

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of
Manson Northwest Webster Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated October 31, 2006, on our consideration of Manson Northwest Webster Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Manson Northwest Webster Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2004, (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Manson Northwest Webster 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.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$7,878,835 in fiscal 2005 to \$6,454,174 in fiscal 2006, while General Fund expenditures decreased from \$8,115,527 in fiscal 2005 to \$5,804,345 in fiscal 2006. The District's General Fund balance increased from \$292,979 in fiscal 2005 to \$942,808 in fiscal 2006.
- The decrease in General Fund revenues and expenditures was the result of removing flow-through funds between client districts and Rabiner Treatment Center from the District's General Fund to an agency fund for RTC. This discrepancy may be noted in several reports and reflects the large amount of dollars flowing through the District between client districts and RTC.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

Figure A-1
Manson Northwest Webster Community School District Annual Financial Report

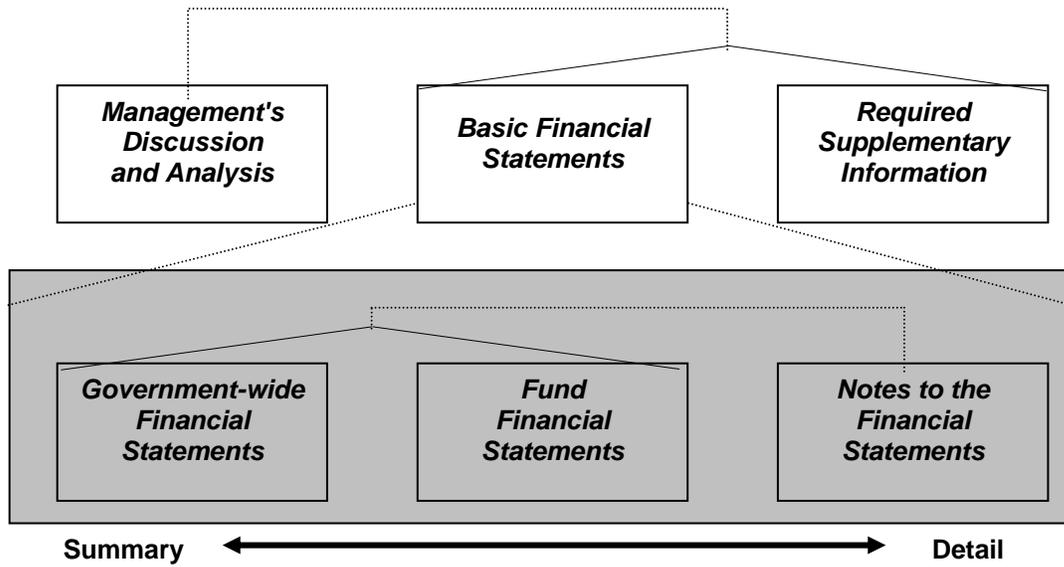


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • 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 three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has the following Enterprise Funds; the School Nutrition Fund, Building Trades and Preschool Funds. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District current has one internal service fund used to account for the District's employee flexible benefit plan.

- 3) 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.
- 4) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
 - Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts such as the Calhoun County Schools account used for county music festivals.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District’s net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	5,787,109	6,782,138	65,396	61,252	5,852,505	6,843,390	16%
Capital assets	1,843,323	1,942,142	19,388	14,074	1,862,711	1,956,216	5%
Total assets	7,630,432	8,724,280	84,784	75,326	7,715,216	8,799,606	14%
Long-term liabilities	151,409	100,062	-	-	151,409	100,062	34%
Other liabilities	4,573,484	4,912,596	21,712	26,649	4,595,196	4,939,245	7%
Total liabilities	4,724,893	5,012,658	21,712	26,649	4,746,605	5,039,307	6%
Net Assets:							
Invested in capital assets, net of related debt	1,843,323	1,942,142	19,388	14,074	1,862,711	1,956,216	5%
Restricted	586,232	563,540	-	-	586,232	563,540	4%
Unrestricted	475,984	1,205,940	43,684	34,603	519,668	1,240,543	139%
TOTAL NET ASSETS	2,905,539	3,711,622	48,677	48,677	2,968,611	3,760,299	27%

