

**KINGSLEY-PIERSON COMMUNITY
SCHOOL DISTRICT**

INDEPENDENT AUDITORS' REPORT

JUNE 30, 2006

**KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2006
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KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT

LIST OF OFFICIALS

June 30, 2006

**Board of Education
(Before September 2005 Election)**

		Term Expires
Tim Sudbeck	President	2007
Bud Herbold	Vice President	2005
Cindy Powell Inman	Board Member	2005
Julie Hlas	Board Member	2006
Scott Bohle	Board Member	2007

**Board of Education
(After September 2005 Election)**

Tim Sudbeck	President	2007
Julie Hlas	Vice President	2006
Scott Bohle	Board Member	2007
Cindy Powell Inman	Board Member	2008
Bill Riorden	Board Member	2008

School Officials

Scott Bailey	Superintendent	2006
Audrey Bollin	Secretary-Treasurer	2006
James Hanks	Attorney	2006



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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
Kingsley-Pierson Community School District
Kingsley, Iowa

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 activity, each major fund, and the aggregate remaining fund information of Kingsley-Pierson Community School District as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof 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 August 11, 2006, on our consideration of the Kingsley-Pierson 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 16 and page 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Kingsley-Pierson Community School District's basic financial statements. The financial statements for the three years ended June 30, 2005 were audited by us or other auditors (none of which are presented herein) in accordance with the standards referred to in the second paragraph of this report, and had unqualified opinions expressed on them. The supplemental information, included in Schedules 1

through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Williams + Company, P. C.
Certified Public Accountants

Sioux City, Iowa
August 11, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,674,820 in fiscal 2005 to \$3,901,685 in fiscal 2006, while General Fund expenditures increased from \$3,778,765 in fiscal 2005 to \$3,901,015 in fiscal 2006. The District's General Fund balance increased from \$171,442 in fiscal 2005 to \$172,512 in fiscal 2006, a 0.6% increase.
- The increase in General Fund revenues is not attributable to any one source. State foundation aid revenue increased due to 4% allowable growth with a stable enrollment. Allowable growth is the percentage increase in the per student rate paid to schools based on prior years enrollment. Total state revenues increased by 5.4%, while local revenues increased by 7.6%. The cash reserve levy was increased from \$25,000 in fiscal 2005 to \$76,380 in fiscal 2006, accounting for the majority of the increase in general fund property tax revenue. Other local revenues such as interest and tuition increased also. At the federal level, some grants increased and others decreased, but overall total federal sources increased by 1.9%.
- The increase in total General Fund expenditures was 3.2% more than fiscal 2005. On a functional level, instruction increased by 2.2%, while support services increased by 5.7%. Within support service categories, instructional staff support expenses almost doubled. This was due to the reclassification of technology expenses to meet the new chart of account coding rules. There was a shift of expenses from building administration to general administration with the promotion of a principal to superintendent. In fiscal 2005, the district employed an interim superintendent on a part-time schedule; while in fiscal 2006, one individual filled the superintendent position along with elementary principal duties. Operation and maintenance expenses continue to increase at a high rate, while student transportation decreased from fiscal 2005.
- Interest earned in the general fund increased by 41%. A large portion of this increase was due to ISCAP investment earnings. Interest expense on ISCAP withdrawals also increased so that the net effect was a \$10.00 decrease in the net cost of borrowing through the program. ISCAP continues to be a valuable tool for managing cash flow. In fiscal 2005, the district borrowed \$50,000 and in fiscal 2006 the district borrowed \$300,000.

- With a 6.2% increase in general fund revenue and a 3.6% increase in general fund expenses, the district was able to increase its general fund balance by 0.6%. This is the first increase, although small, the district has experienced since fiscal 2002.
- The debt service fund was the only fund balance that decreased in fiscal 2006. The 33% decline was due to payment on an outstanding bond in the amount of \$6,060. The capital projects fund balance increased by 33% and the PPEL fund balance increased by 21%. The management fund went from a negative \$3,467 balance to a positive \$12,702 balance.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Kingsley-Pierson Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Comparison of Taxes and Intergovernmental Revenues and Receipts, provides a summary of how funding at different levels has changed over the most recent four year period.

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-1
Major Features of the Government-wide and Fund Financial Statements

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-2 provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-2
Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business type Activities		Total District		Total % Change
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	2005-2006
Current and other assets	3,634	3,079	47	35	3,681	3,114	18.2%
Capital assets	5,958	6,011	16	16	5,974	6,027	-0.9%
Total assets	9,592	9,090	63	51	9,655	9,141	5.6%
Long-term liabilities	3,720	3,800	-	-	3,720	3,800	-2.1%
Other liabilities	3,027	2,588	-	-	3,027	2,588	17.0%
Total liabilities	6,747	6,388	-	-	6,747	6,388	5.6%
Net assets							
Invested in capital assets net of related debt	2,238	2,211	16	16	2,254	2,227	1.2%
Restricted	51	56			51	56	-8.9%
Unrestricted	556	435	47	35	603	470	28.3%
Total net assets	2,845	2,702	63	51	2,908	2,753	5.6%

Total net assets increased by 5.6% compared to fiscal 2005. Total assets increased by 5.6%, while liabilities increased by 5.6%. The district issued advance-refunding bonds in May of 2006. The original bonds issued in 2000 are not callable until 2009. An escrow account has been set up to pay the principal and interest on the 2000 bonds until they can be retired in 2009. The purpose of the refunding was to take advantage of lower interest rates and to recognize a substantial savings in debt service for fiscal 2007. Capital assets decreased by 0.9%, while invested in capital assets net of related debt increased by 1.2%. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used.

Unrestricted net assets are the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements.

Figure A-3 shows the change in net assets for the year ended June 30, 2006.

Figure A-3
Changes in Net Assets
(Expressed in Thousands)

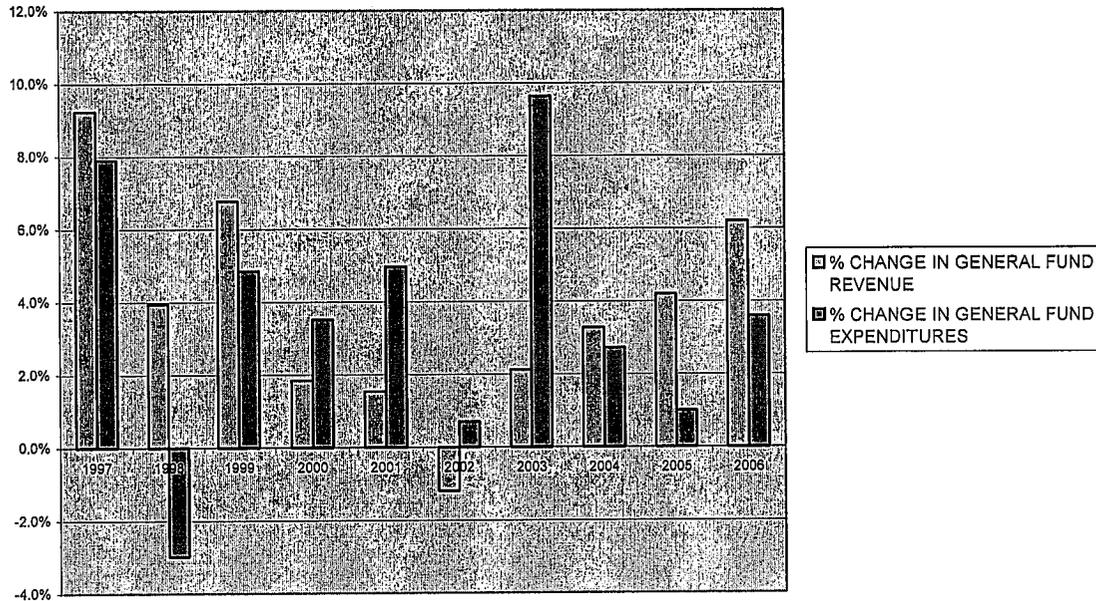
	Governmental Activities	Business Type Activities	Total District
Revenues			
Program revenues			
Charges for Services	439	120	559
Operating grants and contributions	509	83	592
Capital grants and contributions			
General revenues			
Property tax	1,696		1,696
Other taxes	358		358
Interest on investments	34	1	35
State aid not restricted to specific programs	1,733		1,733
Contributions	24		24
Miscellaneous	59		59
Sale of Equipment		1	1
Total revenues	4,852	205	5,057
Program expenses			
Governmental activities			
Instruction	2,809		2,809
Support services	1,445		1,445
Non-instructional programs		194	194
Other expenses	454		454
Total expenses	4,708	194	4,902
Transfers	-1	1	
Change in net assets	143	12	155

Property tax and unrestricted state grants account for 71% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 87% of the total governmental activities expense.

