

MARCUS-MERIDEN-CLEGHORN 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
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District, Marcus, 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 Marcus-Meriden-Cleghorn 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 reports dated August 23, 2006, on our consideration of Marcus-Meriden-Cleghorn 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 14 and 34 through 35 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 Marcus-Meriden-Cleghorn Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (none of which are presented herein). Our opinions for 2005 and 2004 were unqualified. We expressed a qualified opinion for 2003 because we were unable to audit the general fixed assets account group. The supplemental information included in Schedules 1 through 4, 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

August 23, 2006

Management Discussion and Analysis

The Marcus-Meriden-Cleghorn Community School District provides this Management 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 this section.

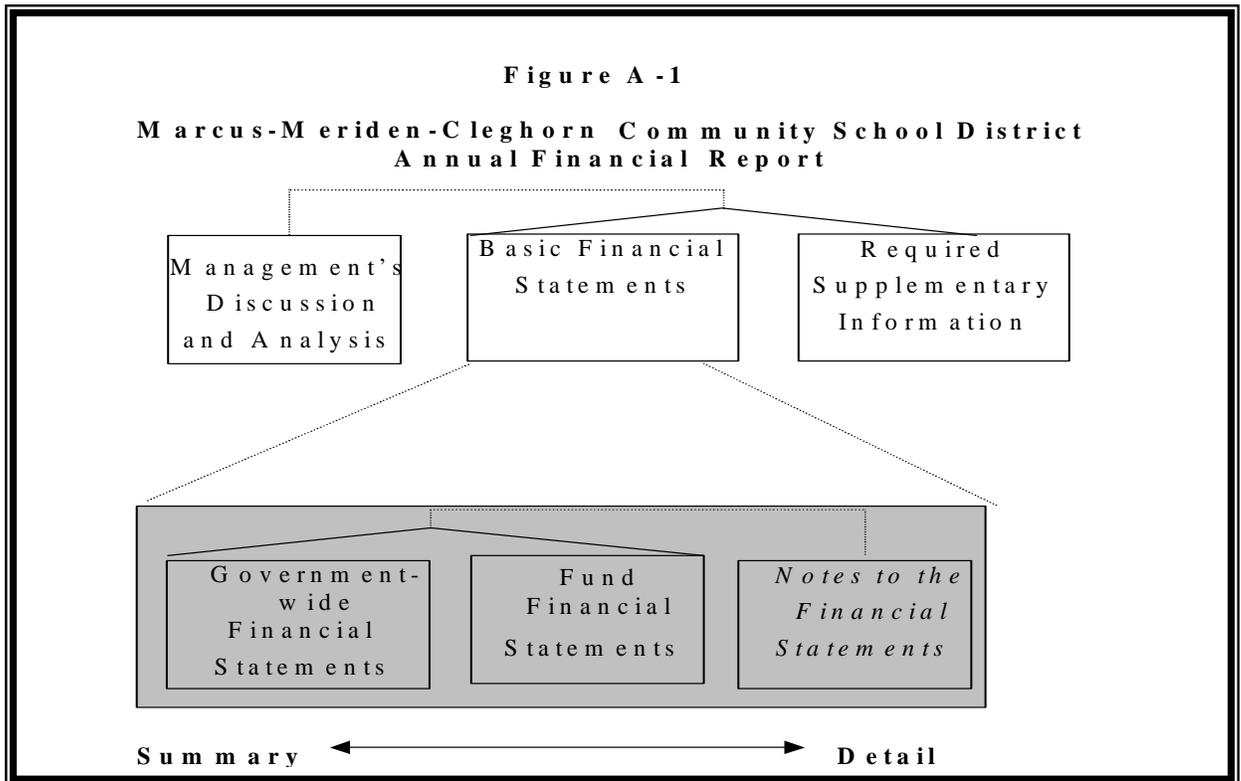
Financial Highlights

- The District spent \$224,778 more than it received; therefore the General Fund ending fund balance went from \$902,232 to \$677,454.
- Steady enrollment and low allowable growth contributed to a downturn in the District's financial position. The District's solvency ratio remains strong at 15.8% and while the cash balance of \$1,052,170 for the general fund remains healthy, the district will need to take steps to balance its budget in order to remain able to meet its obligations without borrowing money.
- Cherokee County passed the one cent local option sales tax for school infrastructure in February 2004. The school started receiving money from that tax in August of 2004. This money continues to be accumulated in anticipation of a building project to include an on-site kitchen facility at the Marcus campus. The cash balance in that fund on June 30, 2006 was \$492,497.

Overview of the Financial Statements

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

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the Government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*, such as food services.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 below 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. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

| | Government-wide Statements | Fund Financial 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 is included here | 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 cash flows • Statement of revenues, expenses and changes in net assets | <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 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, and short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| 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 and payable | 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 |

Government-wide Financial Statements

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

The District has two kinds of funds:

- *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 funds statements provide a detailed short-term view that helps the reader determine

whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them.

- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. *Internal service funds*, (the other kind of proprietary fund) are optional and available to report activities that provide supplies and services for other District programs and activities. The District uses an internal service fund to account for its employee flexible benefit plan.

Financial Analysis of the District as a Whole

Net assets – Figure A-3 below provides a summary of the District's net assets for the years ended June 30, 2005 and June 30, 2006.

| | Governmental Activities | | Business-type Activities | | District Total | |
|--|----------------------------|------------------|-----------------------------|---------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Current and other assets | \$ 4,148,790 | \$ 4,384,840 | \$ (5,181) | \$ 31,144 | \$ 4,143,609 | \$ 4,415,984 |
| Capital Assets | 940,508 | 942,444 | 29,465 | 14,793 | 969,973 | 957,237 |
| Total assets | 5,089,298 | 5,327,284 | 24,284 | 45,937 | 5,113,582 | 5,373,221 |
| Long-term debt outstanding | 66,103 | 98,120 | - | - | 66,103 | 98,120 |
| Other liabilities | 2,457,149 | 2,781,993 | 3,041 | 14,792 | 2,460,190 | 2,796,785 |
| Total liabilities | 2,523,252 | 2,880,113 | 3,041 | 14,792 | 2,526,293 | 2,894,905 |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related debt | 940,508 | 942,444 | 29,465 | 14,793 | 969,973 | 957,237 |
| Restricted | 836,764 | 513,652 | - | - | 836,764 | 513,652 |
| Unrestricted | 788,774 | 991,075 | (8,222) | 16,352 | 780,552 | 1,007,427 |
| Total net assets | 2,566,046 | 2,447,171 | 21,243 | 31,145 | 2,587,289 | 2,478,316 |

The District's total net assets increased by 4.4%, or approximately \$109,000, over the prior year.