The District's combined net assets increased by nearly 27%, or approximately \$791,688, over the prior year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Governmental Capital Assets include district facilities that have been depreciated for 30 years of a 50 year life. The figure of \$1,942,142 does not reflect their actual worth or replacement cost as carried on our property insurance.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$22,696 or 4% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased approximately \$720,875, or 139%. The increase in unrestricted net assets appears to be due to the removal of Rabiner Treatment Center transactions into an Agency Fund for fiscal 2006.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	2,402,548	897,713	392,081	396,667	2,794,629	1,294,380	(54%)
Operating grants & contributions	767,315	683,197	110,701	104,447	878,016	787,644	(10%)
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							
Property taxes	2,468,109	2,299,414	-	-	2,468,109	2,299,414	(7%)
Income Surtax	326,389	341,915	-	-	326,389	341,915	5%
Local option sales tax	340,181	385,242	-	-	340,181	385,242	13%
Unrestricted state grants	2,451,493	2,613,045	-	-	2,451,493	2,613,045	7%
Unrestricted investment earnings	5,281	102,887	1,426	2,087	6,707	104,974	1,465%
Other revenue	(8,289)	6,242	-	-	(8,289)	6,242	-
Total Revenues	8,753,027	7,329,655	504,208	503,201	9,257,235	7,832,856	15%
Expenses:							
Instruction	6,264,027	3,841,686	-	-	6,264,027	3,841,686	(39%)
Support services	2,103,937	2,166,895	-	-	2,103,937	2,166,895	3%
Non-instructional programs	-	-	544,320	517,596	544,320	517,596	(5%)
Other expenditures	445,877	514,991	-	-	445,877	514,991	16%
Total expenses	8,813,841	6,523,572	544,320	517,596	9,358,161	7,041,168	(25%)
Change in net assets before transfers	(60,814)	806,083	(40,112)	(14,395)	(100,926)	791,688	
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	(60,814)	806,083	(40,112)	(14,395)	(100,926)	791,688	153%
Net assets beginning of year	2,966,353	2,905,539	103,184	63,072	3,069,537	2,968,611	(3%)
Net assets end of year	2,905,539	3,711,622	63,072	48,677	2,968,611	3,760,299	27%

Property tax and unrestricted state grants account for 53% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,329,655 and expenses were \$6,523,572. In a difficult budget year, the District was nearly able to balance the budget by trimming expenses to match available revenues, with a shortfall of \$(60,814).

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses. The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost of Services 2006 \$	Net Cost of Services 2005 \$	Net Cost Of Services 2006 \$
Instruction	6,264,027	3,841,686	3,345,949	2,689,149
Support Services	2,103,937	2,166,895	2,082,119	1,970,943
Non-instructional Programs	-	-	-	-
Other Expenses	445,877	514,991	215,910	282,570
TOTAL	8,813,841	6,523,572	5,643,978	4,942,662

- The cost financed by users (fees generated by activities and intergovernmental aid provided for specific programs) of the District's programs was \$897,713.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$683,197.
- The net cost of governmental activities was financed with \$3,026,571 in property and other taxes and \$2,613,045 in unrestricted state grants.
- District taxpayers and the taxpayers of Iowa financed \$5,639,616 of District costs.

Business Type Activities

Revenues for business type activities were \$503,201 and expenses were \$517,596. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. During the year ended June 30, 2005, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Manson Northwest Webster School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,571,944, an increase of \$638,579 above last year's combined ending fund balance of \$933,365.

Governmental Fund Highlights

The data discussed in this section is on Exhibits C and E of the audited financial statements. The detail of Nonmajor funds in this discussion is on Schedules 1 and 2 of the audited financial statements.

- The District's General Fund financial position improved immensely over the previous year. Although the district receives little or no new money, any increases in expenditures have been offset by cuts in personnel and programs. Removing Rabiner Treatment Center from District funds appears to have adjusted both the General Fund and Unspent Balance upward.
- The General Fund balance increased from \$292,979 to \$942,808.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$224,646 in fiscal 2005 to \$99,948 in fiscal 2006. This is due to the District's abandoning the voted PEEL of \$.67 during the campaign for the SILO.
- The District Capital Projects fund for Fiscal 2006 ended with a balance of \$382,247.
- **Proprietary Fund Highlights**

Information comes from Exhibits G-H of the audited financial statements.

School Nutrition Fund net assets decreased from \$37,037 at June 30, 2005 to \$14,871 at June 30, 2006, representing a decrease of approximately 60%. Although some of this discrepancy is due to the timing of reimbursement from the Federal government, an increase in lunch prices has implemented for 2007.

BUDGETARY HIGHLIGHTS

Over the course of the year, Manson Northwest Webster School District amended its annual budget to reflect additional expenditures relative to Instruction (Rabiner Treatment Center) and Non-Instructional Support (the construction costs of the house being constructed in Building Trades class). The budget for Total Support Services was also amended to allow for increased expenditures above previous estimates.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$7,834,337, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 19% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$257,037.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	0	0	-	-	0	0	0%
Buildings	4,945,223	5,111,934	-	-	4,945,223	5,111,934	3%
Improvements	390,192	392,164	-	-	390,192	392,164	1%
Equipment & Furniture	2,259,802	2,218,993	229,120	240,439	2,488,922	2,218,993	(11%)
TOTAL	7,605,217	7,733,091	229,120	240,439	7,834,337	7,492,714	(1%)

Long-Term Debt

At June 30, 2005, the District had \$100,062 in early retirement long-term debt outstanding. This represents a decrease of approximately 34% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
Early Retirement	151,409	100,062	(34%)

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:

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 5.1 students from 707.7 to 702.6 students. This drop in enrollment will decrease the District's funding for fiscal year 2007.