Governmental Activities

Revenues for governmental activities were \$4,850,649 and expenses were \$4,708,345. Governmental activities net assets increased by \$142,304 compared to an increase of \$175,431 in fiscal 2005. The percentage increase in General Fund revenues was 6.2%, while the percentage increase in General Fund expenses was 3.6% (see Figure A-4). This is the third year that the percentage increase in revenues was higher than the percentage increase in expenses, following four years where the opposite was true.

Figure A-4



The following table (A-5) presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

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

	Total Cost of Services	Net Cost of Services
Instruction	2,809	2,060
Support services	1,445	1,389
Other expenses	454	311
Total expenses	4,708	3,760

- The cost financed by users of the District's programs was \$439,148. Federal and state governments subsidized certain programs with grants and contributions totaling \$509,338. Both the total cost of services and the net cost of services increased by 2.5% over fiscal 2005. This means that user charges and operating grants and contributions funded the same percentage of services as fiscal 2005.
- The net cost of governmental activities was financed with \$2,053,477 in property and other taxes and \$1,733,218 in unrestricted state grants. The remaining \$115,468 in revenue came from interest, contributions, sales of equipment and other miscellaneous local sources.

Business Type Activities

Revenues for business type activities were \$204,494 and expenses were \$193,934. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements and investment income.

Net assets for business type activities increased by 23% over fiscal 2005.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$626,982, compared to last year's ending fund balances of \$525,329.

Governmental Fund Highlights

- The Capital Projects Fund ended fiscal 2006 with a balance of \$239,292, a 33% increase from fiscal 2005. The renovation of the middle school gym was in progress in June of 2006, but much of the expense of this project will fall in fiscal 2007. Sales tax revenues for Plymouth County continue to exceed projections contributing to increased reserves.
- The General fund balance increased by 0.6% ending at \$172,512. It was critical to the district's financial health to end the deficit spending of the past several years. The district is still below target balances, but the first goal of ending deficit spending has been met. An increase in the cash reserve levy helped the district to break even for fiscal 2006.
- The Debt Service fund balance decreased by 33%, compared to fiscal 2005. This is acceptable because the decrease was due to a reduction of long-term debt. The debt service fund should not carry large reserves; the purpose of the fund is to serve as a clearing fund for the collection and payment of funds to retire debt.
- The Physical Plant and Equipment Levy (PPEL) met the thresholds for major fund determination in fiscal 2006. It is shown separately on the Statement of Net Assets, whereas, previously it was included in Other Governmental Funds. PPEL fund balances continue to grow as the district sets aside money for some major facility renovations. The total PPEL fund balance increased 21% over fiscal 2005, including the increase in the fund balance designated for future facility work. The balance in the PPEL C.D. was \$96,263 at June 30, 2006.

- Other governmental funds include the Activity and Management funds. Property tax levies for the Management fund were again increased to allow a reserve for July payments. The district pays insurance costs and early retirement benefits in July and has to wait for property tax collection throughout the year. The potential payout for early retirement benefits is very large for the next several years. To avoid cash flow problems, the district finds it necessary to increase reserves in the Management fund. Activity fund balances increased by 7.5% compared to fiscal 2005.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$51,070 at June 30, 2005 to \$62,987 at June 30, 2006, representing an increase of approximately 23%. Average daily lunch counts and average daily breakfast counts increased slightly over fiscal 2005. Operating revenues increased by 1.9% and non-operating revenues remained about the same compared to fiscal 2005. Operating expenses increased by 2.3%. Overall, the nutrition fund has improved its financial health with an increase in net assets of \$11,917.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. This is referred to as the certified budget. The budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority. Beginning with fiscal 2007, districts are required to certify their budget on a GAAP basis to match year-end reporting. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. Over the course of the year, Kingsley-Pierson Community School District amended its annual budget one time to include additional fuel and maintenance costs as well as additional debt service and capital project expenditures that were unplanned at the time of budget certification.

The District's receipts were \$292,005 more than budgeted receipts, a variance of 6%. The variance was mostly in the local revenue sources. Local receipts of tuition and sales tax can vary from year to year and make up a significant portion of local revenue. The budget comparison for 2006 was still based on cash accounting methods that can be affected by the timing of tuition receipts as well. When certifying the budget, the district tries to estimate revenues conservatively, and this contributes to budget variances.

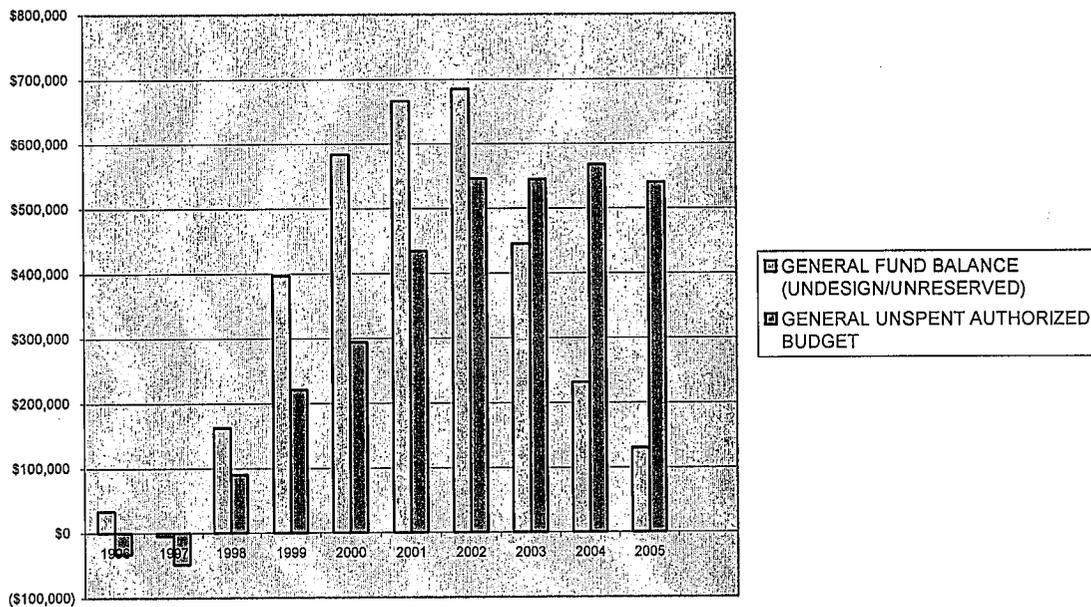
Total expenditures were \$201,416 less than budgeted, a variance of 4%. This percentage is equal to last year's percentage variance for budgeted expenditures. This is due again to conservative estimating. While the certified budget provides a tool for estimating revenues and expenditures, the District manages or controls spending through its line-item budget.

The other level of budgetary control is the "unspent (maximum) authorized budget" and pertains only to the General Fund of the District. The maximum authorized budget is the total "spending authority" in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the "actual General Fund cash". It is imperative for users of District financial information to make this important distinction.

The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the district.

The district's spending authority decreased by 4.9% from fiscal 2005. Spending authority can be preserved by asking the School Budget Review Committee for authority to fund special education deficits, increased enrollment and increased tuition costs due to open enrollment. Figure A-6 shows the district's cash (fund balance) compared to unspent balance over the last ten years. Final unspent authorized budget from fiscal 2006 will not be available until January, 2007.