The portion of the District's net assets identifies as invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt increased by only \$12,736. Most of this increase is attributable to the purchase of equipment for the food service program. The District has no long-term debt issued to finance capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$323,000 or 63% over the prior year. The increase was primarily a result of sales taxes revenue collected, but not spent. These monies will be used for future capital improvements-namely a kitchen between the primary and high school buildings in Marcus.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$227,000, or 23%. This reduction was a result of using carryover fund balance to meet financial obligations during the year.

Long Term Debt decreased because there was no early retirement offered during the 2006 fiscal year.

The net asset decline in the business-type activities can be attributed to the continued high costs of supplies and decreasing federal revenues along with meal prices that have not increased significantly in several years.

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

Changes in Net Assets from Operating Results for the years ending June 30, 2005 and 2006

| | Governmental Activities | | Business-type Activities | | School District Total | |
|--|----------------------------|-------------------|-----------------------------|--------------------|--------------------------|-------------------|
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 283,169 | \$ 318,120 | \$ 104,932 | \$ 94,852 | \$ 388,101 | \$ 412,972 |
| Operating Grants & Contributions | 559,762 | 577,125 | 71,232 | 77,595 | 630,994 | 654,720 |
| Capital Grants & Contributions | - | - | - | - | - | - |
| General revenues | | | | | | |
| Property and Other Local taxes | 2,459,410 | 2,451,811 | - | - | 2,459,410 | 2,451,811 |
| Unrestricted state grants | 1,649,346 | 1,870,474 | - | - | 1,649,346 | 1,870,474 |
| Other | 55,567 | 39,793 | 187 | 392 | 55,754 | 40,185 |
| Transfers | (16,031) | - | 16,031 | - | - | - |
| Total revenues | <u>4,991,223</u> | <u>5,257,323</u> | <u>192,382</u> | <u>172,839</u> | <u>5,183,605</u> | <u>5,430,162</u> |
| Expenses | | | | | | |
| Instruction | 3,260,650 | 3,138,846 | - | - | 3,260,650 | 3,138,846 |
| Support Services: | | | | | | |
| Administrative & Business | 544,325 | 498,540 | - | - | 544,325 | 498,540 |
| Maintenance & Operations | 373,176 | 356,309 | - | - | 373,176 | 356,309 |
| Other Support Services | 409,161 | 468,080 | - | - | 409,161 | 468,080 |
| Non-Instructional Programs | - | - | 202,284 | 200,157 | 202,284 | 200,157 |
| Other Expenditures | 285,036 | 271,469 | - | - | 285,036 | 271,469 |
| Total expenses | <u>4,872,348</u> | <u>4,733,244</u> | <u>202,284</u> | <u>200,157</u> | <u>5,074,632</u> | <u>4,933,401</u> |
| Increase (decrease) in net assets | \$ 118,875 | \$ 524,079 | \$ (9,902) | \$ (27,318) | \$ 108,973 | \$ 496,761 |

Figure A-5

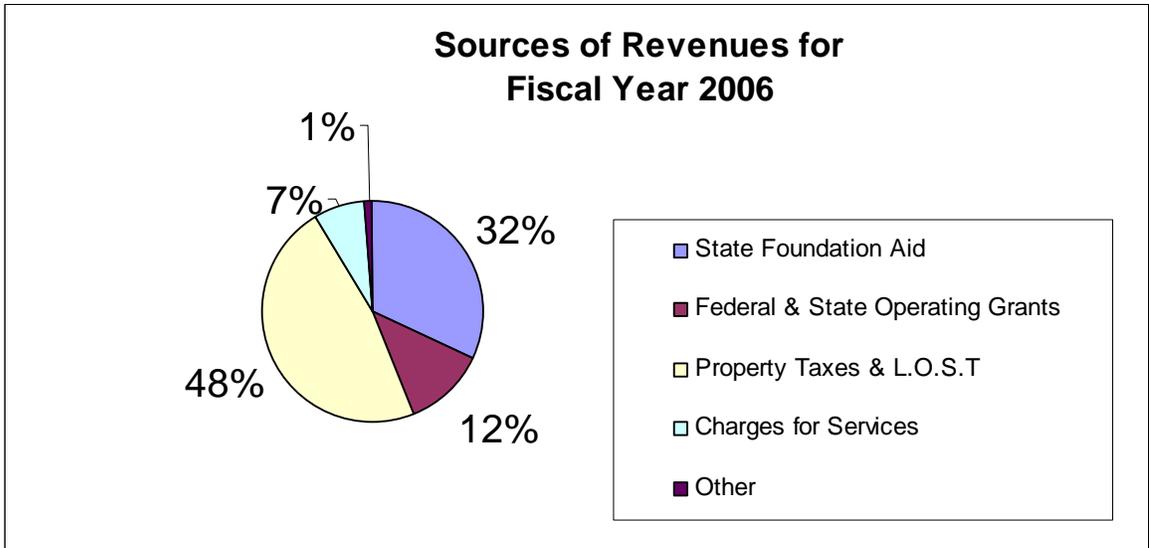
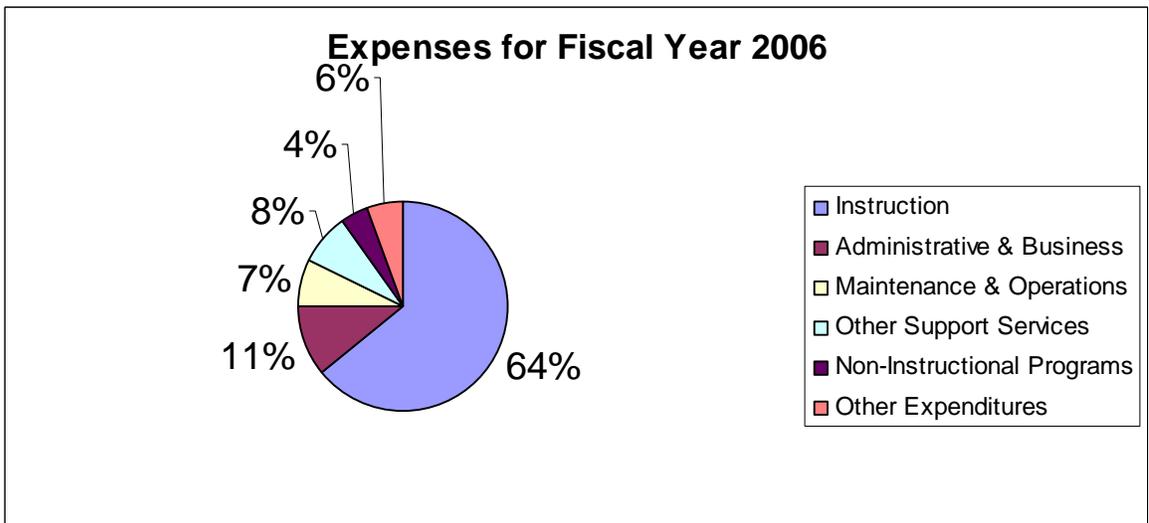


Figure A-6



Figures A-5 and A-6 provide a visual breakdown of the sources of revenues and areas of expenditures for the data from Figure A-4.

