360
Support services:	
Administration	11,388
Operation and maintenance of plant services	21,454
Transportation	139,751
	<u>213,953</u>
Unallocated depreciation	<u>337,909</u>
Total governmental activities depreciation expense	<u>\$ 551,862</u>
Business-type activities:	
Food service operations	<u>\$ 9,353</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Long-Term Liabilities

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

	Early Retirement	General Obligation Bonds	Local Option Sales and Services Tax Revenue Bonds	Capital Lease Purchase Agreement	Installment Purchase Agreement	Total
Balance beginning of year	\$ 37,282	\$ 2,555,000	\$ 150,000	\$ 1,490,472	\$ -	\$ 4,232,754
Additions	-	-	-	-	42,457	42,457
Reductions	18,936	465,000	-	160,472	-	644,408
Balance end of year	<u>\$ 18,346</u>	<u>\$ 2,090,000</u>	<u>\$ 150,000</u>	<u>\$ 1,330,000</u>	<u>\$ 42,457</u>	<u>\$ 3,630,803</u>
Due within one year	<u>\$ 9,225</u>	<u>\$ 485,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$ 20,738</u>	<u>\$ 724,963</u>

Early Retirement

The District offered a voluntary early retirement plan to its certified employees. Eligible employees must have completed fifteen years of service to the District. The District did not offer an early retirement plan for the year ended June 30, 2006.

The early retirement incentive for each eligible employee is equal to 35% (Administrator) or 45% (Teacher) of the difference between the BA base salary and the employee's position on the salary schedule in the last year of employment or 25% (Support Staff) of the employee's base salary during the last year of employment. The employee has the option of receiving a one-time cash benefit in July of the year following retirement, receiving the sum in three equal payments in July of each of the three ensuing years following retirement, or receiving the benefit over monthly installments for a maximum of three years following retirement.

At June 30, 2006, the District has obligations to seven participants with a total liability of \$28,209. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$69,353. The cost of early retirement payments expected to be liquidated currently is recorded as a liability of the Special Revenue, Management Fund in the fund financial statements and as a liability of the Governmental Activities in the District-wide financial statements. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.50 %	\$ 485,000	\$ 88,650	\$ 573,650
2008	4.50	515,000	66,488	581,488
2009	4.50	535,000	43,088	578,088
2010	4.50	555,000	18,788	573,788
		<u>\$ 2,090,000</u>	<u>\$ 217,014</u>	<u>\$ 2,307,014</u>

During the year ended June 30, 2006, the District retired \$465,000 of general obligation bonds.

Local Option Sales and Services Tax Revenue Bonds

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

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	5.00 %	\$ -	\$ 7,000	\$ 7,000
2008	5.00	30,000	7,000	37,000
2009	5.00	40,000	5,500	45,500
2010	4.30	40,000	3,500	43,500
2011	4.45	40,000	1,780	41,780
		<u>\$ 150,000</u>	<u>\$ 24,780</u>	<u>\$ 174,780</u>

The local option sales and services tax revenue bonds were issued for school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District in accordance with Chapter 422B.12 of the Code of Iowa. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the local option sales and services tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- (b) A reserve will be maintained in the amount of \$15,000 to be used solely for the purpose of paying principal and interest in the event the local option sales and services tax revenues are not sufficient for that purpose.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 5. Long-Term Liabilities (continued)

Capital Lease Purchase Agreement

The District has entered into a 28E agreement with Northeast Iowa Community College for the construction, ownership, operation, maintenance, and administration of a school building to be used jointly by the District and the College. The College is responsible for construction, debt, and normal operating costs of the building. The District is responsible for capital improvements. In September 2001, the District finalized a ten year lease purchase agreement with the College for use of the facilities. The College will also be paying the District \$30,000 in rent each year. At the end of five years, the College has the opportunity to acquire the project outright from the District for 100% of the remaining Debt Service plus the appraisal value of the real estate in the amount of \$105,000, subject to a 2% per annum escalation. If the College does not exercise their purchase option, the District has the option to purchase the facility for \$1 at the end of the ten years.