Figure A-6



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$2.3 million, net of accumulated depreciation and associated debt, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-7) Depreciation expense for the year was \$261,218.

Figure A-7

	Original Cost of Capital Assets	Prior Years' Accum. Deprec.	Current Year Deprec.	Capital Assets less Depreciation 2006	Capital Assets less Depreciation 2005	% CHANGE
Land & Impr.	809,394	295,399	20,362	493,633	475,215	3.88%
Buildings & Impr.	6,999,695	1,897,346	168,814	4,933,535	5,047,158	-2.25%
Vehicles & Equip.	1,037,310	510,183	72,042	455,085	504,569	-9.81%
Constr. in Progress	-	-	-	91,918	-	100.00%
	8,846,399	2,702,928	261,218	5,974,171	6,026,942	-0.88%

The original cost of the District's capital assets was \$8.8 million. Accumulated depreciation for prior years was calculated at \$2.7 million. Buildings and building improvements account for 83% of capital assets, before reducing for long-term debt. When computing net capital assets, associated long-term debt is subtracted.

The value of the district's land increased by \$7,700 due to a property donation. Other land improvements included sidewalks and renovation of the baseball field. Building improvements included carpeting, replacing a roof, and a gym floor renovation. A new van was purchased and an old van was sold for \$250. The largest change is in the Construction in Progress category. At June 30, 2006, a major renovation of the Pierson gym was underway. The project included removing asbestos, replacing the flooring and bleachers, and creating a community exercise room. The value of all assets, less depreciation, decreased by 0.88% from fiscal 2005.

Long-Term Debt

At June 30, 2006, the District had \$3,720,000 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 2% from last year. (See Figure A-8)

In October 2000, the District's voters authorized the issuance of \$3,250,000 in general obligation bonds to pay for construction of a new middle school building and an addition to the Kingsley shop building. In May of 2006, the district issued advance-refunding bonds to take advantage of lower interest rates. The original bonds cannot be paid off until 2009. The refunding bond proceeds accrue interest in an escrow account that makes the principal and interest payments on the old bonds. The principal amount of the new bonds is \$2,880,000. Debt service on the refunding bonds will continue until 2020, but the refunding transaction will save the district \$102,627, most of which will be realized in fiscal 2007.

The District also had early retirement incentives payable on June 30, 2006 of \$2,965, down 90% from last year. Early retirement is generally paid out of the Management fund and is funded by a tax levy. Early retirement serves as a reward for long-term employees and also provides a way to reduce general fund expenses by replacing employees at the top of the pay scale with less experienced employees.

Figure A-8
Outstanding Long-Term Obligations
(Expressed in Thousands)

	Total District		% Change
	2006	2005	2005-2006
General obligation bonds	2,880	2,910	-1.0%
Revenue bonds	840	890	-5.6%
Early retirement	3	29	-89.7%
	3,723	3,829	-2.8%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The district's enrollment increased by 1 student or 0.2% for the 2007 budget year (current year's enrollment) and the state has set allowable growth at 4% for 2007-2008. This is good news for the district, considering many districts declined markedly.
- The district raised its cash reserve levy by \$201,807 or 264% for fiscal 2007. This was necessary to offset the 3.3% decline in enrollment last year (the 2006-2007 budget year). Cash reserves were already low from several years of deficit spending. Currently, it is projected that the general fund unspent balance for fiscal 2007 could be around \$100,000.
- Management property taxes were increased to build a reserve for potential early retirements. The district has many staff members that become eligible or are likely to retire within the next several years. Many districts are phasing out their early retirement plans because the intended impact of saving general fund dollars is being diminished by hard to fill positions and potential liability. Insurance is the other major expense funded by the management fund. Worker's compensation insurance premiums should decrease for fiscal 2008, due to relatively low claims for the last three years.
- In order to partially offset the 12% increase in the general fund levy rate and the 41% increase in the management levy rate, the district reduced its debt service levy by 48%. This was accomplished by issuing refunding bonds and reserving \$50,000 of sales tax money for transfer to debt service. While it may be possible to use sales tax money again, the refunding was a one-time reduction.

- Preschool class sizes indicate a small kindergarten class for 2008, possibly contributing to a decline in enrollment for the 2007-2008 school year.
- Legislation to increase IPERS contribution rates beginning on July 1, 2007 was enacted. Combined contributions for regular IPERS members will increase one-half percentage point per year for four years. Employers will pay 60% and employees will pay 40%. In the first year, it is projected that the district's additional expense will be around \$7,500, and this number will compound. By the end of the four-year period, the district will likely be spending an additional \$35,000 each year due to the increases.
- As resources are dwindling and expenses continue to increase, districts are exploring more sharing opportunities. Program sharing for high school vocational areas could provide some additional revenue to the district. Travel time and expense and scheduling conflicts among schools are potential roadblocks.
- Voters reauthorized the voted PPEL levy in September 2006 for 10 years up to 67 cents per \$1,000 of assessed valuation. This funding is critical for vehicle purchases and facility renovations. Each year the board can decide whether to levy a 33-cent board approved PPEL levy.
- Sales tax receipts continue to grow. Potential uses for the money continue to grow, also, as necessary renovations develop. The goal is to be able to save some of the sales tax money for general obligation debt service.

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 Audrey Bollin, District Secretary/Treasurer and Business Manager, Kingsley-Pierson Community School District, 322 Quest Ave, Kingsley, Iowa, 51028.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business Type Activity	Total
ASSETS			
Cash and Pooled Investments	\$ 1,118,289	\$ 36,647	\$ 1,154,936
Receivables:			
Property Tax	29,947		29,947
Succeeding Year Property Tax	1,893,275		1,893,275
Due from Other Governmental Agencies	94,604		94,604
Inventories		10,209	10,209
Prepaid Expenses	2,445		2,445
Restricted ISCAP Assets:			
Investments	445,380		445,380
Accrued Interest Receivable	139		139
Unamortized Bond Issuance Costs	50,176		50,176
Land	72,035		72,035
Construction in Progress	91,918		91,918
Infrastructure, Property and Equipment, Net of Accumulated Depreciation (Note 4)	5,794,087	16,131	5,810,218
Total Assets	<u>9,592,295</u>	<u>62,987</u>	<u>9,655,282</u>
LIABILITIES			
Payables:			
Accounts Payable	194,107		194,107
Other Payables	11,112		11,112
Deferred Revenue:			
Succeeding Year Property Tax	1,893,275		1,893,275
Accrued Wages and Benefits	408,750		408,750
Accrued Early Retirement	2,965		2,965
Accrued Interest Payable	34,176		34,176
ISCAP Liabilities:			
Warrants Payable	446,000		446,000
Unamortized Premium	3,394		3,394
Accrued Interest Payable	110		110
Unamortized Bond Issuance Premium	33,573		33,573
Long Term Debt Due Within One Year	150,000		150,000
Long Term Debt Due in More Than One Year	3,570,000		3,570,000
Total Liabilities	<u>6,747,462</u>	<u>-</u>	<u>6,747,462</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	2,238,040	16,131	2,254,171
Restricted for:			
Debt Service	10,008		10,008
Talented and Gifted Program	40,719		40,719
Unrestricted	556,066	46,856	602,922
Total Net Assets	<u>\$ 2,844,833</u>	<u>\$ 62,987</u>	<u>\$ 2,907,820</u>

