

**MESERVEY-THORNTON COMMUNITY SCHOOL DISTRICT  
THORNTON, IOWA**

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

**YEAR ENDED JUNE 30, 2006**

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Meservey-Thornton Community School District  
Thornton, Iowa

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education  
(Before September 2005 Election)**

Kent Pals	President	2006
Christy Engebretson	Vice President	2007
Richard Miller	Board Member	2005
Ron Payton	Board Member	2005
Betty Jensen	Board Member	2006
Dawn Brosdahl	Board Member	2006 (Resigned)
Bret Lage	Board Member	2006
Tonya Uhde	Board Member	2006 (Appointed)

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

Kent Pals	President	2006
Christy Engebretson	Vice President	2007
Betty Jensen	Board Member	2006
Tonya Uhde	Board Member	2006
Bret Lage	Board Member	2007
Michelle Duff	Board Member	2008
Richard Miller	Board Member	2008

**School Officials**

Eldon Pyle	Superintendent	2006
Connie Stadlander	District Secretary/Treasurer and Business Manager	2006
Rick Engel	Attorney	2006

## Independent Auditor's Report

To the Board of Education of  
Meservey-Thornton 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 Meservey-Thornton Community School District, Thornton, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these 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 Meservey-Thornton 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 September 15, 2006 on our consideration of Meservey-Thornton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 41 through 43 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 Meservey-Thornton 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 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

September 15, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$1,634,206 in fiscal 2005 to \$1,676,938 in fiscal 2006, while General Fund expenditures increased from \$1,545,240 in fiscal 2005 to \$1,631,724 in fiscal 2006. The District's General Fund balance increased from \$321,355 in fiscal 2005 to \$365,808 in fiscal 2006, a 14% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

### **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 Meservey-Thornton 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 Meservey-Thornton 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 Meservey-Thornton Community School District acts solely as an agent or custodian for the benefit of those outside of District 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.

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

Figure A-1

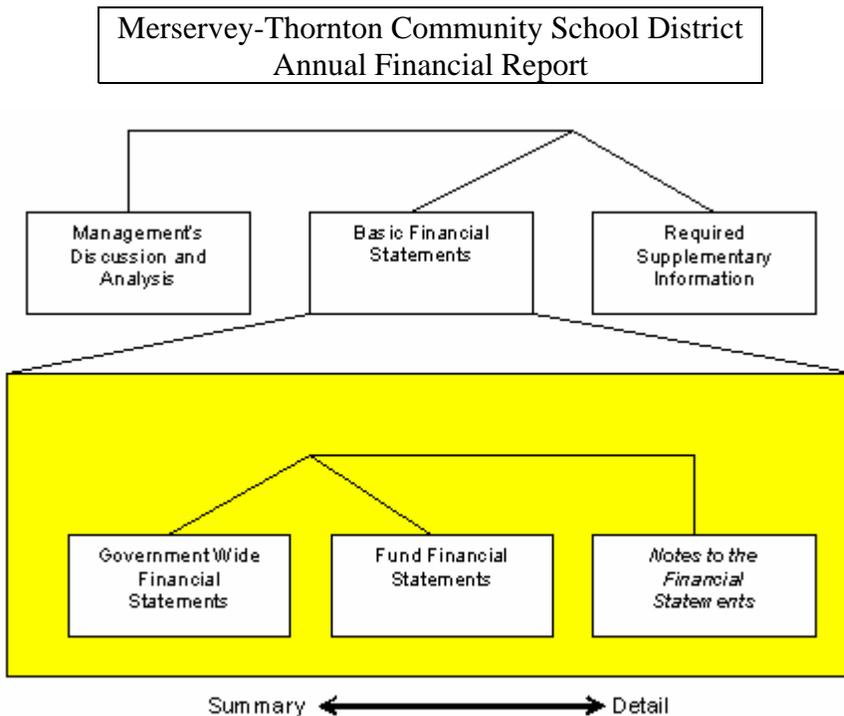


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2: Major Features of the Government Wide and Fund Financial Statements</b>				
	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of cash flows</li> <li>• Statement of revenues, expenses and changes in net assets</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial 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

## 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 one Enterprise Fund, the School Nutrition Fund.

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

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Agency Funds.

- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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, 2006 compared to June 30, 2005.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(Expressed in Thousands)**

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 1,543	1,518	\$ 6	8	\$ 1,549	1,526	1.5%
Capital assets	<u>630</u>	<u>590</u>	<u>1</u>	<u>1</u>	<u>631</u>	<u>591</u>	<u>6.8%</u>
Total assets	<u>2,173</u>	<u>2,108</u>	<u>7</u>	<u>9</u>	<u>2,180</u>	<u>2,117</u>	<u>3.0%</u>
Long-term liabilities	178	211	---	---	178	211	-15.6%
Other liabilities	<u>677</u>	<u>762</u>	<u>1</u>	<u>1</u>	<u>678</u>	<u>763</u>	<u>-11.1%</u>
Total liabilities	<u>855</u>	<u>973</u>	<u>1</u>	<u>1</u>	<u>856</u>	<u>974</u>	<u>-12.1%</u>
Net assets:							
Invested in capital assets, net of related debt	505	405	1	1	506	406	24.6%
Restricted	144	179	---	---	144	179	-19.6%
Unrestricted	<u>669</u>	<u>551</u>	<u>5</u>	<u>7</u>	<u>674</u>	<u>558</u>	<u>20.8%</u>
Total net assets	\$ <u>1,318</u>	<u>1,135</u>	\$ <u>6</u>	<u>8</u>	\$ <u>1,324</u>	<u>1,143</u>	<u>15.8%</u>