Governmental Activities

Figure A-7 presents the cost of three major district activities: instruction; support services: administrative and business, maintenance and operations, other; and other expenditures. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|---------------------------|---------------------------|---------------------|-------------------------|---------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Instruction | \$ 3,260,650 | \$ 3,138,846 | \$ 2,591,123 | \$ 2,419,086 |
| Support Services: | | | | |
| Administration & Business | 544,325 | 498,540 | 544,325 | 498,540 |
| Maintenance & Operations | 373,176 | 356,309 | 373,101 | 355,734 |
| Other Support Services | 409,161 | 468,080 | 408,829 | 467,757 |
| Other Expenditures | 285,036 | 271,469 | 112,039 | 96,882 |
| Total | \$ 4,872,348 | \$ 4,733,244 | \$ 4,029,417 | \$ 3,837,999 |

- The cost of all governmental activities this year was \$4,872,348.
- \$283,169 of the cost was financed by the users of the District's programs (see Figure A-4)
- The federal and state governments subsidized certain programs with grants and contributions of \$559,762.
- Most of the District's \$4,029,417 of net costs, however were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,459,410 in property and other local taxes, \$1,649,346 of unrestricted state grants based on the statewide finance formula, and investment earnings.

Business-Type Activities

Revenues of the District's business-type activities (school food and nutrition services) totaled \$192,382 and expenses totaled \$202,284. (Refer to Figure A-4.) Factors contributing to these results are as follows: Business-type activity expenditures exceeded revenue by \$9,902. This deficit was caused primarily by the school food and nutrition services program continuing to pay several costs of operations rather than the costs being paid from general operating funds as has been done in the past. These included all utilities-phone, water, electric and gas, plus certain repairs and equipment. This year's results were significantly improved over last year's due to the introduction of an ala carte menu, charging for second entrees, as well as careful monitoring of expenditures for salaries and supplies. The District continues to look at ways to generate more revenue in this area to finance the rising costs of operation.

Financial Analysis of the District's Funds

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

Governmental Funds

The District's General Fund cash position decreased significantly due to 4% allowable growth from the state combined with steady enrollment and few budget cuts. As mentioned previously, deeper cuts are necessary for the District to remain financially sound.

The Management Levy had a steady cash position after another increase in the levy. The increase was necessary in order to cover the increased property/liability costs for the District as well as the early retirement liabilities for the year. The increased levy nearly matched the expenditures in this fund for the fiscal year 2006 when no early retirement incentive was offered for the following year, giving this fund an ending cash balance of \$50,912.

The Capital Projects Fund was new for 2005 and continues to be used to account for the proceeds from and expenditures of sales tax revenues. There were no expenditures in 2005 or 2006; the monies are being accumulated for future capital improvements-namely the construction of a kitchen between the primary and high school buildings in Marcus.

Proprietary Funds

The School Nutrition Fund suffered a \$97,352 operating loss due mainly to continued high supply costs. This was made worse by another decrease in federal money received which caused the net change in assets to be a negative \$9,902. Increased revenues were the only reason for the better results than 2005's net change in assets of a negative \$27,318.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutorily prescribed procedures. The District's budget is prepared on a GAAP basis. Over the course of the year, the District did not amend its budget as expenditures were not expected to exceed the certified amounts, however it did in fact do so in the non-instructional programs function. The non-instructional programs function budget was exceeded due to the timing of disbursements paid at year-end without sufficient time to amend the budget.

There was some variance in the District's budget in comparison to actual results. Total actual revenue was 3.03% more than budgeted, while total actual expenditures were 7.05% less than budgeted. The reason for revenues being more than budgeted was the

Local Option Sales Tax money coming in approximately \$120,000 over budget. The expenditures were much less than budgeted in the Other Expenditures area due to budgeting for up to \$300,000 of expenditures from the Local Option Sales Tax money which did not occur. Another area where actual expenditures were significantly under budget was health insurance due to not knowing whether employees would take single or family coverage. This will be budgeted closer to expected results now that the same health plans have been in place in the district for several years. The District will continue to work on getting budgeted expenditures to be closer to actual results. Detail can be found in the supplementary information section of this report.

Capital Asset and Debt Administration

Capital Assets

By the end of 2006, the District had invested \$969,973, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, transportation equipment and administrative offices. (See Figure A-8) **(More detailed information about capital assets can be found in Note 4 to the financial statements.)** Total depreciation expense for the year was \$104,358.

Figure A-8
Capital Assets, Net of Accumulated Depreciation

| | Governmental | | Business-type | | Total | |
|--------------------------|-------------------|-------------------|------------------|------------------|-------------------|-------------------|
| | Activities | | Activities | | School District | |
| | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> | <u>2006</u> | <u>2005</u> |
| Land | \$ 11,900 | \$ 11,900 | \$ - | \$ - | \$ 11,900 | \$ 11,900 |
| Construction in progress | - | - | - | - | - | - |
| Buildings & Improvements | 806,540 | 822,512 | - | - | 806,540 | 822,512 |
| Equipment & Furniture | 122,068 | 108,032 | 29,465 | 14,793 | 151,533 | 122,825 |
| | \$ 940,508 | \$ 942,444 | \$ 29,465 | \$ 14,793 | \$ 969,973 | \$ 957,237 |

Long-Term Debt

At year-end, the District had \$0 in general obligation bonds and \$66,103 in other long-term debt outstanding in Figure A-9 below.

| | Total | |
|-----------------------------------|------------------|------------------|
| | School District | |
| | <u>2006</u> | <u>2005</u> |
| Early Retirement Benefits Payable | \$ 66,103 | \$ 98,120 |
| Total | \$ 66,103 | \$ 98,120 |

Factors Bearing on the District's Future

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

- The national recession that has adversely impacted the State of Iowa's budget has translated into reduced levels of state aid funding for education. Future increases in state aid to schools, (allowable growth) will be predicated upon the condition of the national and state economy. State funding growth for public schools for fiscal year 2007, has been set at 4%.
- District budget enrollment remained fairly steady for the 2005 count but will see a decrease of 33 students on the 2006 count which will negatively impact the fiscal year 2008 budget. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Jodi B. Mongan, Business Manager, Marcus-Meriden-Cleghorn Community School District, 400 E Fenton St, PO Box 667, Marcus, IA 51035.