Details of the District's June 30, 2006 capital lease purchase agreement indebtedness are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2007	4.00 %	\$ 210,000	\$ 57,782	\$ 267,782
2008	4.20	215,000	49,382	264,382
2009	4.35	225,000	40,352	265,352
2010	4.40	235,000	30,565	265,565
2011	4.50	245,000	20,226	265,226
2012	4.60	200,000	9,200	209,200
		<u>\$ 1,330,000</u>	<u>\$ 207,507</u>	<u>\$ 1,537,507</u>

During the year ended June 30, 2006, the District paid \$160,472 on the capital lease purchase agreement.

Installment Purchase Agreement

During the year ended June 30, 2006, the District entered into an installment purchase agreement for the purchase of a bus. The purchase price of \$65,204 will be paid in three annual installments including interest at 4.73%.

Details of the District's June 30, 2006 installment purchase agreement are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 20,738	\$ 2,008	\$ 22,746
2008	21,719	1,027	22,746
	<u>\$ 42,457</u>	<u>\$ 3,035</u>	<u>\$ 45,492</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 6. Operating Lease

The District is obligated under a copier equipment lease accounted for as an operating lease. Operating leases do not give rise to property rights or lease obligations and, therefore, are not reflected on the District's Statement of Net Assets. The agreement provides for monthly lease payments of \$3,446 during the term of the lease.

The total lease payments under the lease agreement are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2007	\$ 41,346
2008	41,346
2009	41,346
2010	41,346
2011	41,346
2012	<u>6,891</u>
	<u>\$ 213,621</u>

Total payments under the lease agreement for the year ended June 30, 2006 were \$42,449.

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 covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$403,761, \$391,532, and \$399,650 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Howard-Winneshiek 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.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 8. Risk Management (continued)

Self Insurance –

Health – Effective September 1, 1998 four school districts adopted a resolution to establish a 28E organization to provide an insurance plan for employee medical coverage. Since inception, five new school districts have been added to the trust for a total of nine districts currently participating in the plan. The Districts contribute to the self-insurance plan an amount equal to 125% of regular insurance coverage. The fund re-insures for stop-loss insurance for claims in excess of \$90,000 per year per individual. An insurance claims carrier is paid an administrative fee to process the claims.

Dental – The District has dental coverage insurance under this 28E organization for employee dental coverage. The District contributes to the self-insurance. Professional services through the plan for the participants are limited to a combined maximum payment of \$500 per member per benefits period.

The District paid \$1,863,496 in premiums to fund the plan July 1, 2005 to June 30, 2006. The total premiums paid into the plan by all nine Districts and retirees for the same period was \$11,882,771. The 28E organization's balance sheet as of June 30, 2006 is as follows:

Assets

Funds on hand	\$ <u>6,172,918</u>
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Liabilities and Fund Equity

Reserve for incurred but not reported claims and reported claims not yet paid	\$ 1,583,915
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Undesignated funds	<u>4,589,003</u>
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	<u>\$ 6,172,918</u>
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Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$467,927 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.

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Required Supplementary Information

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances –
 Budget and Actual (Cash Basis) – All Governmental Funds
 and Proprietary Fund
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Fund - Enterprise - Actual	Total Actual	Budgeted Amounts Original and Final	Final to Actual Variance
RECEIPTS:					
Local sources	\$ 7,000,845	\$ 334,603	\$ 7,335,448	\$ 7,189,620	\$ 145,828
State sources	6,556,276	7,327	6,563,603	6,500,172	63,431
Federal sources	698,548	220,888	919,436	1,047,902	(128,466)
Total receipts	14,255,669	562,818	14,818,487	14,737,694	80,793
DISBURSEMENTS:					
Instruction	8,099,480	-	8,099,480	8,481,868	382,388
Support services	4,106,001	31,663	4,137,664	4,391,413	253,749
Non-instructional programs	16,265	562,396	578,661	636,000	57,339
Other expenditures	1,511,905	-	1,511,905	2,023,447	511,542
Total disbursements	13,733,651	594,059	14,327,710	15,532,728	1,205,018
Excess (deficiency) of receipts over (under) disbursements	522,018	(31,241)	490,777	(795,034)	1,285,811
Other financing sources, net	50,288	-	50,288	-	50,288
Excess (deficiency) of receipts and other financing sources over (under) disbursements	572,306	(31,241)	541,065	(795,034)	1,336,099
Balance beginning of year	3,722,419	61,726	3,784,145	2,067,131	1,717,014
Balance end of year	\$ 4,294,725	\$ 30,485	\$ 4,325,210	\$ 1,272,097	\$ 3,053,113