- Although the decline was less than in previous years, the District has experienced declining enrollment for the past four years and projects a continued decrease for the next five years. Meeting the subsequent decline in budget may require the closure of one attendance center and the continued reduction in staff according to student needs.

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 Mark Egli, Superintendent, Manson Northwest Webster Community School District, 1227 16th Street, Manson, IA 50563.

BASIC FINANCIAL STATEMENTS

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	1,490,935	-	1,490,935
Other	1,939,165	58,500	1,997,665
Receivables:			
Property tax:			
Delinquent	20,225	-	20,225
Succeeding year	2,537,579	-	2,537,579
Accounts	360,107	1,110	361,217
Accrued interest:			
ISCAP	12,798	-	12,798
Due from other governments	421,329	-	421,329
Inventories	-	1,642	1,642
Capital assets, net of accumulated depreciation	1,942,142	14,074	1,956,216
Total assets	8,724,280	75,326	8,799,606
Liabilities			
Accounts payable	387,893	959	388,852
Salaries and benefits payable	474,638	21,786	496,424
Deferred revenue:			
Succeeding year property tax	2,537,579	-	2,537,579
Other	-	3,904	3,904
ISCAP warrants payable	1,490,000	-	1,490,000
ISCAP accrued interest payable	11,988	-	11,988
ISCAP premium	10,498	-	10,498
Long-term liabilities:			
Portion due within one year:			
Early retirement	38,300	-	38,300
Portion due after one year:			
Early retirement	61,762	-	61,762
Total liabilities	5,012,658	26,649	5,039,307
Net assets			
Invested in capital assets, net of related debt	1,942,142	14,074	1,956,216
Restricted for:			
Physical plant and equipment levy	99,948	-	99,948
Other special revenue purposes	81,345	-	81,345
Local option sales tax capital projects	382,247	-	382,247
Unrestricted	1,205,940	34,603	1,240,543
Total net assets	3,711,622	48,677	3,760,299

See notes to financial statements.

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
			\$	\$
Governmental activities:				
Instruction:				
Regular instruction	2,452,230	604,356	179,630	-
Special instruction	487,026	65,099	65,351	-
Other instruction	902,430	225,373	12,728	-
	<u>3,841,686</u>	<u>894,828</u>	<u>257,709</u>	<u>-</u>
Support services:				
Student services	105,530	-	2,037	-
Instructional staff services	297,346	-	173,085	-
Administration services	732,990	-	-	-
Operation and maintenance of plant services	634,814	2,885	-	-
Transportation services	396,215	-	17,945	-
	<u>2,166,895</u>	<u>2,885</u>	<u>193,067</u>	<u>-</u>
Non-instructional programs	-	-	-	-
Other expenditures:				
Facilities acquisition	139,858	-	-	-
AEA flowthrough	232,421	-	232,421	-
Depreciation (unallocated)*	142,712	-	-	-
	<u>514,991</u>	<u>-</u>	<u>232,421</u>	<u>-</u>
Total governmental activities	<u>6,523,572</u>	<u>897,713</u>	<u>683,197</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	293,360	166,020	104,447	-
Building trades	209,373	212,242	-	-
Preschool	14,863	18,405	-	-
Total business-type activities	<u>517,596</u>	<u>396,667</u>	<u>104,447</u>	<u>-</u>
Total	<u>7,041,168</u>	<u>1,294,380</u>	<u>787,644</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Net (Expense) Revenue and Changes in Net