BASIC FINANCIAL STATEMENTS

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

| | Governmental Activities | Business Type Activities | Total |
|--|----------------------------|--------------------------------|-------------------------|
| | \$ | \$ | \$ |
| Assets | | | |
| Cash and cash equivalents | 1,903,718 | 7,472 | 1,911,190 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 27,728 | - | 27,728 |
| Succeeding year | 1,945,485 | - | 1,945,485 |
| Accounts | 201 | - | 201 |
| Due from other governments | 254,302 | - | 254,302 |
| Interfund receivable/payable | 17,000 | (17,000) | - |
| Inventories | - | 4,323 | 4,323 |
| Prepaid expenses | 356 | 24 | 380 |
| Capital assets, net of accumulated depreciation | 940,508 | 29,465 | 969,973 |
| Total assets | <u>5,089,298</u> | <u>24,284</u> | <u>5,113,582</u> |
| Liabilities | | | |
| Accounts payable | 112,307 | 228 | 112,535 |
| Salaries and benefits payable | 397,590 | - | 397,590 |
| Deferred revenue: | | | |
| Succeeding year property tax | 1,945,485 | - | 1,945,485 |
| Other | 1,767 | 2,813 | 4,580 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Termination benefits | 13,519 | - | 13,519 |
| Portion due after one year: | | | |
| Termination benefits | 52,584 | - | 52,584 |
| Total liabilities | <u>2,523,252</u> | <u>3,041</u> | <u>2,526,293</u> |
| Net assets | | | |
| Invested in capital assets, net of related debt | 940,508 | 29,465 | 969,973 |
| Restricted for: | | | |
| Physical plant and equipment levy | 194,716 | - | 194,716 |
| Other special revenue purposes | 102,681 | - | 102,681 |
| Local option sales tax capital projects | 539,367 | - | 539,367 |
| Unrestricted | 788,774 | (8,222) | 780,552 |
| Total net assets | <u><u>2,566,046</u></u> | <u><u>21,243</u></u> | <u><u>2,587,289</u></u> |

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues | |
|---|------------------|----------------------|---|
| | | Charges for Services | Operating Grants, Contributions and Restricted Interest |
| Governmental activities: | | | |
| Instruction: | | | |
| Regular instruction | 2,179,205 | 162,143 | 265,908 |
| Special instruction | 542,040 | - | 64,888 |
| Other instruction | 539,405 | 120,951 | 55,637 |
| | <u>3,260,650</u> | <u>283,094</u> | <u>386,433</u> |
| Support services: | | | |
| Student services | 122,808 | - | - |
| Instructional staff services | 80,638 | - | - |
| Administration services | 544,325 | - | - |
| Operation and maintenance of plant services | 373,176 | 75 | - |
| Transportation services | 205,715 | - | 332 |
| | <u>1,326,662</u> | <u>75</u> | <u>332</u> |
| Other expenditures: | | | |
| Facilities acquisition | 53,681 | - | - |
| AEA flowthrough | 172,997 | - | 172,997 |
| Depreciation (unallocated)* | 58,358 | - | - |
| | <u>285,036</u> | <u>-</u> | <u>172,997</u> |
| Total governmental activities | 4,872,348 | 283,169 | 559,762 |
| Business type activities: | | | |
| Non-instructional programs: | | | |
| Food service operations | 202,284 | 104,932 | 71,232 |
| Total | <u>5,074,632</u> | <u>388,101</u> | <u>630,994</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 |

Transfers

Total general revenues and transfers

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

| Governmental Activities | Business Type Activities | Total |
|----------------------------|--------------------------------|--------------------|
| (1,751,154) | - | (1,751,154) |
| (477,152) | - | (477,152) |
| (362,817) | - | (362,817) |
| <u>(2,591,123)</u> | <u>-</u> | <u>(2,591,123)</u> |
| (122,808) | - | (122,808) |
| (80,638) | - | (80,638) |
| (544,325) | - | (544,325) |
| (373,101) | - | (373,101) |
| (205,383) | - | (205,383) |
| <u>(1,326,255)</u> | <u>-</u> | <u>(1,326,255)</u> |
| (53,681) | - | (53,681) |
| - | - | - |
| (58,358) | - | (58,358) |
| <u>(112,039)</u> | <u>-</u> | <u>(112,039)</u> |
| (4,029,417) | - | (4,029,417) |
| <u>-</u> | <u>(26,120)</u> | <u>(26,120)</u> |
| <u>(4,029,417)</u> | <u>(26,120)</u> | <u>(4,055,537)</u> |
| 1,858,973 | - | 1,858,973 |
| 162,625 | - | 162,625 |
| 163,614 | - | 163,614 |
| 274,198 | - | 274,198 |
| 1,649,346 | - | 1,649,346 |
| 48,053 | 187 | 48,240 |
| 7,514 | - | 7,514 |
| <u>4,164,323</u> | <u>187</u> | <u>4,164,510</u> |
| (16,031) | 16,031 | - |
| <u>4,148,292</u> | <u>16,218</u> | <u>4,164,510</u> |
| 118,875 | (9,902) | 108,973 |
| <u>2,447,171</u> | <u>31,145</u> | <u>2,478,316</u> |
| <u>2,566,046</u> | <u>21,243</u> | <u>2,587,289</u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

| | General Fund | Capital Projects - Local Option Sales Tax | Nonmajor Governmental Funds | Total |
|--|------------------|--|-----------------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Assets | | | | |
| Cash and pooled investments | 1,052,170 | 492,497 | 358,919 | 1,903,586 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 23,895 | - | 3,833 | 27,728 |
| Succeeding year | 1,569,651 | - | 375,834 | 1,945,485 |
| Accounts | 75 | - | 126 | 201 |
| Interfund receivable | 17,000 | - | - | 17,000 |
| Prepaid expenses | - | - | 356 | 356 |
| Due from other governments | 193,432 | 46,870 | 14,000 | 254,302 |
| Total assets | <u>2,856,223</u> | <u>539,367</u> | <u>753,068</u> | <u>4,148,658</u> |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | 85,508 | - | 26,799 | 112,307 |
| Salaries and benefits payable | 396,843 | - | 747 | 397,590 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 1,569,651 | - | 375,834 | 1,945,485 |
| Other | 126,767 | - | 14,000 | 140,767 |
| Total liabilities | <u>2,178,769</u> | <u>-</u> | <u>417,380</u> | <u>2,596,149</u> |
| Fund balances: | | | | |
| Unreserved reported in: | | | | |
| General fund | 677,454 | - | - | 677,454 |
| Special revenue funds | - | - | 335,688 | 335,688 |
| Capital projects funds | - | 539,367 | - | 539,367 |
| Total fund balances | <u>677,454</u> | <u>539,367</u> | <u>335,688</u> | <u>1,552,509</u> |
| Total liabilities and fund balances | <u>2,856,223</u> | <u>539,367</u> | <u>753,068</u> | <u>4,148,658</u> |