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 14,255,669	\$ (111,532)	\$ 14,144,137
Expenditures	13,733,651	(89,176)	13,644,475
Net	522,018	(22,356)	499,662
Other financing sources (uses)	50,288	-	50,288
Beginning fund balances	3,722,419	(802,671)	2,919,748
Ending fund balances	<u>\$ 4,294,725</u>	<u>\$ (825,027)</u>	<u>\$ 3,469,698</u>

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 562,818	\$ 12,766	\$ 575,584
Expenses	594,059	10,775	604,834
Net	(31,241)	1,991	(29,250)
Beginning net assets	61,726	55,378	117,104
Ending net assets	<u>\$ 30,485</u>	<u>\$ 57,369</u>	<u>\$ 87,854</u>

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
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 internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

Other Supplementary Information

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Assets					
Cash and pooled investments	\$ 181,590	\$ 355,003	\$ 279,549	\$ 30,472	\$ 846,614
Receivables:					
Property tax:					
Current year	5,172	-	2,447	5,294	12,913
Succeeding year	256,000	-	103,000	234,000	593,000
Income surtax	-	-	227,354	-	227,354
Accounts	-	1,077	-	-	1,077
Total assets	<u>\$ 442,762</u>	<u>\$ 356,080</u>	<u>\$ 612,350</u>	<u>\$ 269,766</u>	<u>\$ 1,680,958</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 352	\$ 2,762	\$ -	\$ -	\$ 3,114
Deferred revenue:					
Succeeding year property tax	256,000	-	103,000	234,000	593,000
Other	-	-	227,354	-	227,354
Early retirement payable	9,863	-	-	-	9,863
Total liabilities	<u>266,215</u>	<u>2,762</u>	<u>330,354</u>	<u>234,000</u>	<u>833,331</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	35,766	35,766
Unreserved:					
Undesignated	176,547	353,318	281,996	-	811,861
Total fund equity	<u>176,547</u>	<u>353,318</u>	<u>281,996</u>	<u>35,766</u>	<u>847,627</u>
Total liabilities and fund equity	<u>\$ 442,762</u>	<u>\$ 356,080</u>	<u>\$ 612,350</u>	<u>\$ 269,766</u>	<u>\$ 1,680,958</u>

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 275,376	\$ -	\$ 353,719	\$ 275,558	\$ 904,653
Other	20,505	354,410	43,479	1,697	420,091
State sources	207	-	93	309	609
Total revenues	296,088	354,410	397,291	277,564	1,325,353
Expenditures:					
Current:					
Instruction:					
Regular instruction	62,668	-	-	-	62,668
Other instruction	-	348,990	-	-	348,990
Support services:					
Administration services	9,550	-	-	-	9,550
Operation and maintenance of plant services	106,664	-	-	-	106,664
Transportation services	49,488	-	42,457	-	91,945
Non instructional programs	16,509	-	-	-	16,509
Other expenditures:					
Facilities acquisition	-	-	149,988	-	149,988
Long term debt:					
Principal	-	-	-	625,472	625,472
Interest and fiscal charges	-	-	-	180,759	180,759
Total expenditures	244,879	348,990	192,445	806,231	1,592,545
Excess (deficiency) of revenues over (under) expenditures	51,209	5,420	204,846	(528,667)	(267,192)
Other financing sources (uses):					
Interfund transfers in	-	-	-	531,031	531,031
Interfund transfers out	-	-	(223,631)	-	(223,631)
Installment purchase proceeds	-	-	42,457	-	42,457
Total other financing sources (uses)	-	-	(181,174)	531,031	349,857