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Charges for Services</u>
Governmental Activities:			
Instruction:			
Regular	\$ 1,954,718	\$ 231,343	
Special Programs	377,381	59,188	
Vocational	237,959		
Co-curricular	239,330		148,617
Support Services:			
Student Support	86,916		
Instructional Staff Support	128,999		
General Administration	372,184		
Building Administration	244,278		
Business Administration	66,039		
Operations and Maintenance	342,322		
Student Transportation	203,967		
Facilities Acquisition:			
Building Improvement Services	12,958		
Construction Services	6,633		
Equipment	10,269		
Debt Service:			
Services	631		
Interest	280,325		
Intergovernmental:			
AEA Flowthrough	143,436		
 Total governmental activities	 <u>4,708,345</u>		 <u>439,148</u>
 Business Type Activity			
School Nutrition Fund	193,934		120,038
 Total School District	 <u>\$ 4,902,279</u>		 <u>\$ 559,186</u>
 General Revenues:			
Property taxes			
Other taxes			
Interest on Investments			
State aid not restricted to specific programs			
Contributions			
Miscellaneous			
Sale of Equipment			
Transfers			
Total general revenues			
Change in net assets			
Net assets - beginning			
Net assets - ending			

See Accompanying Notes to Financial Statements

Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
Operating Grants Contributions	Capital Grants Contributions	Governmental Activities	Business Type Activity	Total
\$ 261,696		\$ (1,461,679)		\$ (1,461,679)
35,959		(282,234)		(282,234)
12,961		(224,998)		(224,998)
		(90,713)		(90,713)
		(86,916)		(86,916)
54,304		(74,695)		(74,695)
		(372,184)		(372,184)
		(244,278)		(244,278)
		(66,039)		(66,039)
		(342,322)		(342,322)
982		(202,985)		(202,985)
		(12,958)		(12,958)
		(6,633)		(6,633)
		(10,269)		(10,269)
		(631)		(631)
		(280,325)		(280,325)
143,436		-		-
509,338	-	(3,759,859)		(3,759,859)
82,728			\$ 8,832	8,832
\$ 592,066	\$ -	(3,759,859)	8,832	(3,751,027)
		1,695,699		1,695,699
		357,778		357,778
		34,481	502	34,983
		1,733,218		1,733,218
		23,837		23,837
		58,107		58,107
		400	1,226	1,626
		(1,357)	1,357	-
		3,902,163	3,085	3,905,248
		142,304	11,917	154,221
		2,702,529	51,070	2,753,599
		\$ 2,844,833	\$ 62,987	\$ 2,907,820

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
Governmental Funds
June 30, 2006

		General
Assets		
Cash and Pooled Investments	\$	619,269
Receivables:		
Property Tax		22,983
Future Property Tax		1,563,424
Due from Other Governmental Agencies		46,004
Prepaid Expenses		2,445
Restricted ISCAP Assets:		
Investments		445,380
Accrued Interest Receivable		139
Total Assets		2,699,644
Liabilities		
Payables:		
Accounts Payable		94,342
Other Payables		11,112
Deferred Revenue:		
Succeeding Year Property Tax		1,563,424
Accrued Wages		408,750
Accrued Early Retirement		
ISCAP Liabilities:		
Warrants Payable		446,000
Unamortized Premium		3,394
Accrued Interest Payable		110
Total Liabilities		2,527,132
Equity		
Fund Balances:		
Reserved for Debt Service		
Reserved for Talented and Gifted Program		40,719
Unreserved for:		
Designated, Special Revenue Fund		
Undesignated		131,793
Total Fund Balances		172,512
Total Liabilities and Equity	\$	2,699,644

See Accompanying Notes to Financial Statements

Capital Projects	Debt Service	Physical Plant and Equipment Levy	Other Governmental Funds	Total Governmental Funds
\$ 274,306	\$ 5,173	\$ 172,284	\$ 47,257	\$ 1,118,289
	4,835	492	1,637	29,947
48,600	157,464	31,737	140,650	1,893,275
				94,604
				2,445
				445,380
				139
<u>322,906</u>	<u>167,472</u>	<u>204,513</u>	<u>189,544</u>	<u>3,584,079</u>
83,614		12,512	3,639	194,107
				11,112
	157,464	31,737	140,650	1,893,275
				408,750
			349	349
				446,000
				3,394
				110
<u>83,614</u>	<u>157,464</u>	<u>44,249</u>	<u>144,638</u>	<u>2,957,097</u>
	10,008			10,008
				40,719
		96,263		96,263
239,292		64,001	44,906	479,992
<u>239,292</u>	<u>10,008</u>	<u>160,264</u>	<u>44,906</u>	<u>626,982</u>
<u>\$ 322,906</u>	<u>\$ 167,472</u>	<u>\$ 204,513</u>	<u>\$ 189,544</u>	

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

Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,958,040
Deferred revenues and accrued expenses from the balance sheet that provide current financial resources for governmental activities	(20,189)
Long-term liabilities net of debt service that are not reported in the funds	(3,720,000)
Net Assets of Governmental Activities	<u>\$ 2,844,833</u>

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2006

		General
Revenue:		
Local Sources	\$	1,656,701
State Appropriations		2,103,907
Federal Appropriations		141,077
Total Revenue		3,901,685
Expenditures:		
Governmental Activities:		
Instruction:		
Regular		1,942,697
Special Programs		377,381
Vocational		236,712
Co-curricular		88,757
Support Services:		
Student Support		84,380
Instructional Staff Support		92,947
General Administration		158,184
Building Administration		244,278
Business Administration		66,039
Operations and Maintenance		306,295
Student Transportation		159,909
Facilities Acquisition:		
Building Improvement Services		
Construction Services		
Equipment		
Debt Service:		
Services		
Principal		
Interest		
Intergovernmental:		
AEA Flowthrough		143,436
Total Expenditures		3,901,015
Excess (Deficiency) of Revenues Over Expenditures		670
Other Financing Sources (Uses):		
Proceeds from Bond Issue		
Premium on Refunding Bonds		
Refunded Bond Payments		
Sale of Equipment		400
Operating Transfers Out		
Total Other Financing Sources (Uses)		400
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses		1,070
Fund Balances (Deficit)-Beginning of Year		171,442
Fund Balances-End of Year	\$	172,512

See Accompanying Notes to Financial Statements

Capital Projects	Debt Service	Physical Plant and Equipment Levy	Other Governmental Funds	Total Governmental Funds
\$ 312,605	\$ 284,665	\$ 88,624	\$ 244,304	\$ 2,586,899
		52	173	2,104,132
				141,077
312,605	284,665	88,676	244,477	4,832,108
				1,942,697
				377,381
				236,712
			145,343	234,100
			2,536	86,916
			36,052	128,999
		385	12,477	171,046
				244,278
				66,039
		13,548	19,250	339,093
		19,975	10,402	190,286
149,563		6,237		155,800
21,179		4,736		25,915
		14,536		14,536
	50,807			50,807
50,000	130,000			180,000
32,670	237,360			270,030
				143,436
253,412	418,167	59,417	226,060	4,858,071
59,193	(133,502)	29,259	18,417	(25,963)
	2,880,000			2,880,000
	33,573			33,573
	(2,785,000)			(2,785,000)
				400
		(1,357)		(1,357)
-	128,573	(1,357)	-	127,616
59,193	(4,929)	27,902	18,417	101,653
180,099	14,937	132,362	26,489	525,329
\$ 239,292	\$ 10,008	\$ 160,264	\$ 44,906	\$ 626,982

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

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

Net change in fund balances - total governmental funds (page 23)	\$	101,653
Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current year.		(53,193)
Accrued Revenues not reported on modified accrual basis		13,844
The repayment of the principal of bonded long-term debt consumes the current financial resources of governmental funds without affecting the net assets. The statement of activities does not reflect the payment of principal on bonded long-term debt. The principal paid on bonded long-term debt, net of restricted assets, during the current year was:		<u>80,000</u>
Change in net assets of governmental activities (page 19)	\$	<u><u>142,304</u></u>

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
Proprietary Fund
June 30, 2006

		School Nutrition Fund
Assets		
Cash and Pooled Investments	\$	36,647
Inventories		10,209
Property and Equipment, Net of Accumulated Depreciation		16,131
Total Assets		<u>62,987</u>
Equity		
Invested in Capital Assets		16,131
Unrestricted		46,856
Total Equity	\$	<u>62,987</u>