MARCUS-MERIDEN-CLEGHORN 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) | 1,552,509 |
| <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. | 940,508 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 139,000 |
| An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities. | 132 |
| Long-term liabilities, including termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. | <u>(66,103)</u> |
| Net assets of governmental activities (Exhibit A) | <u><u>2,566,046</u></u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

| | General Fund | Capital Projects - Local Option Sales Tax | Nonmajor Governmental Funds | Total |
|---|------------------|--|-----------------------------------|------------------|
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 1,886,572 | 271,073 | 298,736 | 2,456,381 |
| Tuition | 119,589 | - | - | 119,589 |
| Other | 73,806 | 7,340 | 130,487 | 211,633 |
| State sources | 2,022,180 | 3,125 | 208 | 2,025,513 |
| Federal sources | 186,720 | - | - | 186,720 |
| Total revenues | <u>4,288,867</u> | <u>281,538</u> | <u>429,431</u> | <u>4,999,836</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 2,174,465 | - | 36,757 | 2,211,222 |
| Special instruction | 542,040 | - | - | 542,040 |
| Other instruction | 424,122 | - | 112,635 | 536,757 |
| | <u>3,140,627</u> | <u>-</u> | <u>149,392</u> | <u>3,290,019</u> |
| Support services: | | | | |
| Student services | 122,808 | - | - | 122,808 |
| Instructional staff services | 80,638 | - | - | 80,638 |
| Administration services | 499,021 | - | 39,944 | 538,965 |
| Operation and maintenance of plant services | 331,263 | - | 36,613 | 367,876 |
| Transportation services | 166,291 | - | 45,585 | 211,876 |
| | <u>1,200,021</u> | <u>-</u> | <u>122,142</u> | <u>1,322,163</u> |
| Non-instructional programs | - | - | 16,031 | 16,031 |
| Other expenditures: | | | | |
| Facilities acquisition | - | - | 119,032 | 119,032 |
| AEA flowthrough | 172,997 | - | - | 172,997 |
| | <u>172,997</u> | <u>-</u> | <u>119,032</u> | <u>292,029</u> |
| Total expenditures | <u>4,513,645</u> | <u>-</u> | <u>406,597</u> | <u>4,920,242</u> |
| Excess (deficiency) of revenues over (under) expenditures | (224,778) | 281,538 | 22,834 | 79,594 |
| Other financing sources (uses): | | | | |
| Compensation for loss of fixed assets | - | - | 9,200 | 9,200 |
| Net change in fund balances | (224,778) | 281,538 | 32,034 | 88,794 |
| Fund balances beginning of year | 902,232 | 257,829 | 303,654 | 1,463,715 |
| Fund balances end of year | <u>677,454</u> | <u>539,367</u> | <u>335,688</u> | <u>1,552,509</u> |

See notes to financial statements.

MARCUS-MERIDEN-CLEGHORN 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) | | 88,794 |
| <i>Amounts reported for governmental activities in the Statement of Activities are different because:</i> | | |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows: | | |
| Expenditures for capital assets | 99,526 | |
| Depreciation expense | <u>(99,680)</u> | (154) |
| Gain on the disposal of capital assets on the Statement of Activities will be reduced for the remaining basis in the property. | | (1,782) |
| Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows: | | |
| Termination benefits | | <u>32,017</u> |
| Changes in net assets of governmental activities (Exhibit B) | | <u><u>118,875</u></u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

| | Enterprise Fund <u>Nonmajor School Nutrition</u> \$ | Governmental Activities - Internal <u>Service Fund</u> \$ |
|---|--|---|
| Assets | | |
| Cash and cash equivalents | 7,472 | 132 |
| Inventories | 4,323 | - |
| Prepaid expenses | 24 | - |
| Capital assets, net of accumulated depreciation | <u>29,465</u> | <u>-</u> |
| Total assets | <u>41,284</u> | <u>132</u> |
| Liabilities | | |
| Accounts payable | 228 | - |
| Deferred revenue | 2,813 | - |
| Interfund payable | <u>17,000</u> | <u>-</u> |
| Total liabilities | <u>20,041</u> | <u>-</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 29,465 | - |
| Unrestricted | <u>(8,222)</u> | <u>132</u> |
| Total net assets | <u><u>21,243</u></u> | <u><u>132</u></u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

| | Enterprise Fund Nonmajor School Nutrition <u> </u> \$ | Governmental Activities - Internal Service Fund <u> </u> \$ |
|----------------------------------|--|---|
| Operating revenue: | | |
| Local sources: | | |
| Charges for service | 104,932 | 33,728 |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Salaries | 76,017 | - |
| Benefits | 13,837 | 33,728 |
| Purchased services | 6,713 | - |
| Supplies | 100,775 | - |
| Depreciation | 4,678 | - |
| Other | 264 | - |
| | <u>202,284</u> | <u>33,728</u> |
| Operating gain (loss) | <u>(97,352)</u> | <u>-</u> |
| Non-operating revenue (expense): | | |
| State sources | 2,666 | - |
| Federal sources | 68,566 | - |
| Interest income | 187 | - |
| Total non-operating revenue | <u>71,419</u> | <u>-</u> |
| Gain (loss) before contributions | (25,933) | - |
| Capital contributions | <u>16,031</u> | <u>-</u> |
| Change in net assets | (9,902) | - |
| Net assets beginning of year | <u>31,145</u> | <u>132</u> |
| Net assets end of year | <u><u>21,243</u></u> | <u><u>132</u></u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