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2006

	<u>Special Revenue</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
Net change in fund balances	\$ 51,209	\$ 5,420	\$ 23,672	\$ 2,364	\$ 82,665
Fund balances beginning of year	<u>125,338</u>	<u>347,898</u>	<u>258,324</u>	<u>33,402</u>	<u>764,962</u>
Fund balances end of year	<u>\$ 176,547</u>	<u>\$ 353,318</u>	<u>\$ 281,996</u>	<u>\$ 35,766</u>	<u>\$ 847,627</u>

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
AIASA/TSA Club	\$ 86	\$ -	\$ -	\$ 86
AFS	106	-	-	106
Athletics	27,099	137,449	147,890	16,658
Business Club	245	-	-	245
Class of 2006	646	2,510	3,156	-
Class of 2007	1,249	575	932	892
Class of 2008	477	780	97	1,160
Class of 2009	-	580	101	479
Concessions	1,059	7,065	7,881	243
Crest Newspaper	2,518	87	125	2,480
Crestwood Elementary Activity	33,440	44,260	48,106	29,594
Electric Blue	265	186	320	131
Elma Elementary	5,659	5,497	3,561	7,595
Future Farmers of America - FFA	90,631	35,483	34,785	91,329
Future Teachers of America - FTA	776	-	-	776
High School Cheerleaders	196	3,526	1,705	2,017
High School Drama	8,276	2,326	2,449	8,153
High School Student Council	7,970	11,219	10,965	8,224
Horticulture Club	1,273	317	518	1,072
Instrumental Music	345	7,840	5,494	2,691
Junior High Drama	1,111	522	460	1,173
Junior High Music	4,639	9,055	8,754	4,940
Junior High Student Council	2,988	19,237	17,309	4,916
Middle School Cheerleaders	-	815	730	85
Language Club	277	-	-	277
Lime Springs Elementary	8,965	8,841	3,903	13,903
Magazine Sales	-	8,136	5,637	2,499
National Honor Society	715	-	-	715
Picture Money	2,974	277	-	3,251
Ridgeway Elementary Student Council	3,122	7,277	5,457	4,942
Robe Fund	10,956	152	4,357	6,751
Unallocated Interest Income	98,793	8,284	2,824	104,253
Vocal Music	22,285	12,815	10,734	24,366
Yearbook	4,236	16,408	19,509	1,135
SADD	338	1,675	764	1,249
VAR GBB Fundraiser	165	35	200	-
Honor Roll	4,018	1,181	267	4,932
Total	\$ 347,898	\$ 354,410	\$ 348,990	\$ 353,318

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2006

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>5,651</u>	\$ <u>1,146</u>	\$ <u>450</u>	\$ <u>6,347</u>
Liabilities				
Other payables	\$ <u>5,651</u>	\$ <u>1,146</u>	\$ <u>450</u>	\$ <u>6,347</u>

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 6,087,320	\$ 5,996,093	\$ 5,711,414	\$ 5,611,324
Tuition	184,356	198,164	150,482	203,880
Other	700,910	704,802	454,954	485,414
State sources	6,544,167	6,488,279	5,791,465	5,972,894
Federal sources	627,384	834,432	856,993	678,277
Total revenues	\$ 14,144,137	\$ 14,221,770	\$ 12,965,308	\$ 12,951,789
Expenditures:				
Instruction:				
Regular instruction	\$ 4,997,943	\$ 4,694,473	\$ 4,868,261	\$ 4,593,817
Special instruction	1,690,641	1,577,532	1,708,063	1,567,086
Other instruction	1,342,561	1,385,556	1,058,822	967,996
Support services:				
Student services	467,585	621,567	989,784	829,777
Instructional staff services	503,050	560,822	370,730	342,441
Administration services	1,191,906	1,180,804	1,140,979	1,093,583
Operation and maintenance of plant services	1,142,621	1,138,546	1,001,506	985,962
Transportation services	781,515	710,992	681,324	630,331
Non-instructional programs	16,509	20,168	19,380	5,636
Other expenditures:				
Facilities acquisition	235,986	604,332	18,747	30,394
Long-term debt:				
Principal	625,472	703,001	781,826	709,319
Interest and fiscal charges	180,759	209,629	237,863	281,622
AEA flowthrough	467,927	466,256	457,337	491,537
Total expenditures	\$ 13,644,475	\$ 13,873,678	\$ 13,334,622	\$ 12,529,501