See Accompanying Notes to Financial Statements

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

	School Nutrition Fund
Operating Revenues:	
Sales of lunches and breakfasts:	
Students	\$ 100,169
Adults	11,017
A la carte	7,350
Miscellaneous	1,502
	120,038
Total Operating Revenue	120,038
Operating Expenditures:	
Food Service Operations:	
Salaries	64,993
Benefits	11,680
Services	1,465
Supplies	113,635
Depreciation	2,161
	193,934
Total Operating Expenses	193,934
Operating Loss	(73,896)
Non-Operating Revenues :	
Interest Income	502
State Lunch and Breakfast Program Claims	2,801
National School Lunch Program	62,226
Food Distribution	17,701
Sale of Equipment	1,226
Operating Transfer In	1,357
	85,813
Total Non-Operating Revenues	85,813
Change in net assets	11,917
Net Assets-beginning	51,070
Net Assets-ending	\$ 62,987

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
Business Type Activity
For the Year Ended June 30, 2006

	School Nutrition Fund
Cash flows from operating activities:	
Cash received from sale of lunches and breakfast	\$ 118,536
Cash received from miscellaneous operating activities	1,502
Cash payments to employees for services	(76,673)
Cash payments to suppliers for goods and services	(114,461)
Net cash (used) by operating activities	(71,096)
Cash flows from noncapital financing activities:	
State grants received	2,801
Federal grants received	79,927
Net cash provided by noncapital financing activities	82,728
Cash flows from investing activities:	
Interest on investments	502
Net increase in cash and cash equivalents	12,134
Cash and pooled investments - beginning of year	24,513
Cash and pooled investments - end of year	36,647
Reconciliation of operating (loss) to net cash used in operating activities:	
Operating (loss)	(73,896)
Depreciation	2,161
Change in assets and liabilities:	
Decrease in Inventory	639
Net cash (used) in operating activities	\$ (71,096)
Supplemental schedule of noncash noncapital financing activities:	
Federal food commodities received	\$ 17,701

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies

The Kingsley-Pierson Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic areas served include the cities of Kingsley and Pierson, Iowa, and the predominant agricultural territory in Plymouth County. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

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

These financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) that apply to governmental units. All funds created under the authority of the State Code of Iowa, the operations of which are under the control of the District's governing body, and by financial reporting standards for governmental units are included herewith.

The Governmental Accounting Standards Board is responsible for establishing U.S. GAAP for state and local government through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in U.S. GAAP and used by the District are discussed below.

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

B. Basic Financial Statements- Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's general, special revenue, capital project, and debt service funds are classified as governmental activities. The District's school nutrition fund is classified as a business-type activity.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first uses restricted resources to finance qualifying activities.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

The Government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Fund Accounting

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into two types: governmental and proprietary. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The various funds reported in the financial statements are grouped into fund types as follows:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The following are the District's governmental funds.

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for the instructional and most of the support service programs of the District's operations. Revenue of the General Fund consists primarily of local property taxes and state government aid.

Special Revenue Fund – Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts, or for major capital projects) that are legally restricted for specified purposes. Each of the District's Special Revenue Funds has been established to reflect restricted revenue sources provided to school districts by the Iowa State Statutes. The funds included in this category and their purposes are as follows:

Management Fund – Accounts for a levy of eighty-seven cents per thousand dollars of assessed valuation in the district for insurance premiums, unemployment compensation insurance claims, and early retirement.

Physical Plant and Equipment Levy – Accounts for a voted property tax levy of twenty-six cents per thousand dollars of assessed valuation in the district, plus a three percent surtax. The levy is to be used in the purchasing of equipment and repairing and improving schoolhouse buildings and grounds.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Student Activity Fund – Accounts for student clubs and other activities not necessary to regular instruction services that are financed partly or entirely by admissions and student fund-raising activities.

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Fund – The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

PROPRIETARY FUND TYPES

Proprietary funds are used to account for the District's ongoing activities that are similar to those often found in the private sector, where the measurement focus is upon the flow of economic resources. The fund included in this category and its' purpose are as follows:

Enterprise Fund – The Enterprise Fund is used to account for operations: (a) which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The fund included in this category and its purpose is as follows:

School Nutrition Fund – Accounts for the food service operations of the District. It is the policy of the District to treat all direct food sales as operating revenues, and to treat all investment income and state and federal aid as nonoperating revenues.

MAJOR FUNDS

Major funds are those funds whose operations have a material impact on the operation of the government on the whole. They are presented separately from the other governmental funds. The General Fund is always a major fund. This year, the Capital Projects and Physical Plant and Equipment Levy Funds qualified for as a major fund, and the District requested that the Debt Service Fund be treated as a major fund.

D. Basis of Accounting/Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

All governmental fund types use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

Because of their flow of current financial resources measurement focus, expenditure recognition for governmental fund types is limited to exclude amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Those revenues susceptible to accrual are property taxes, interest revenue, and intergovernmental revenue (shared revenues, grants and reimbursements from other governments). Revenue from federal and state grants and similar programs are recognized when a District has done everything necessary to establish its right to the revenue. Usually this is at the time an expenditure has been incurred for an authorized purpose.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Propriety Fund type-operating statements present increases (e.g. revenue) and decreases (e.g. expenses) in net total assets. In reporting the financial activity of its proprietary funds, the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary fund types utilize the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Budgetary Accounting- 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 expendable trust funds 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.

E. Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash and Temporary Cash Investments – The cash balances of most District funds are pooled and invested. For purposes of the statement of cash flows, the proprietary fund type considers all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. Cash investments not meeting the definition of cash equivalents at June 30, 2006 included certificates of deposits of \$104,869 with original maturity dates longer than three months.

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes 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 Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recognized as revenue until the year for which it is levied.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 1 – Summary of Significant Accounting Policies (Continued)

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

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

Inventories – Inventory items are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Property and Equipment – Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed assets are reported at their fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The District's capitalization policy is \$3,000. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and structures	25 - 50 years
Machinery and equipment	5 - 10 years

During the year ended June 30, 2006, no interest costs were capitalized since the District's policy is not to capitalize interest costs on assets constructed or acquired with tax-exempt debt paid for from annual debt service tax levies.

Proprietary Fund – Proprietary fund type property and equipment is accounted for at historical costs or estimated historical costs where historical cost is not available. Contributed fixed assets are recorded at estimated fair market value at the date received.

The Proprietary Fund uses the same capitalization policy as the rest of the District. Accumulated depreciation is reported on the Proprietary Fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives for machinery and equipment are 10 years.

Accrued Payroll and Related Expenditures – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue 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 as well as delinquent property tax receivable and other receivables not collected within sixty days after year end, excluding grant receivables.

Compensated Absences – There is no liability for unpaid accumulated vacation or sick leave since the District does have a policy in which employees are required to use it or lose it. The District does not pay this amount when employees separate from service.

Designated Fund Balance – The District has designated a portion of its fund balance for cash flow as well as providing for a potential emergency.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 2 – Deposits and Investments

The School District's deposits 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 School 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had deposits with financial institutions with a carrying amount of \$1,050,068 and a bank balance of \$1,087,486. At June 30, 2006, its investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Iowa School Cash Anticipation Program 2005-2006 Series A	\$ 445,380	6/26/07	Unrated

Note 3 – Area Education Agency

The District is required by the Code of Iowa to budget for its share of the media and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$143,436 for the year ended June 30, 2006, and is recorded in the General Fund.