| | Enterprise Fund Nonmajor School Nutrition | Governmental Activities - Internal Service Fund |
|--|---|--|
| | \$ | \$ |
| Cash flows from operating activities: | | |
| Cash received from sale of lunches and breakfasts | 103,916 | - |
| Cash received from services provided to other funds | - | 33,728 |
| Cash payments to employees for services | (100,470) | (33,728) |
| Cash payments to suppliers for goods or services | (90,261) | - |
| Net cash used by operating activities | <u>(86,815)</u> | <u>-</u> |
| Cash flows from non-capital financing activities: | | |
| Loan from General Fund | 17,000 | - |
| State grants received | 2,666 | - |
| Federal grants received | 51,292 | - |
| Net cash provided by non-capital financing activities | <u>70,958</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | |
| Acquisition of capital assets | (3,319) | - |
| Cash flows from investing activities: | | |
| Interest on investments | 187 | - |
| Net increase (decrease) in cash and cash equivalents | (18,989) | - |
| Cash and cash equivalents at beginning of year | 26,461 | 132 |
| Cash and cash equivalents at end of year | <u>7,472</u> | <u>132</u> |
| Reconciliation of operating gain (loss) to net cash used by operating activities: | | |
| Operating gain (loss) | (97,352) | - |
| Adjustments to reconcile operating gain (loss) to net cash used by operating activities: | | |
| Commodities used | 17,274 | - |
| Depreciation | 4,678 | - |
| Decrease (increase) in inventories | 360 | - |
| Decrease (increase) in prepaid expenses | (24) | - |
| (Decrease) increase in accounts payable | (119) | - |
| (Decrease) increase in salaries and benefits payable | (10,616) | - |
| (Decrease) increase in deferred revenue | (1,016) | - |
| Net cash used in operating activities | <u>(86,815)</u> | <u>-</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$17,274 of federal commodities.

During the year ended June 30, 2006, the School Nutrition Fund received \$16,031 of equipment that was purchased by other funds.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Marcus-Meriden-Cleghorn 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 Marcus, Meriden and Cleghorn Iowa and the predominately agricultural territory in a portion of Cherokee and Plymouth 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, Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn 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 Capital Projects fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

The District's internal service fund is also reported as a proprietary fund. The internal service fund is used to account for the District's employee flexible benefit plan.

C. Measurement Focus and Basis of Accounting

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

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

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

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

absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

| <u>Asset Class</u> | <u>Amount</u> |
|-----------------------------------|---------------|
| | \$ |
| Land | - |
| Buildings | 3,500 |
| Improvements other than buildings | 3,500 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | 500 |
| Other furniture and equipment | 3,500 |

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 | 20-50 years |
| Improvements other than buildings | 5-20 years |
| Furniture and equipment | 5-12 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 receivable 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 in the non-instructional programs function exceeded the amount budgeted.

2. Cash and Pooled Investments

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

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

The District had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by No. 40.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2006 is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|---|------------------------------------|---------------|
| General Fund | Enterprise – School Nutrition Fund | \$ 17,000 |
| The General Fund loaned the Nutrition Fund money for cash flow. | | |

4. Capital Assets

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

| | Balance Beginning of Year, as Restated \$ | Increases \$ | Decreases \$ | Balance End of Year \$ |
|--|---|-----------------|-----------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | 11,900 | - | - | 11,900 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,027,497 | 42,386 | - | 2,069,883 |
| Improvements other than buildings | 337,726 | - | - | 337,726 |
| Furniture and equipment | 821,723 | 57,140 | 70,703 | 808,160 |
| Total capital assets being deprec. | <u>3,186,946</u> | <u>99,526</u> | <u>70,703</u> | <u>3,215,769</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,312,855 | 51,234 | - | 1,364,089 |
| Improvements other than buildings | 229,856 | 7,124 | - | 236,980 |
| Furniture and equipment | 713,691 | 41,322 | 68,921 | 686,092 |
| Total accumulated depreciation | <u>2,256,402</u> | <u>99,680</u> | <u>68,921</u> | <u>2,287,161</u> |
| Total capital assets being depreciated, net | <u>930,544</u> | <u>(154)</u> | <u>1,782</u> | <u>928,608</u> |
| Governmental activities capital assets, net | <u>942,444</u> | <u>(154)</u> | <u>1,782</u> | <u>940,508</u> |
| | Balance Beginning of Year \$ | Increases \$ | Decreases \$ | Balance End of Year \$ |
| Business type activities: | | | | |
| Furniture and equipment | 60,418 | 19,350 | - | 79,768 |
| Less accumulated depreciation | <u>45,625</u> | <u>4,678</u> | - | <u>50,303</u> |
| Business type activities capital assets, net | <u>14,793</u> | <u>14,672</u> | - | <u>29,465</u> |
| Depreciation expense was charged to the following functions: | | | | \$ |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular | | | | |
| Other | | | | 2,648 |
| Support Services: | | | | |
| Administration services | | | | 5,360 |
| Operation and maintenance of plant services | | | | 5,300 |
| Transportation | | | | <u>28,014</u> |
| | | | | 41,322 |
| Unallocated depreciation | | | | <u>58,358</u> |
| Total depreciation expense – governmental activities | | | | <u>99,680</u> |
| Business type activities: | | | | |
| Food services | | | | <u>4,678</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 | 98,120 | - | 32,017 | 66,103 | 13,519 |

Termination Benefits

The District offered a voluntary early retirement plan to its employees in prior years. Eligible employees must have completed at least fifteen years of consecutive service to the District and must have reached the age of fifty-seven on or before June 30 in the calendar year in which early retirement started.

Early retirement benefits consisted of a cash payment and single premium health insurance benefits until age sixty-five. The District's portion of the health insurance premium was set at the premium rate as June 1, of the year of retirement.

At June 30, 2006, the District has obligations to three participants with a total liability of \$66,103. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$32,017.

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$160,920, \$160,442, and \$154,956 respectively, equal to the required contributions for each year.

7. Risk Management

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

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 \$172,997 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

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
 Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