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,668,244)	-	(1,668,244)
(356,576)	-	(356,576)
(664,329)	-	(664,329)
<u>(2,689,149)</u>	<u>-</u>	<u>(2,689,149)</u>
(103,493)	-	(103,493)
(124,261)	-	(124,261)
(732,990)	-	(732,990)
(631,929)	-	(631,929)
(378,270)	-	(378,270)
<u>(1,970,943)</u>	<u>-</u>	<u>(1,970,943)</u>
-	-	-
(139,858)	-	(139,858)
-	-	-
<u>(142,712)</u>	<u>-</u>	<u>(142,712)</u>
<u>(282,570)</u>	<u>-</u>	<u>(282,570)</u>
<u>(4,942,662)</u>	<u>-</u>	<u>(4,942,662)</u>
-	(22,893)	(22,893)
-	2,869	2,869
-	3,542	3,542
-	<u>(16,482)</u>	<u>(16,482)</u>
<u>(4,942,662)</u>	<u>(16,482)</u>	<u>(4,959,144)</u>
2,237,108	-	2,237,108
62,306	-	62,306
341,915	-	341,915
385,242	-	385,242
2,613,045	-	2,613,045
102,887	2,087	104,974
6,242	-	6,242
<u>5,748,745</u>	<u>2,087</u>	<u>5,750,832</u>
806,083	(14,395)	791,688
<u>2,905,539</u>	<u>63,072</u>	<u>2,968,611</u>
<u>3,711,622</u>	<u>48,677</u>	<u>3,760,299</u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	1,490,935	-	1,490,935
Other	1,306,845	631,270	1,938,115
Receivables:			
Property tax:			
Delinquent	18,372	1,853	20,225
Succeeding year	2,305,953	231,626	2,537,579
Accounts	359,752	355	360,107
Accrued interest - ISCAP	12,798	-	12,798
Due from other governments	312,778	108,551	421,329
Total assets	<u>5,807,433</u>	<u>973,655</u>	<u>6,781,088</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	275,000	112,893	387,893
Salaries and benefits payable	474,638	-	474,638
ISCAP warrants payable	1,490,000	-	1,490,000
ISCAP accrued interest payable	11,988	-	11,988
ISCAP premium	10,498	-	10,498
Deferred revenue:			
Succeeding year property tax	2,305,953	231,626	2,537,579
Other	296,548	-	296,548
Total liabilities	<u>4,864,625</u>	<u>344,519</u>	<u>5,209,144</u>
Fund balances:			
Unreserved reported in:			
General fund	942,808	-	942,808
Special revenue funds	-	246,889	246,889
Capital projects funds	-	382,247	382,247
Total fund balances	<u>942,808</u>	<u>629,136</u>	<u>1,571,944</u>
Total liabilities and fund balances	<u>5,807,433</u>	<u>973,655</u>	<u>6,781,088</u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	1,571,944
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,942,142
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	296,548
An internal service fund is used by the District's management to charge the costs of the flex spending plan to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	1,050
Long-term liabilities, including early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(100,062)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,711,622</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund \$	Nonmajor Governmental Funds \$	Total \$
Revenues:			
Local sources:			
Local tax	2,430,591	578,852	3,009,443
Tuition	334,435	-	334,435
Other	395,088	279,358	674,446
State sources	3,142,837	145	3,142,982
Federal sources	151,223	-	151,223
Total revenues	<u>6,454,174</u>	<u>858,355</u>	<u>7,312,529</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	2,454,852	56,748	2,511,600
Special instruction	487,026	-	487,026
Other instruction	666,303	220,009	886,312
	<u>3,608,181</u>	<u>276,757</u>	<u>3,884,938</u>
Support services:			
Student services	117,930	-	117,930
Instructional staff services	263,751	33,807	297,558
Administration services	732,644	-	732,644
Operation and maintenance of plant services	544,044	93,321	637,365
Transportation services	305,374	78,815	384,189
	<u>1,963,743</u>	<u>205,943</u>	<u>2,169,686</u>
Other expenditures:			
Facilities acquisition	-	386,905	386,905
AEA flowthrough	232,421	-	232,421
	<u>232,421</u>	<u>386,905</u>	<u>619,326</u>
Total expenditures	<u>5,804,345</u>	<u>869,605</u>	<u>6,673,950</u>
Net change in fund balances	649,829	(11,250)	638,579
Fund balances beginning of year	<u>292,979</u>	<u>640,386</u>	<u>933,365</u>
Fund balances end of year	<u><u>942,808</u></u>	<u><u>629,136</u></u>	<u><u>1,571,944</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		638,579

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:

Expenditures for capital assets	355,856	
Depreciation expense	<u>(257,037)</u>	98,819

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

17,126

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

Early retirement		51,347
------------------	--	--------

An internal service fund is used by the District's management to charge the costs of the flex benefit plan to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

<u>212</u>

Changes in net assets of governmental activities (Exhibit B)