Note 4 – Capital Assets

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

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 64,335	\$ 7,700		\$ 72,035
Construction in Progress		91,918		91,918
Total capital assets not being depreciated	64,335	99,618		163,953
Capital assets being depreciated:				
Buildings	6,944,504	55,191		6,999,695
Improvements Other than Buildings	706,279	31,080		737,359
Furniture and Equipment	976,237	19,975	\$ 13,141	983,071
Total capital assets being depreciated	8,627,020	106,246	13,141	8,720,125
Less accumulated depreciation for:				
Buildings	1,897,346	168,814		2,066,160
Improvements Other than Buildings	295,399	20,362		315,761
Furniture and Equipment	487,377	69,881	13,141	544,117
Total accumulated depreciation	2,680,122	259,057	13,141	2,926,038
Total capital assets being depreciated, net	5,946,898	(152,811)	-	5,794,087
Governmental activities capital assets, net	\$ 6,011,233	\$ (53,193)	\$ -	\$ 5,958,040

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 4 – Capital Assets (Continued)

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-Type Activities:				
Furniture and Equipment	\$ 51,655	\$ 8,715	\$ 7,358	\$ 53,012
Less accumulated depreciation	35,946	2,161	1,226	36,881
Business-type activities capital assets, net	<u>\$ 15,709</u>	<u>\$ 6,554</u>	<u>\$ 6,132</u>	<u>\$ 16,131</u>

Depreciation expense was charged to functions as follows:

Governmental Activities:	
Regular Instruction	\$ 14,557
Vocational Instruction	1,247
Co-Curricular Instruction	5,230
General Administration/Multi-Functional	201,138
Operations and Maintenance	3,229
Transportation	<u>33,656</u>
Total depreciation expense – governmental activities	<u>\$ 259,057</u>
Business-Type Activities:	
Food Service Operations	<u>\$ 2,161</u>

Note 5 – Retirement System

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 that are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$147,748, \$139,422, and \$140,403, respectively, equal to the required contributions for each year.

Note 6 – Long-Term Debt

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

	General Obligation Bonds	Early Retirement	Local Option Sales Tax Bonds	Total
Balance beginning of year	\$ 2,910,000	\$ 28,618	\$ 890,000	\$ 3,828,618
Additions	2,880,000	9,189	-	2,889,189
Deletions	(2,910,000)	(34,842)	(50,000)	(2,994,842)
Balance end of year	<u>\$ 2,880,000</u>	<u>\$ 2,965</u>	<u>\$ 840,000</u>	<u>\$ 3,722,965</u>

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 6 – Long-Term Debt (Continued)

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-nine and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percentage of the applicant's current salary until the retiree reaches age 65.

The District adopted a new early retirement policy effective for fiscal years June 30, 2003, and thereafter. Eligible employees must be at least age fifty-nine and have not reached the age of sixty-six at retirement. Employees must have completed ten years of continuous service to the District and is actively employed during the last fiscal year prior to early retirement. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percentage of the applicant's current salary.

Early retirement benefits (including payroll taxes) paid during the year ended June 30, 2006 totaled \$34,842. The cost of early retirement payments expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

Details of the District's June 30, 2006 early retirement obligation are as follows:

<u>Ending June 30</u>	<u>Total</u>
2007	\$ 2,093
2008	<u>872</u>
Totals	<u>\$ 2,965</u>

Bonded Debt

During the current year, the District issued \$2,880,000 in general obligation bonds with an average interest rate of 4.13% to advance refund \$2,785,000 of outstanding 2000 Series bonds with an average interest rate of 5.29%. The net proceeds of \$2,866,540 (after payment of \$50,176 in underwriting fees, insurance, and other issue costs, and after receipt of \$36,959 in issuance premiums and interest income) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2000 Series bonds. As a result, the 2000 Series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$95,000. The District completed the advance refunding to reduce its total debt service payments over the next 14 years by \$102,627 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$92,238.

The new general obligation bond issue requires semi-annual payments every December and June through June 2020. Payments on the 2000 Series bonds will be made from the irrevocable trust account through June 2009, at which point the balance in the trust account will be used to pay the remaining principal on the 2000 Series bonds in full. In the case that the trust account is insufficient to cover the obligation at that time, the District will be responsible for the balance.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 6 – Long-Term Debt (Continued)

Bonded Debt (Continued)

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

Ending June 30	Principal	Interest	Total
2007	\$ 75,000	\$ 132,064	\$ 207,064
2008	160,000	118,718	278,718
2009	165,000	111,918	276,918
2010	175,000	104,905	279,905
2011	185,000	96,155	281,155
2012-2016	1,070,000	354,337	1,424,337
2017-2020	1,050,000	110,145	1,160,145
Totals	<u>\$ 2,880,000</u>	<u>\$ 1,028,242</u>	<u>\$ 3,908,242</u>

Local Option Sales Tax Bonds

In July 2004, the District completed a local option sales tax revenue bond issue for \$890,000. It requires semi-annual payments every January and July through July 2014, and the average interest rate over the life of the issue is 4.07%. The bond proceeds were intended for school infrastructure improvements, and future local option sales tax proceeds will be used to make payments on the issue.

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

Ending June 30	Principal	Interest	Total
2007	\$ 75,000	\$ 31,308	\$ 106,308
2008	85,000	29,212	114,212
2009	85,000	26,620	111,620
2010	90,000	23,618	113,618
2011	95,000	20,075	115,075
2012-2015	410,000	38,117	448,117
Totals	<u>\$ 840,000</u>	<u>\$ 168,950</u>	<u>\$ 1,008,950</u>

Note 7 – Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semi-annual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semi-annual period. ISCAP accounts for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co., N.A. is the trustee for the program. The accounts are reflected as restricted assets on the balance sheet.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

Note 7 – Iowa Schools Cash Anticipation Program (ISCAP) (Continued)

A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Date Warrant Reinvested	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-2007A	6/30/06	6/26/07	\$ 445,380	\$ 139	\$ 446,000	\$ 110

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was one ISCAP advance for the year of \$300,000 in September 2005, and it was repaid in October 2005 with \$98 interest.

The 2006-2007A Series warrants have an interest rate of 4.500%, and available proceeds of the warrants are invested at a rate of 5.676%.

Note 8 – Operating Leases

In August 2005, the District committed to a new non-cancelable operating lease for three copiers. The minimum monthly payment under the new lease is \$1,129. Future minimum operating lease commitments are as follows:

Year Ending June 30,	PPEL Fund
2007	\$ 13,548
2008	1,129
Totals	\$ 14,677

Rent expenditures were \$13,548 for the year ended June 30, 2006.

Note 9 – Risk Financing

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. During the year ended June 30, 2006 the District has elected to purchase commercial insurance to cover against the risk of loss. There were no settlements that exceeded insurance coverage during the past three years or any significant reductions in coverage.

Note 10 – Designated Fund Equity

Designations of equity are used to show the amounts within unreserved equity which are intended to be used for specific purposes, but are not legally restricted. Designated equity of \$96,263 in the Physical Plant and Equipment Levy Fund is intended for future roofing needs of the Kingsley Building.

REQUIRED SUPPLEMENTAL INFORMATION

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances-
Budget and Actual (Cash Basis)-
Governmental Funds and Proprietary Fund
Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Final Budget	Variance with budget Favorable (Unfavorable)
Receipts:					
Local Sources	\$ 2,620,389	\$ 120,540	\$ 2,740,929	\$ 2,454,268	\$ 286,661
State Sources	2,091,013	2,801	2,093,814	2,099,016	(5,202)
Federal Sources	148,840	62,226	211,066	200,520	10,546
Total Revenues	<u>4,860,242</u>	<u>185,567</u>	<u>5,045,809</u>	<u>4,753,804</u>	<u>292,005</u>
Expenditures:					
Instruction	2,815,793	-	2,815,793	2,890,759	74,966
Support Services	1,187,210	-	1,187,210	1,200,000	12,790
Non-Instructional Programs	-	173,433	173,433	189,918	16,485
Other Expenditures	634,151	-	634,151	731,326	97,175
Total Expenditures	<u>4,637,154</u>	<u>173,433</u>	<u>4,810,587</u>	<u>5,012,003</u>	<u>201,416</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>223,088</u>	<u>12,134</u>	<u>235,222</u>	<u>(258,199)</u>	
Other Financing Sources					
Sale of Equipment & Material	<u>400</u>	<u>-</u>	<u>400</u>	<u>-</u>	
Total Other Financing Sources	<u>400</u>	<u>-</u>	<u>400</u>	<u>-</u>	
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	<u>223,488</u>	<u>12,134</u>	<u>235,622</u>	<u>(258,199)</u>	
Fund Balance/Retained Earnings Beginning of Year	<u>883,689</u>	<u>24,513</u>	<u>908,202</u>	<u>894,286</u>	
Fund Balance/Retained Earnings End of Year	<u>\$ 1,107,177</u>	<u>\$ 36,647</u>	<u>\$ 1,143,824</u>	<u>\$ 636,087</u>	

See Accompanying Notes to Financial Statements

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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 disbursements in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$199,690.