| | Governmental Fund Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance - Positive (Negative) |
|---|-----------------------------|----------------------------|-------------------------|-------------------------|-------------------------|---|
| | | | | Original | Final | |
| | \$ | \$ | \$ | | \$ | \$ |
| Revenues: | | | | | | |
| Local sources | 2,787,603 | 105,119 | 2,892,722 | 2,736,211 | 2,736,211 | 156,511 |
| State sources | 2,025,513 | 2,666 | 2,028,179 | 2,071,264 | 2,071,264 | (43,085) |
| Federal sources | 186,720 | 68,566 | 255,286 | 216,492 | 216,492 | 38,794 |
| Total revenues | <u>4,999,836</u> | <u>176,351</u> | <u>5,176,187</u> | <u>5,023,967</u> | <u>5,023,967</u> | <u>152,220</u> |
| Expenditures: | | | | | | |
| Instruction | 3,290,019 | - | 3,290,019 | 3,318,698 | 3,318,698 | 28,679 |
| Support services | 1,322,163 | - | 1,322,163 | 1,375,000 | 1,375,000 | 52,837 |
| Non-instructional programs | 16,031 | 202,284 | 218,315 | 200,000 | 200,000 | (18,315) |
| Other expenditures | 292,029 | - | 292,029 | 617,435 | 617,435 | 325,406 |
| Total expenditures | <u>4,920,242</u> | <u>202,284</u> | <u>5,122,526</u> | <u>5,511,133</u> | <u>5,511,133</u> | <u>388,607</u> |
| Excess (deficiency) of revenues over (under) expenditures | 79,594 | (25,933) | 53,661 | (487,166) | (487,166) | 540,827 |
| Other financing sources (uses) net | <u>9,200</u> | <u>16,031</u> | <u>25,231</u> | <u>2,000</u> | <u>2,000</u> | <u>23,231</u> |
| Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures | 88,794 | (9,902) | 78,892 | (485,166) | (485,166) | 564,058 |
| Balance beginning of year | <u>1,463,715</u> | <u>31,145</u> | <u>1,494,860</u> | <u>1,728,274</u> | <u>1,728,274</u> | <u>(233,414)</u> |
| Balance end of year | <u><u>1,552,509</u></u> | <u><u>21,243</u></u> | <u><u>1,573,752</u></u> | <u><u>1,243,108</u></u> | <u><u>1,243,108</u></u> | <u><u>330,644</u></u> |

MARCUS-MERIDEN-CLEGHORN 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 a 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 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 the 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. The District did not amend its budget during the year

During the year ended June 30, 2006, disbursements in the non-instructional programs function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

| Assets | Special Revenue Funds | | | | Total |
|--|-----------------------|-----------------------|-----------------------------------|------------------------|----------------|
| | Management Levy | Student Activity Fund | Physical Plant and Equipment Levy | District Support Trust | |
| | \$ | \$ | \$ | \$ | |
| Cash and pooled investments | 50,912 | 100,119 | 204,715 | 3,173 | 358,919 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 1,644 | - | 2,189 | - | 3,833 |
| Succeeding year | 200,000 | - | 175,834 | - | 375,834 |
| Accounts | 126 | - | - | - | 126 |
| Due from other governments | - | - | 14,000 | - | 14,000 |
| Prepaid expenses | 356 | - | - | - | 356 |
| Total assets | 253,038 | 100,119 | 396,738 | 3,173 | 753,068 |
| Liabilities & Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | - | 611 | 26,188 | - | 26,799 |
| Salaries and benefits payable | 747 | - | - | - | 747 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 200,000 | - | 175,834 | - | 375,834 |
| Other | - | - | 14,000 | - | 14,000 |
| Total liabilities | 200,747 | 611 | 216,022 | - | 417,380 |
| Fund balances: | | | | | |
| Unreserved reported in: | | | | | |
| Special revenue funds | 52,291 | 99,508 | 180,716 | 3,173 | 335,688 |
| Total liabilities and fund balances | 253,038 | 100,119 | 396,738 | 3,173 | 753,068 |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

| | Special Revenue Funds | | | | Total |
|--|-----------------------|-----------------------------|--|------------------------------|-----------------------|
| | Management Levy | Student Activity Fund | Physical Plant and Equipment Levy | District Support Trust | |
| | \$ | \$ | \$ | \$ | \$ |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | 119,742 | - | 178,994 | - | 298,736 |
| Other | 5,351 | 120,951 | 4,185 | - | 130,487 |
| State sources | 89 | - | 119 | - | 208 |
| Total revenues | <u>125,182</u> | <u>120,951</u> | <u>183,298</u> | <u>-</u> | <u>429,431</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Regular instruction | 32,755 | - | 4,002 | - | 36,757 |
| Other instruction | - | 112,635 | - | - | 112,635 |
| Support services: | | | | | |
| Administration services | 39,944 | - | - | - | 39,944 |
| Operation and maintenance of plant services | 36,613 | - | - | - | 36,613 |
| Transportation services | 11,410 | - | 34,175 | - | 45,585 |
| Non-instructional programs | - | - | 16,031 | - | 16,031 |
| Other expenditures: | | | | | |
| Facilities acquisition | - | - | 119,032 | - | 119,032 |
| Total expenditures | <u>120,722</u> | <u>112,635</u> | <u>173,240</u> | <u>-</u> | <u>406,597</u> |
| Net change in fund balances | 4,460 | 8,316 | 10,058 | - | 22,834 |
| Other financing sources (uses): | | | | | |
| Compensation for loss of fixed assets | - | - | 9,200 | - | 9,200 |
| Net change in fund balances | 4,460 | 8,316 | 19,258 | - | 32,034 |
| Fund balances beginning of year | <u>47,831</u> | <u>91,192</u> | <u>161,458</u> | <u>3,173</u> | <u>303,654</u> |
| Fund balances end of year | <u><u>52,291</u></u> | <u><u>99,508</u></u> | <u><u>180,716</u></u> | <u><u>3,173</u></u> | <u><u>335,688</u></u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

| <u>Account</u> | <u>Balance Beginning of Year</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Intra-Fund Transfers</u> | <u>Balance End of Year</u> |
|------------------------|--|-----------------|---------------------|---------------------------------|--------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Business club | 877 | 1,521 | 1,485 | (45) | 868 |
| Boys basketball | 6,170 | 9,478 | 6,431 | 210 | 9,427 |
| Football | 2,726 | 13,056 | 11,734 | 470 | 4,518 |
| Girls basketball | 7,608 | 6,478 | 4,828 | 80 | 9,338 |
| Baseball | (89) | 1,861 | 2,597 | 315 | (510) |
| Golf | 536 | - | 151 | 310 | 695 |
| Boys track | 1,360 | 1,676 | 2,229 | 293 | 1,100 |
| Girls track | 2,094 | 1,741 | 2,497 | 283 | 1,621 |
| Wrestling | 209 | 3,578 | 3,324 | 210 | 673 |
| Softball | 10,398 | 5,441 | 4,395 | 200 | 11,644 |
| Volleyball | 2,725 | 8,138 | 5,526 | 310 | 5,647 |
| Weight room | 90 | - | - | - | 90 |
| Yearbook | 355 | 5,335 | 5,560 | 1,000 | 1,130 |
| Pep/Jazz band | 441 | - | 108 | 264 | 597 |
| Vocal | 1,308 | - | 2,044 | 852 | 116 |
| Student council | 4,872 | 14,266 | 15,569 | 45 | 3,614 |
| Leadership club | 1,443 | 365 | 2,097 | - | (289) |
| PTSA | 369 | - | - | - | 369 |
| TSA | 3,132 | 180 | 1,553 | - | 1,759 |
| Speech | 3,263 | 121 | 1,295 | 168 | 2,257 |
| Cheerleaders | 763 | 882 | 584 | 150 | 1,211 |
| Art club | 802 | 1,231 | 898 | - | 1,135 |
| Drama club | 871 | - | 31 | - | 840 |
| Drill team | 3,364 | 1,448 | 257 | - | 4,555 |
| Spanish club | 2,493 | 50 | 281 | - | 2,262 |
| Library club | 272 | 289 | - | - | 561 |
| Video club | 793 | 220 | 750 | - | 263 |
| National Honor Society | 65 | 1,240 | 956 | - | 349 |
| Home economics | 646 | 564 | 604 | - | 606 |
| MMC marketing club | 1,807 | 3,489 | 2,398 | - | 2,898 |
| Lettermans club | 4,328 | 11,816 | 1,036 | (11,177) | 3,931 |
| Class of 2006 | 1,137 | - | 500 | - | 637 |
| Class of 2008 | 1,155 | 870 | - | - | 2,025 |
| Class of 2007 | 1,975 | 1,150 | 1,755 | - | 1,370 |
| Character counts club | 1,075 | 1,290 | 655 | - | 1,710 |
| Home economics | 243 | 553 | 552 | - | 244 |
| Annual | 1,628 | 507 | 1,023 | - | 1,112 |
| MS vocal | 84 | - | - | 500 | 584 |
| MS athletics | 920 | 740 | 8,092 | 7,775 | 1,343 |
| MS plays | 359 | - | - | - | 359 |
| MS student council | 12,924 | 14,869 | 15,314 | (2,213) | 10,266 |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