The District's combined net assets increased by nearly 16% or approximately \$181,000, over the prior year.

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 \$35,000, or 19.6% over the prior year. The decrease was primarily a result of decreased expenditures in the Physical Plant and Equipment Levy Fund.

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 \$116,000, or 21%. This increase in unrestricted net assets was a result of the imposition of the school local option sales tax.

Figure A-4 shows the change in net assets for the year ended June 30, 2006 compared to June 30, 2005.

**Figure A-4**  
**Changes in Net Assets**  
**(Expressed in Thousands)**

	Governmental		Business type		Total	
	Activities		Activities		District	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 237	227	37	44	274	271
Operating grants, contributions and restricted interest	251	217	25	29	276	246
General revenues:						
Property tax	742	693	---	---	742	693
Local option sales and service tax	170	181	---	---	170	181
Income surtax	67	51	---	---	67	51
Unrestricted state grants	504	557	---	---	504	557
Unrestricted investment earnings	4	7	---	---	4	7
Other	2	5	---	---	2	5
Loss on sale of capital assets	(4)	---	---	---	(4)	---
Transfer	(5)	(3)	5	3	---	---
Total revenues	<u>1,968</u>	<u>1,935</u>	<u>67</u>	<u>76</u>	<u>2,035</u>	<u>2,011</u>
Program expenses:						
Governmental activities:						
Instruction	1,219	1,117	---	---	1,219	1,117
Support services	490	479	---	---	490	479
Non-instructional programs	---	---	69	76	69	76
Other expenses	76	82	---	---	76	82
Total expenses	<u>1,785</u>	<u>1,678</u>	<u>69</u>	<u>76</u>	<u>1,854</u>	<u>1,754</u>
Change in net assets	\$ 183	257	(2)	---	181	257
	=====	=====	=====	=====	=====	=====

Property tax and unrestricted state grants account for 61% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$1,968,024 and expenses were \$1,785,034. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net costs of the District’s major governmental activities: instruction, support services, and other expenses.

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

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 1,219	798
Support services	490	478
Other expenses	<u>76</u>	<u>21</u>
Totals	\$ 1,785	1,297
	=====	=====

- The cost financed by users of the District’s programs was \$237,139.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$250,766.
- The net cost of governmental activities was financed with \$979,284 in property and other taxes and \$504,444 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$61,332 and expenses were \$68,879. 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.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$811,644, well above last year’s ending fund balances of \$708,683. The primary reason for the increase in combined fund balances in fiscal 2006 is due to the approximate fund balance in the Capital Projects Fund of \$284,633. This is local option sales and service tax revenue. The general fund balance also increased \$44,453.

## **Governmental Fund Highlights**

- The General Fund balance increased from \$321,355 to \$365,808.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$128,691 in fiscal 2005 to \$85,154 in fiscal 2006.
- The Capital Projects Fund increased from \$183,283 in fiscal 2005 to \$284,633 in fiscal 2006.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$8,728 at June 30, 2005 to \$6,292 at June 30, 2006, representing a decrease of approximately 28%. For fiscal 2006, the District transferred \$5,111 from the General Fund to the School Nutrition Fund to help cover employee benefits.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$2,761 more than budgeted receipts, a variance of .1%.

Total expenditures were less than budgeted by \$260,325, due primarily to the District's budget for the General Fund.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$630,000, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 6.6% 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 \$58,675.

The original cost of the District's capital assets was \$1.4 million. Governmental funds accounted for the majority of this.

**Figure A-6**  
**Capital Assets, net of Depreciation**  
**(Expressed in Thousands)**

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 4	4	---	---	4	4	0%
Buildings	433	436	---	---	433	436	-7%
Improvements other than buildings	9	9	---	---	9	9	0%
Furniture and equipment	<u>184</u>	<u>141</u>	<u>1</u>	<u>1</u>	<u>185</u>	<u>142</u>	<u>30.3%</u>
Totals	<u>630</u>	<u>590</u>	<u>1</u>	<u>1</u>	<u>631</u>	<u>591</u>	<u>6.8%</u>
	=====	=====	=====	=====	=====	=====	=====

### Long-Term Debt

At June 30, 2006 the District had \$177,848 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 16% 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**  
**(Expressed in Thousands)**

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 125	\$ 185	-32.4%
Early retirement	<u>53</u>	<u>26</u>	<u>103.8%</u>
Totals	<u>\$ 178</u>	<u>\$ 211</u>	<u>-15.6%</u>
	=====	=====	=====

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The District voted on August 8, 2006 to consolidate with the Sheffield-Chapin Community School beginning July 1, 2007. The reason for the consolidation was due to declining enrollment in both school districts.
- The District is also looking at whole grade sharing with Rockwell-Swaledale Community School after the consolidation.
- The District is also looking at sharing administration and teachers with the Rockwell-Swaledale Community School. This result may decrease both districts' expenditures.