<u><u>806,083</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor Enterprise Funds \$	Governmental Activities - Internal Service Fund \$
Assets		
Cash and cash equivalents	58,500	1,050
Accounts receivable	1,110	-
Inventories	1,642	-
Capital assets, net of accumulated depreciation	14,074	-
Total assets	<u>75,326</u>	<u>1,050</u>
Liabilities		
Accounts payable	959	-
Salaries and benefits payable	21,786	-
Deferred revenue	3,904	-
Total liabilities	<u>26,649</u>	<u>-</u>
Net assets		
Invested in capital assets, net of related debt	14,074	-
Unrestricted	34,603	1,050
Total net assets	<u><u>48,677</u></u>	<u><u>1,050</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor Enterprise Funds \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	396,667	22,072
Operating expenses:		
Non-instructional programs:		
Salaries	128,269	-
Benefits	17,943	21,860
Purchased services	4,031	-
Supplies	362,039	-
Depreciation	5,314	-
	<u>517,596</u>	<u>21,860</u>
Operating gain (loss)	<u>(120,929)</u>	<u>212</u>
Non-operating revenue:		
State sources	4,247	-
Federal sources	100,200	-
Interest income	2,087	-
Total non-operating revenue	<u>106,534</u>	<u>-</u>
Change in net assets	(14,395)	212
Net assets beginning of year	<u>63,072</u>	<u>838</u>
Net assets end of year	<u><u>48,677</u></u>	<u><u>1,050</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	171,060	-
Cash received from building trades and preschool	231,017	22,072
Cash payments to employees for services	(142,057)	-
Cash payments to suppliers for goods or services	(347,437)	(21,860)
Net cash used by operating activities	<u>(87,417)</u>	<u>212</u>
Cash flows from non-capital financing activities:		
State grants received	4,247	-
Federal grants received	84,814	-
Net cash provided by non-capital financing activities	<u>89,061</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>2,087</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	3,731	212
Cash and cash equivalents at beginning of year	<u>54,769</u>	<u>838</u>
Cash and cash equivalents at end of year	<u><u>58,500</u></u>	<u><u>1,050</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:		
Operating gain (loss)	(120,929)	212
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	15,386	-
Depreciation	5,314	-
Decrease (increase) in inventories	2,295	-
Decrease (increase) in accounts receivable	5,580	-
(Decrease) increase in accounts payable	952	-
(Decrease) increase in salaries and benefits payable	4,155	-
(Decrease) increase in deferred revenue	(170)	-
Net cash used in operating activities	<u>(87,417)</u>	<u>212</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$15,386 of federal commodities.

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship \$	Agency \$
Assets		
Cash and pooled investments	28,997	1,008
Accrued interest receivable	179	-
Due from other governments	-	366,262
	<u>29,176</u>	<u>367,270</u>
Total assets		
	<u>29,176</u>	<u>367,270</u>
Liabilities		
Accounts payable	-	6,509
Other payables	-	360,761
	<u>-</u>	<u>367,270</u>
Total liabilities		
	<u>-</u>	<u>367,270</u>
Net Assets		
Reserved for scholarships	<u>29,176</u>	<u>-</u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	1,211
Interest	968
Total additions	<u>2,179</u>
Deductions:	
Support services:	
Scholarships awarded	<u>1,550</u>
Change in net assets	629
Net assets beginning of year	<u>28,547</u>
Net assets end of year	<u><u>29,176</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Manson Northwest Webster Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Manson, Barnum, Clare, and Knierim, Iowa and the predominately agricultural territory in a portion of Pocahontas, Webster and Calhoun Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The District's proprietary funds are the Enterprise, School Nutrition, Building Trades, and Preschool Funds. The School Nutrition Fund is used to account for the food service operations of the District. The Building Trades Fund is used to account for student building projects and the Preschool Fund is used to account for the preschool operations of the District.

The District's Internal Service Fund is also reported as a proprietary fund. The Internal Service Fund is used to account for the District's flex spending plan.

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

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the

current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable

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

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	1,500
Buildings	1,500
Improvements other than buildings	1,500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-7 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

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

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures did not exceed the amount budgeted.

2. **Cash and Pooled Investments**

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

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

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	143,140

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

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

3. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School 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 semiannual 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 semiannual period. ISCAP accounts are maintained 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. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	618,150	12,527	616,000	11,772
2006-07A	6/28/06	6/28/07	872,785	271	874,000	216
Total			<u>1,490,935</u>	<u>12,798</u>	<u>1,490,000</u>	<u>11,988</u>

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. ISCAP advance activity in the General Fund for the year ended June 30, 2006, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2005-06A	4.000	3.903
2005-06B	4.500	4.772
2006-07A	4.500	5.676

4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Land	10,000	-	-	10,000
Capital assets being depreciated:				
Buildings	4,945,223	180,598	13,887	5,111,934
Improvements other than buildings	390,192	43,532	41,560	392,164
Furniture and equipment	2,259,802	119,542	160,351	2,218,993
Total capital assets being deprec.	<u>7,595,217</u>	<u>343,672</u>	<u>215,798</u>	<u>7,723,091</u>
Less accumulated depreciation for:				
Buildings	3,568,396	120,685	5,997	3,683,084
Improvements other than buildings	321,331	15,943	41,560	295,714
Furniture and equipment	1,872,167	120,409	180,425	1,812,151
Total accumulated depreciation	<u>5,761,894</u>	<u>257,037</u>	<u>227,982</u>	<u>5,790,949</u>
Total capital assets being depreciated, net	<u>1,833,323</u>	<u>86,635</u>	<u>(12,184)</u>	<u>1,932,142</u>
Governmental activities capital assets, net	<u>1,843,323</u>	<u>86,635</u>	<u>(12,184)</u>	<u>1,942,142</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	229,120	-	(11,319)	240,439
Less accumulated depreciation	209,732	5,314	(11,319)	226,365
Business type activities capital assets, net	<u>19,388</u>	<u>(5,314)</u>	<u>-</u>	<u>14,074</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	16,748
Other	16,118
Support Services:	
Administration	346
Operation and maintenance of plant services	7,199
Transportation	73,914
	<u>114,325</u>
Unallocated depreciation	<u>142,712</u>
Total depreciation expense – governmental activities	<u><u>257,037</u></u>
Business type activities:	
Food services	<u><u>5,314</u></u>

5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination benefits	<u>151,409</u>	-	<u>51,347</u>	<u>100,062</u>	<u>38,300</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education

Early retirement benefits are based on a percentage of regular contractual salary in effect during the employee's last year of employment.