| <u>Account</u> | <u>Balance Beginning of Year</u> | <u>Revenues</u> | <u>Expenditures</u> | <u>Intra-Fund Transfers</u> | <u>Balance End of Year</u> |
|-------------------------|--|-----------------|---------------------|---------------------------------|--------------------------------|
| | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |
| Family communication | 38 | - | - | - | 38 |
| TSA | 582 | - | - | - | 582 |
| Elementary library club | 742 | 290 | - | - | 1,032 |
| Elementary activities | 122 | - | - | - | 122 |
| Kathy's Kids | 4,364 | 5,312 | 5,042 | - | 4,634 |
| Co-Curricular music | - | 236 | 120 | - | 116 |
| Class of 1999 | - | 670 | - | - | 670 |
| June 30, 2006 accruals | - | - | 611 | - | (611) |
| June 30, 2005 accruals | (2,247) | - | (2,247) | - | - |
| | <u>91,192</u> | <u>120,951</u> | <u>112,635</u> | <u>-</u> | <u>99,508</u> |

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

| | Modified Accrual Basis | | | |
|---|------------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2004 | 2003 |
| | \$ | \$ | \$ | \$ |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | 2,456,381 | 2,453,453 | 2,440,231 | 2,274,769 |
| Tuition | 119,589 | 151,067 | 126,867 | 129,056 |
| Other | 211,633 | 205,012 | 222,319 | 27,001 |
| State sources | 2,025,513 | 2,225,828 | 1,841,556 | 1,933,219 |
| Federal sources | 186,720 | 221,771 | 98,990 | 102,951 |
| Total revenues | <u>4,999,836</u> | <u>5,257,131</u> | <u>4,729,963</u> | <u>4,466,996</u> |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | 2,211,222 | 2,101,243 | 2,171,633 | 1,946,359 |
| Special instruction | 542,040 | 469,336 | 642,272 | 562,312 |
| Other instruction | 536,757 | 537,082 | 393,645 | 352,700 |
| Support services: | | | | |
| Student services | 122,808 | 118,025 | 118,156 | 111,926 |
| Instructional staff services | 80,638 | 128,593 | 85,520 | 83,426 |
| Administration services | 538,965 | 493,963 | 479,096 | 493,327 |
| Operation and maintenance of plant services | 367,876 | 355,548 | 367,319 | 349,449 |
| Transportation services | 211,876 | 247,936 | 184,288 | 187,609 |
| Non-instructional programs | 16,031 | - | - | - |
| Other expenditures: | | | | |
| Facilities acquisition | 119,032 | 219,509 | 315,644 | 142,840 |
| AEA flowthrough | 172,997 | 174,587 | 171,131 | 182,522 |
| Total expenditures | <u>4,920,242</u> | <u>4,845,822</u> | <u>4,928,704</u> | <u>4,412,470</u> |

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

To the Board of Education of
Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn 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 August 23, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marcus-Meriden-Cleghorn 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, 06-I-B and 06-I-C are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn Community School District and other parties to whom Marcus-Meriden-Cleghorn 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 Marcus-Meriden-Cleghorn 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

August 23, 2006

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to 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 procedures 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 board secretary, who is the other cosigner of the checks, has access to the stamp. 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 stamp is used persons writing or cosigning checks should not have access.

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

Conclusion: Response accepted.

06-I-C Claims for Grant Reimbursements: We noted that several individuals file claims for different grant reimbursements throughout the year. These individuals do not compare their grant expenditure records with those of the school accounting office. The claims for grant reimbursements must match the District's accounting records. This lack of procedures for comparison of records could lead to the situation where grant reimbursements requests may not reconcile to the official accounting records.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to Financial Statements (continued):

Recommendation: All individuals preparing claims for grant reimbursements should reconcile their grant expenditure records with those of the school accounting office before filing the claim. The accounting records should be reclassified for any grant expenditures that were miscoded.

District Response: We will have all persons filing requests for grant reimbursements review expenditures with the accounting office.

Conclusion: Response accepted.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

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

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

District Response: We will amend our budget in the future before expenditures exceed the budget.

Conclusion: Response accepted.

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

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

06-II-D Business Transactions: No transactions between the District and District officials or employees were noted.

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

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

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

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

06-II-I Certified Annual Report (CAR): The Certified Annual Report was not due yet at the completion of the audit.

06-II-J Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activity program. There are some accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We are reviewing the accounts and making the necessary adjustments.

Conclusion: Response accepted.

MARCUS-MERIDEN-CLEGHORN COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

06-II-K Home School Assistance Program Expenditures: We reviewed expenditures of State monies received for the home school assistance program. We noted \$1,200 of payments for school supplies made from the District directly to parents. We also noted \$295 of materials purchased from Christian book distributors.

Recommendation: The District should not be making payments to parents. The District may purchase education supplies for the home school assistance program directly from the vendors. Any supplies purchased for the home school program must be the type of supplies that the District could purchase for use in the public school.

District Response: We are no longer reimbursing parents for supplies. We will monitor the types of supplies that are purchased for the home school assistance program.

Conclusion: Response accepted.