There was one amendment made during the fiscal year ending June 30, 2006. The original budget by functional area, amendments, and the amended budget by functional area were as follows:

	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
Instruction	\$ 2,890,759		\$ 2,890,759
Student Support Services	1,123,972	\$ 76,028	1,200,000
Non-Instructional	189,918		189,918
Other Expenditures	607,664	123,662	731,326

A comparison of cash basis revenues, expenditures or expenses and changes in balance with the cash basis budget, which is legally controlled by functional areas, is presented here. Operations and ending fund balances on the cash and modified accrual or accrual basis have been reconciled as follows:

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>General</u>	<u>Modified Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 3,910,669	\$ (8,984)	\$ 3,901,685
Expenditures	3,860,118	40,897	3,901,015
Net	50,551	(49,881)	670
Other Financing Sources (Uses)	400	-	400
Beginning Fund Balance	557,206	(385,764)	171,442
Ending Fund Balance	<u>\$ 608,157</u>	<u>\$ (435,645)</u>	<u>\$ 172,512</u>

	<u>Governmental Fund Types</u>		
	<u>Cash Basis</u>	<u>Special Revenue</u>	<u>Modified Accrual Basis</u>
		<u>Accrual Adjustments</u>	
Revenues	\$ 245,184	\$ (707)	\$ 244,477
Expenditures	252,413	(26,353)	226,060
Net	(7,229)	25,646	18,417
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	54,486	(27,997)	26,489
Ending Fund Balance	<u>\$ 47,257</u>	<u>\$ (2,351)</u>	<u>\$ 44,906</u>

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

Governmental Fund Types

Physical Plant and Equipment Levy

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 89,347	\$ (671)	\$ 88,676
Expenditures	48,261	11,156	59,417
Net	41,086	(11,827)	29,259
Other Financing Sources (Uses)	-	(1,357)	(1,357)
Beginning Fund Balance	131,198	1,164	132,362
Ending Fund Balance	<u>\$ 172,284</u>	<u>\$ (12,020)</u>	<u>\$ 160,264</u>

Governmental Fund Types

Debt Service

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 282,046	\$ 2,619	\$ 284,665
Expenditures	286,451	131,716	418,167
Net	(4,405)	(129,097)	(133,502)
Other Financing Sources (Uses)	-	128,573	128,573
Beginning Fund Balance	9,578	5,359	14,937
Ending Fund Balance	<u>\$ 5,173</u>	<u>\$ 4,835</u>	<u>\$ 10,008</u>

Governmental Fund Types

Capital Projects

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 332,996	\$ (20,391)	\$ 312,605
Expenditures	189,911	63,501	253,412
Net	143,085	(83,892)	59,193
Other Financing Sources (Uses)	-	-	-
Beginning Fund Balance	131,221	48,878	180,099
Ending Fund Balance	<u>\$ 274,306</u>	<u>\$ (35,014)</u>	<u>\$ 239,292</u>

Governmental Fund Types

Total

	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
Revenues	\$ 4,860,242	\$ (28,134)	\$ 4,832,108
Expenditures	4,637,154	220,917	4,858,071
Net	223,088	(249,051)	(25,963)
Other Financing Sources (Uses)	400	127,216	127,616
Beginning Fund Balance	883,689	(358,360)	525,329
Ending Fund Balance	<u>\$ 1,107,177</u>	<u>\$ (480,195)</u>	<u>\$ 626,982</u>

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

	Proprietary Fund Type-Enterprise		
	Total		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 185,567	\$ 18,927	\$ 204,494
Expenditures	173,433	20,501	193,934
Net	12,134	(1,574)	10,560
Other Financing Sources (Uses)	-	1,357	1,357
Beginning Fund Balance	24,513	26,557	51,070
Ending Retained Earnings	\$ 36,647	\$ 26,340	\$ 62,987

SUPPLEMENTAL INFORMATION

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30, 2006

Schedule 1

Revenues:

Local Sources:

Local Tax:

Property Tax	1,294,502
Mobile Home Tax	859
	1,295,361

Other Local Sources:

Interest on Investments	20,935
Tuition from Other Districts	257,125
Miscellaneous	83,280
	361,340
	1,656,701

State Sources:

Foundation Aid-District's Share	1,726,780
Instructional Support State Aid	23,251
Educational Excellence Program:	
Phase I	46,006
Phase II	40,443
Vocational Education Aid	8,921
Revenue in Lieu of Taxes - Military Credit	2,428
Iowa Early Intervention Block Grant	35,075
AEA Flow-Through	143,436
Other State Aid	77,567
	2,103,907

Federal Sources:

Title I Grants to Local Educational Agencies	49,178
Teacher Quality Program	20,757
Innovative Education Program Strategies (Title VI Program)	3,000
Vocational Education - Basic Grants to States	4,040
Other	64,102
	141,077

Total Revenue

3,901,685

Expenditures:

Instruction:

Regular Program Instruction:

Salaries	1,373,060
Employee Benefits	403,977
Contractual Services	96,630
General Supplies	55,743
Equipment	610
Other	12,677
	1,942,697

Continued

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2005

Schedule 1 (Continued)

Expenditures (continued):

Instruction (continued):

Special Program Instruction:

Salaries	186,377
Employee Benefits	53,543
Contractual Services	135,845
General Supplies	1,396
Equipment	180
Other	40
	377,381

Vocational Program Instruction:

Salaries	157,377
Employee Benefits	58,412
Contractual Services	502
General Supplies	12,016
Equipment	7,096
Other	1,309
	236,712

Co-curricular Program Instruction and Sports:

Salaries	78,620
Employee Benefits	10,137
	88,757
Total Instruction	2,645,547

Support Services:

Student Support Services:

Salaries	57,338
Employee Benefits	19,563
Contractual Services	3,537
General Supplies	2,830
Other	1,112
	84,380

Instructional Staff Support Services:

Salaries	53,979
Employee Benefits	14,988
Contractual Services	5,305
General Supplies	3,460
Equipment	12,695
Other	2,520
	92,947

General Administration:

Salaries	94,218
Employee Benefits	27,184
Contractual Services	22,400
General Supplies	2,190
Equipment	350
Other	11,842
	158,184

Continued

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
Year Ended June 30, 2005

Schedule 1 (Continued)

Expenditures (continued):	
Support Services (continued):	
Building Administration:	
Salaries	183,890
Employee Benefits	49,824
Contractual Services	2,298
General Supplies	571
Equipment	203
Other	7,492
	244,278
Business Administration:	
Salaries	38,389
Employee Benefits	9,741
General Supplies	874
Other	17,035
	66,039
Operation and Maintenance Services:	
Salaries	119,321
Employee Benefits	29,480
Contractual Services	117,336
General Supplies	39,344
Equipment	198
Other	616
	306,295
Student Transportation:	
Salaries	73,883
Employee Benefits	11,724
Purchased Services	21,082
General Supplies	51,860
Other	1,360
	159,909
	1,112,032
Total Support Services	
Other Expenditures:	
AEA Flow-Through	143,436
	143,436
Total Expenditures	3,901,014
	3,901,014
(Deficiency) of Revenues Over Expenditures	670
	670
Other Financing Sources:	
Sale of Equipment	400
	400
(Deficiency) of Revenues and other Sources Over Expenditures	1,070
	1,070
Balance Beginning of Year	171,442
	171,442
Balance End of Year	172,512
	172,512

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
Governmental Nonmajor Special Revenue Funds
June 30, 2006