At June 30, 2006, the District has obligations to ten participants with a total liability of \$100,062. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$51,347.

6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits 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 covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$193,971, \$199,723, and \$190,124 respectively, equal to the required contributions for each year.

7. Risk Management

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

8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$232,421 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
 Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	4,018,324	398,754	4,417,078	5,551,586	5,551,586	(1,134,508)
State sources	3,142,982	4,247	3,147,229	3,429,941	3,429,941	(282,712)
Federal sources	151,223	100,200	251,423	331,000	331,000	(79,577)
Total revenues	<u>7,312,529</u>	<u>503,201</u>	<u>7,815,730</u>	<u>9,312,527</u>	<u>9,312,527</u>	<u>(1,496,797)</u>
Expenditures:						
Instruction	3,884,938	-	3,884,938	5,602,946	6,500,000	2,615,062
Support services	2,169,686	-	2,169,686	2,139,500	2,500,000	330,314
Non-instructional programs	-	517,596	517,596	520,000	550,000	32,404
Other expenditures	619,326	-	619,326	802,104	802,104	182,778
Total expenditures	<u>6,673,950</u>	<u>517,596</u>	<u>7,191,546</u>	<u>9,064,550</u>	<u>10,352,104</u>	<u>3,160,558</u>
Excess (deficiency) of revenues over (under) expenditures	638,579	(14,395)	624,184	247,977	(1,039,577)	1,663,761
Balance beginning of year	<u>933,365</u>	<u>63,072</u>	<u>996,437</u>	<u>1,451,446</u>	<u>1,451,446</u>	<u>(455,009)</u>
Balance end of year	<u><u>1,571,944</u></u>	<u><u>48,677</u></u>	<u><u>1,620,621</u></u>	<u><u>1,699,423</u></u>	<u><u>411,869</u></u>	<u><u>1,208,752</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,287,554.

OTHER SUPPLEMENTARY INFORMATION

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Capital Projects	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	64,291	85,625	101,703	379,651	631,270
Receivables:					
Property tax:					
Delinquent	1,305	-	548	-	1,853
Succeeding year	165,000	-	66,626	-	231,626
Accounts	-	-	355	-	355
Due from other governments	-	-	-	108,551	108,551
Total assets	230,596	85,625	169,232	488,202	973,655
Liabilities & Fund Balances					
Liabilities:					
Accounts payable	-	4,280	2,658	105,955	112,893
Deferred revenue:					
Succeeding year property tax	165,000	-	66,626	-	231,626
Total liabilities	165,000	4,280	69,284	105,955	344,519
Fund balances:					
Unreserved reported in:					
Special revenue funds	65,596	81,345	99,948	-	246,889
Capital projects funds	-	-	-	382,247	382,247
Total fund balances	65,596	81,345	99,948	382,247	629,136
Total liabilities and fund balances	230,596	85,625	169,232	488,202	973,655

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Capital Projects	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax	
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	148,429	-	62,307	368,116	578,852
Other	29,907	227,725	9,065	12,661	279,358
State sources	102	-	43	-	145
Total revenues	<u>178,438</u>	<u>227,725</u>	<u>71,415</u>	<u>380,777</u>	<u>858,355</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	56,748	-	-	-	56,748
Other instruction	-	220,009	-	-	220,009
Support services:					
Instructional staff services	-	-	33,807	-	33,807
Operation and maintenance of plant services	93,321	-	-	-	93,321
Transportation services	16,927	-	61,888	-	78,815
Other expenditures:					
Facilities acquisition	-	-	100,418	286,487	386,905
Total expenditures	<u>166,996</u>	<u>220,009</u>	<u>196,113</u>	<u>286,487</u>	<u>869,605</u>
Excess (deficiency) of revenues over (under) expenditures	11,442	7,716	(124,698)	94,290	(11,250)
Fund balances beginning of year	<u>54,154</u>	<u>73,629</u>	<u>224,646</u>	<u>287,957</u>	<u>640,386</u>
Fund balances end of year	<u><u>65,596</u></u>	<u><u>81,345</u></u>	<u><u>99,948</u></u>	<u><u>382,247</u></u>	<u><u>629,136</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2006