See accompanying independent auditor's report.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Agriculture:			
Team Nutrition Grants	10.574	FY 06	\$ <u>500</u>
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 06	<u>24,567</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	28,340
National School Lunch Program	10.555	FY 06	167,124
National School Snack Program	10.555	FY 06	357
Summer Food Service Program for Children	10.559	FY 06	<u>4,341</u>
			<u>200,162</u>
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	3029G FY05	20,983
Title 1 Grants to Local Educational Agencies	84.010	3029GC	27,000
Title 1 Grants to Local Educational Agencies	84.010	3029G FY06	<u>135,996</u>
			<u>183,979</u>
Improving Teacher Quality State Grants	84.367	FY 06	<u>74,284</u>
Grants for State Assessments and Related Activities	84.369	FY 06	<u>8,412</u>
State Grants for Innovative Programs	84.298	FY 06	<u>3,719</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 06	<u>5,711</u>
Charter Schools	84.282	FY 06	<u>160,995</u>
Keystone Area Education Agency:			
Special Education - Grants to States	84.027	FY 06	<u>83,383</u>
Vocational Education - Basic Grants to States	84.048	FY 06	<u>16,548</u>

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

<u>Grantor / Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect (continued):			
U. S. Department of Housing and Economic Development:			
Iowa Department of Economic Development:			
City of Cresco:			
Community Development Block Grant	14.218		\$ <u>3,750</u>
Total			\$ <u><u>766,010</u></u>

Basis of Presentation –

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Howard-Winneshiek Community School District and is presented on the accrual or 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Howard-Winneshiek 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 Howard-Winneshiek 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 12, 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 Howard-Winneshiek Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

Compliance and Other Matters

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

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

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

Oskaloosa, Iowa
October 12, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Howard-Winneshiek Community School District:

Compliance

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

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, 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 Howard-Winneshiek Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Howard-Winneshiek Community School District's compliance with those requirements.

In our opinion, Howard-Winneshiek Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Howard-Winneshiek 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 Howard-Winneshiek Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Howard-Winneshiek Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that 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, of the reportable conditions described above, we believe item III-A-06 is 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 Howard-Winneshiek Community School District and other parties to whom Howard-Winneshiek 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.

Oskaloosa, Iowa
October 12, 2006

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were 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) Reportable conditions in internal control over major programs were 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 disclosed 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
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.555 – National School Snack Program
 - CFDA Number 10.559 – Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Howard-Winneshiek Community School District did not qualify a low-risk auditee.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits, bank reconciliations and all payroll activity are all done by the same person in the various funds.

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

Response – We feel with the limited number of office employees, it will be difficult to further segregate duties. However, we will continue to investigate alternatives as responsibilities change and implement changes whenever possible.

Conclusion – Response accepted.

II-B-06 Authorized Signatures – The bank confirmation indicated the name of a former employee who would be able to sign checks as an authorized check signer on two accounts for the Student Activity Fund.

Recommendation – The District should obtain and prepare proper authorization cards for all accounts at all banks in which the District deposits District funds.

Response – We will obtain and prepare proper authorization cards at all District financial institutions.

Conclusion – Response accepted.

HOWARD-WINNESHIEK 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 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.555: National School Snack Program
CFDA Number 10.559: Summer Food Service Program for Children
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

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

III-A-06 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that all payroll activity is performed by the same person in the various funds.

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

Response – We feel with the limited number of office employees, it will be difficult to further segregate duties. However, we will continue to investigate available alternatives as responsibilities change and implement changes whenever possible.

Conclusion – Response accepted.

HOWARD-WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget – Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.
- IV-B-06 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-C-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-06 Business Transactions – We noted no business transactions between the District and District officials or employees.
- IV-E-06 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-F-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.