Schedule 2

	Management Levy	Student Activity	Total
Assets			
Cash and Pooled Investments	\$ 11,414	\$ 35,843	\$ 47,257
Receivables:			
Property Tax - Current Year	1,637		1,637
Property Tax - Succeeding Year	140,650		140,650
Total Assets	<u>153,701</u>	<u>35,843</u>	<u>189,544</u>
Liabilities			
Accounts Payable		3,639	3,639
Early Retirement Payable	349		349
Deferred Revenue - Succeeding Year Property Tax	140,650		140,650
Total Liabilities	<u>140,999</u>	<u>3,639</u>	<u>144,638</u>
Fund Balances:			
Unreserved, undesignated fund balance	12,702	32,204	44,906
Total Fund Balances	<u>12,702</u>	<u>32,204</u>	<u>44,906</u>
Total Liabilities and Equity	<u>\$ 153,701</u>	<u>\$ 35,843</u>	<u>\$ 189,544</u>

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
Governmental Nonmajor Special Revenue Funds
For the Year Ended June 30, 2006

Schedule 3

	Management Levy	Student Activity	Total
Revenue:			
Local Sources:			
Property Taxes	\$ 92,209		\$ 92,209
Mobile Home Taxes	61		61
Other Local Sources:			
Interest on Investments		\$ 845	845
Student Activities		143,525	143,525
Contributions and Donations from Private Sources		3,221	3,221
Refunds of Prior Year Expenditures	4,443		4,443
State Sources:			
Revenue in Lieu of Taxes - Military Credit	173		173
Total Revenue	96,886	147,591	244,477
Expenditures:			
Instruction:			
Co-curricular Instruction		145,343	145,343
Support Services:			
Student Support Services	2,536		2,536
Instructional Staff Support Services	36,052		36,052
General Administration	12,477		12,477
Operations and Maintenance	19,250		19,250
Student Transportation	10,402		10,402
Total Expenditures	80,717	145,343	226,060
Excess (Deficiency) of Revenues Over Expenditures	16,169	2,248	18,417
Fund Balances (Deficits) - Beginning of Year	(3,467)	29,956	26,489
Fund Balances (Deficits) - End of Year	\$ 12,702	\$ 32,204	\$ 44,906

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Schedule of Individual Student Activity Account Activity
For the Year Ended June 30, 2006

					Schedule 4
	Balance				Balance
	June 30,	Revenues	Expenditures	Transfers	June 30,
	2005				2006
Kingsley Accounts					
Athletics	\$ 4,872	\$ 50,602	\$ 48,444	\$ (5,139)	\$ 1,891
K-P Letterman's Club	81	-	-	(81)	-
Children's Theater	308	-	-	-	308
Christian Athletes	(10)	75	63	-	2
Dance Team	849	5,989	6,608	-	230
F.F.A.	327	12,684	12,290	-	721
General Fund	(2,582)	734	-	7,157	5,309
Homemaking Fund	301	390	372	-	319
National Honor Society	-	2,558	2,084	181	655
Student Insurance	-	946	946	-	-
Music Fund	1,831	8,984	9,737	-	1,078
Musical	817	2,638	2,714	-	741
PEP	(1,451)	2,347	1,092	197	1
Pictures	-	20	20	-	-
Softball	2,746	6,856	6,397	(1,513)	1,692
Spanish Club	47	-	-	(47)	-
Speech/Drama	1,293	203	145	-	1,351
Student Council	2,597	11,868	11,369	(182)	2,914
Revolving	330	2,809	2,637	(502)	-
Class of 2004	278	-	-	(278)	-
Class of 2005	1,800	825	2,782	157	-
Class of 2006	3,551	6,730	7,355	50	2,976
Class of 2007	914	14,517	12,186	-	3,245
Class of 2008	144	2,675	1,607	-	1,212
Class of 2009	-	205	3	-	202
	19,043	134,655	128,851	-	24,847
Pierson Accounts:					
Athletics	10,913	12,936	16,492	-	7,357
Total for Activity Funds	\$ 29,956	\$ 147,591	\$ 145,343	\$ -	\$ 32,204

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Comparison of Taxes and Intergovernmental Revenues
For the Years Ended June 30, 2006, 2005, 2004, 2003

Schedule 5

	Modified Accrual Basis of Accounting			
	2006	2005	2004	2003
Local Sources:				
Property Taxes	\$ 1,693,841	\$ 1,630,054	\$ 1,684,420	\$ 1,640,575
Utility Tax Replacement Excise Tax	-	51,303	46,378	41,743
Mobile Home Taxes	1,119	1,236	1,051	1,086
Surtax	46,370	44,241	48,026	42,904
Local Sales and Services Tax	308,980	264,292	103,938	86,218
	<u>2,050,310</u>	<u>1,991,126</u>	<u>1,883,813</u>	<u>1,812,526</u>
State Sources:				
State Foundation Aid	1,726,780	1,666,645	1,449,110	1,407,323
Shelter Care/Juvenile Home Aid	6,348	-	9,636	3,542
Instructional Support State Aid	18,696	18,501	16,295	17,263
Lunch and Breakfast Program Claims	2,801	3,068	2,875	2,944
Educational Excellence Program:				
Phase I	46,006	46,006	45,664	46,006
Phase II	40,443	40,021	39,310	40,197
Phase III	-	-	-	9,988
Vocational Education Aid	8,921	12,174	10,289	12,513
Revenue in Lieu of Taxes - Military Credit	3,167	1,403	1,366	1,122
Iowa Early Intervention Block Grant	35,075	29,213	31,584	26,331
AEA Flow-Through	143,436	138,143	134,400	140,870
Other State Aid	75,774	45,152	43,554	31,730
	<u>2,107,447</u>	<u>2,000,326</u>	<u>1,784,083</u>	<u>1,739,829</u>
Federal Sources:				
Title I	49,178	53,857	54,220	54,307
Innovative Education Program Strategies (Title VI Program)	3,000	3,090	2,988	5,159
Vocational Education	4,040	3,163	27,490	28,621
National School Lunch Fund	62,226	62,515	56,283	50,909
Food Distribution	17,701	19,352	20,759	27,250
Other Federal Aid	84,859	78,343	72,863	71,555
	<u>221,004</u>	<u>220,320</u>	<u>234,603</u>	<u>237,801</u>
Total	<u>4,378,761</u>	<u>\$ 4,211,772</u>	<u>\$ 3,902,499</u>	<u>\$ 3,790,156</u>



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of the
Kingsley-Pierson Community School District

We have audited the financial statements of the KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2006, and have issued our report thereon dated August 11, 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.

Compliance:

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

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the 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.

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered Kingsley-Pierson Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 Kingsley-Pierson Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-06.

A material weakness is a 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 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, we believe II-A-06 is a material weakness.

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

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

Williams + Company, P.C.
Certified Public Accountants

Sioux City, Iowa
August 11, 2006

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was 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.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

There were no prior year audit findings.

REPORTABLE CONDITIONS:

II-A-06 Financial Accounting – Segregation of Duties

- A. Observation – The School District accountant is involved in almost all phases of the finance operations, including check preparation, preparation of journal entries, as well as financial reporting and statements. We did note that the accountant is not involved with the receipt of any cash or checks and that invoices/claims are not paid until reviewed by the superintendent. We also noted that the financial reporting is under the direction of the superintendent.

Recommendation – With a limited number of personnel, segregation of duties is difficult. The School District has implemented management review procedures which we feel aid in improving the internal controls of the School District. However, we comment that this weakness exists and the duties of the accountant should be continually monitored by management.

Response – The District feels that additional personnel would not be cost effective. However, management will continue to monitor transactions on a regular basis.

Conclusion – Response accepted.

KINGSLEY-PIERSON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories – A resolution naming official depositories has been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.
- III-B-06 Certified Budget – Disbursements for the year ended June 30, 2006 did not exceed amounts budgeted.
- III-C-06 Questionable Disbursements – No disbursements were noted that they may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- III-D-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.
- III-E-06 Business Transactions – There were no business transactions between the District and District officials or employees during the year ended June 30, 2006.
- III-F-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.
- III-G-06 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- III-H-06 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- III-I-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.
- III-J-06 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.