	School Nutrition	Building Trades	Preschool	Total
	\$	\$	\$	\$
Assets				
Cash and cash equivalents	23,048	20,563	14,889	58,500
Accounts receivable	1,010	-	100	1,110
Inventories	1,642	-	-	1,642
Capital assets, net of accumulated depreciation	14,074	-	-	14,074
	<u>39,774</u>	<u>20,563</u>	<u>14,989</u>	<u>75,326</u>
Total assets				
Liabilities				
Accounts payable	959	-	-	959
Salaries and benefits payable	20,040	-	1,746	21,786
Deferred revenue	3,904	-	-	3,904
	<u>24,903</u>	<u>-</u>	<u>1,746</u>	<u>26,649</u>
Total liabilities				
Net assets				
Invested in capital assets, net of related debt	14,074	-	-	14,074
Unrestricted	797	20,563	13,243	34,603
	<u>14,871</u>	<u>20,563</u>	<u>13,243</u>	<u>48,677</u>
Total net assets				

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2006

	School Nutrition	Building Trades	Preschool	Total
	\$	\$	\$	\$
Operating revenue:				
Local sources:				
Charges for service	166,020	212,242	18,405	396,667
Operating expenses:				
Non-instructional programs:				
Salaries	118,146	-	10,123	128,269
Benefits	15,589	-	2,354	17,943
Purchased services	4,031	-	-	4,031
Supplies	150,280	209,373	2,386	362,039
Depreciation	5,314	-	-	5,314
	<u>293,360</u>	<u>209,373</u>	<u>14,863</u>	<u>517,596</u>
Operating gain (loss)	<u>(127,340)</u>	<u>2,869</u>	<u>3,542</u>	<u>(120,929)</u>
Non-operating revenue:				
State sources	4,247	-	-	4,247
Federal sources	100,200	-	-	100,200
Interest income	727	799	561	2,087
Total non-operating revenue	<u>105,174</u>	<u>799</u>	<u>561</u>	<u>106,534</u>
Change in net assets	(22,166)	3,668	4,103	(14,395)
Net assets beginning of year	<u>37,037</u>	<u>16,895</u>	<u>9,140</u>	<u>63,072</u>
Net assets end of year	<u><u>14,871</u></u>	<u><u>20,563</u></u>	<u><u>13,243</u></u>	<u><u>48,677</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2006

	School Nutrition	Building Trades	Preschool	Total
	\$	\$	\$	\$
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	171,060	-	-	171,060
Cash received from other services	-	212,242	18,775	231,017
Cash payments to employees for services	(128,555)	-	(13,502)	(142,057)
Cash payments to suppliers for goods or services	(135,671)	(209,380)	(2,386)	(347,437)
Net cash used by operating activities	<u>(93,166)</u>	<u>2,862</u>	<u>2,887</u>	<u>(87,417)</u>
Cash flows from non-capital financing activities:				
State grants received	4,247	-	-	4,247
Federal grants received	84,814	-	-	84,814
Net cash provided by non-capital financing activities	<u>89,061</u>	<u>-</u>	<u>-</u>	<u>89,061</u>
Cash flows from capital and related financing activities				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:				
Interest on investments	<u>727</u>	<u>799</u>	<u>561</u>	<u>2,087</u>
Net increase (decrease) in cash and cash equivalents	(3,378)	3,661	3,448	3,731
Cash and cash equivalents at beginning of year	<u>26,426</u>	<u>16,902</u>	<u>11,441</u>	<u>54,769</u>
Cash and cash equivalents at end of year	<u><u>23,048</u></u>	<u><u>20,563</u></u>	<u><u>14,889</u></u>	<u><u>58,500</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:				
Operating gain (loss)	(127,340)	2,869	3,542	(120,929)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:				
Commodities used	15,386	-	-	15,386
Depreciation	5,314	-	-	5,314
Decrease (increase) in inventories	2,295	-	-	2,295
Decrease (increase) in accounts receivable	5,210	-	370	5,580
(Decrease) increase in accounts payable	959	(7)	-	952
(Decrease) increase in salaries and benefits payable	5,180	-	(1,025)	4,155
(Decrease) increase in deferred revenue	(170)	-	-	(170)
Net cash used in operating activities	<u>(93,166)</u>	<u>2,862</u>	<u>2,887</u>	<u>(87,417)</u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Speech	1,053	2,216	1,702	59	1,626
Musical	104	4,294	3,642	8	764
Tri-M	481	-	-	18	499
Band trips	1,629	370	203	67	1,863
Auditorium fund	6,632	100	6,732	-	-
Boys basketball	582	6,322	4,963	30	1,971
Girls basketball	670	13,207	11,897	36	2,016
Activity tickets	219	5,169	1,134	(1,636)	2,618
Cross country	310	1,063	1,193	11	191
Golf	703	1,421	1,974	4	154
Volleyball	500	5,350	6,820	1,500	530
Football	6,629	22,200	21,972	166	7,023
Baseball	1,358	8,807	7,686	88	2,567
Track	289	10,230	9,251	529	1,797
Wrestling	5,016	13,308	17,000	145	1,469
Softball	2,401	6,522	6,485	74	2,512
MS student council	1,708	2,599	2,480	78	1,905
MS/ES annual	236	4,203	3,875	20	584
National honor society	472	1,714	1,962	16	240
Spanish club	6,550	673	-	252	7,475
Student council	3,695	3,554	3,062	168	4,355
Elementary projects	1,874	1,024	723	82	2,257
Student programs	693	2,381	2,500	-	574
Library club	100	11,742	10,288	25	1,579
Electrathon	631	3,033	3,516	25	173
Senior class	-	1,048	1,000	1,533	1,581
Junior class	1,048	14,954	14,503	(1,499)	-
Sophomore class	26	(26)	-	-	-
High school annual	291	8,173	1,694	147	6,917
MS vocal music ho ho grams	484	9,713	6,426	191	3,962
Drill team	2,229	8,655	10,006	38	916
Cheerleaders - basketball	1,479	528	1,593	41	455
Cheerleaders - football	4,687	1,591	3,772	99	2,605
Cheerleaders - wrestling	1,260	1,392	1,379	52	1,325
Pop	1,204	16,426	15,655	87	2,062
Needy donations	1,487	200	168	56	1,575
Pepsi fund	2,044	-	-	92	2,136
FFA	11,327	26,910	26,910	537	11,864
FFA environment grant	1,341	1,000	751	53	1,643

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Intra-fund Transfers	Balance End of Year
	\$	\$	\$	\$	\$
Athletic calendar	45	2,378	2,323	27	127
Interest - ISJIT	-	3,281	-	(3,281)	-
Champions club	1,653	-	-	62	1,715
Beginning accrual	(1,511)	-	(1,511)	-	-
Ending accrual	-	-	4,280	-	(4,280)
Total	<u>73,629</u>	<u>227,725</u>	<u>220,009</u>	<u>-</u>	<u>81,345</u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	584	1,414,739	1,414,315	1,008
Due from other governments	-	366,261	-	366,261
	<u>584</u>	<u>1,781,000</u>	<u>1,414,315</u>	<u>367,269</u>
Total assets	<u><u>584</u></u>	<u><u>1,781,000</u></u>	<u><u>1,414,315</u></u>	<u><u>367,269</u></u>
Liabilities				
Accounts payable	-	6,509	-	6,509
Other payables	584	360,176	-	360,760
	<u>584</u>	<u>366,685</u>	<u>-</u>	<u>367,269</u>
Total liabilities	<u><u>584</u></u>	<u><u>366,685</u></u>	<u><u>-</u></u>	<u><u>367,269</u></u>

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Fund Types

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	3,009,443	3,135,191	3,202,084	3,238,835
Tuition	334,435	2,067,391	1,352,119	982,094
Other	674,446	340,438	331,023	349,473
State sources	3,142,982	2,947,727	2,876,461	2,971,425
Federal sources	151,223	271,081	270,810	191,285
Total revenues	<u>7,312,529</u>	<u>8,761,828</u>	<u>8,032,497</u>	<u>7,733,112</u>
Expenditures:				
Instruction:				
Regular instruction	2,511,600	2,743,797	2,750,326	2,742,692
Special instruction	487,026	2,577,072	1,956,353	1,485,390
Other instruction	886,312	952,620	626,888	584,536
Support services:				
Student services	117,930	190,958	185,033	168,130
Instructional staff services	297,558	299,815	324,558	240,797
Administration services	732,644	625,565	581,754	635,656
Operation and maintenance of plant services	637,365	607,736	540,780	528,740
Transportation services	384,189	398,063	380,624	305,204
Other expenditures:				
Facilities acquisition	386,905	354,722	225,642	299,090
AEA flowthrough	232,421	229,967	234,608	251,339
Total expenditures	<u>6,673,950</u>	<u>8,980,315</u>	<u>7,806,566</u>	<u>7,241,574</u>

Gary E. Horton CPA

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

To the Board of Education of
Manson Northwest Webster Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Manson Northwest Webster Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 31, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Manson Northwest Webster Community School District and other parties to whom Manson Northwest Webster 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 Manson Northwest Webster Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

October 31, 2006

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

June 30, 2006

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

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

06-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The stamp is under the care, custody and control of the administrative office. This practice negates the internal control procedure established by requiring two signatures on a check

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

MANSON NORTHWEST WEBSTER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

June 30, 2006

Part II: Other Findings Related to Required Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, did not exceed the amended budget.

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

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

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
		\$
Julie Hewitt, board member, spouse owns Mike Hewitt Construction	Baseball dugouts, press box.	14,362

The transactions do not appear to represent a conflict of interest since bids were taken for the projects.

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

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

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

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

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