## **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 Connie Stadlander, District Secretary/Treasurer, Meservey-Thornton Community School District, 100 Fifth Street North, Thornton, Iowa 50479.

## **Basic Financial Statements**

Meservey-Thornton Community School District  
 Thornton, Iowa

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 743,300	3,107	746,407
Receivables:			
Property tax:			
Delinquent	9,675	-	9,675
Succeeding year	671,000	-	671,000
Accounts	617	74	691
Due from other governments	92,632	-	92,632
Prepaid expenses	26,343	-	26,343
Inventories	-	3,111	3,111
Capital assets, net of accumulated depreciation	629,728	520	630,248
<b>Total assets</b>	<u>2,173,295</u>	<u>6,812</u>	<u>2,180,107</u>
<b>Liabilities</b>			
Accounts payable	5,518	520	6,038
Salaries and benefits payable	405	-	405
Accrued interest payable	1,008	-	1,008
Deferred revenue - succeeding year property tax	671,000	-	671,000
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	60,000	-	60,000
Early retirement payable	8,365	-	8,365
Portion due after one year:			
General obligation bonds payable	65,000	-	65,000
Early retirement payable	44,483	-	44,483
<b>Total liabilities</b>	<u>855,779</u>	<u>520</u>	<u>856,299</u>

Meservey-Thornton Community School District  
 Thornton, Iowa

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	504,728	520	505,248
Restricted for:			
Management levy	30,322	-	30,322
Physical plant and equipment levy	85,154	-	85,154
Other special revenue purposes	28,217	-	28,217
Unrestricted	<u>669,095</u>	<u>5,772</u>	<u>674,867</u>
<b>Total net assets</b>	<u><u>\$ 1,317,516</u></u>	<u><u>6,292</u></u>	<u><u>1,323,808</u></u>

See notes to financial statements.

Meservey-Thornton Community School District  
 Thornton, Iowa  
 Statement of Activities  
 Year ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
<b>Governmental activities:</b>				
Instruction:				
Regular instruction	\$ 871,500	82,964	136,278	-
Special instruction	263,841	154,175	9,711	-
Other instruction	83,347	-	37,448	-
	<u>1,218,688</u>	<u>237,139</u>	<u>183,437</u>	<u>-</u>
Support services:				
Student services	16,624	-	3,900	-
Instructional staff services	31,351	-	-	-
Administration services	216,665	-	-	-
Operation and maintenance of plant services	128,919	-	8,518	-
Transportation services	96,910	-	-	-
	<u>490,469</u>	<u>-</u>	<u>12,418</u>	<u>-</u>
Other expenditures:				
Long-term debt interest	8,681	-	-	-
AEA flowthrough	54,911	-	54,911	-
Depreciation (unallocated)*	12,285	-	-	-
	<u>75,877</u>	<u>-</u>	<u>54,911</u>	<u>-</u>
Total governmental activities	1,785,034	237,139	250,766	-
<b>Business type activities:</b>				
Non-instructional programs:				
Food service operations	68,879	36,749	24,583	-
Total	<u>\$ 1,853,913</u>	<u>273,888</u>	<u>275,349</u>	<u>-</u>

**General Revenues:**

Property tax levied for:
General purposes
Capital outlay
Local option sales and services tax
Income surtax
Unrestricted state grants
Unrestricted investment earnings
Other
Loss on sale of capital assets
Transfer
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.

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
(652,258)	-	(652,258)
(99,955)	-	(99,955)
(45,899)	-	(45,899)
<u>(798,112)</u>	<u>-</u>	<u>(798,112)</u>
(12,724)	-	(12,724)
(31,351)	-	(31,351)
(216,665)	-	(216,665)
(120,401)	-	(120,401)
(96,910)	-	(96,910)
<u>(478,051)</u>	<u>-</u>	<u>(478,051)</u>
(8,681)	-	(8,681)
-	-	-
<u>(12,285)</u>	<u>-</u>	<u>(12,285)</u>
<u>(20,966)</u>	<u>-</u>	<u>(20,966)</u>
(1,297,129)	-	(1,297,129)
-	(7,547)	(7,547)
<u>(1,297,129)</u>	<u>(7,547)</u>	<u>(1,304,676)</u>
678,583	-	678,583
63,847	-	63,847
169,866	-	169,866
66,988	-	66,988
504,444	-	504,444
3,585	-	3,585
2,233	-	2,233
(4,316)	-	(4,316)
(5,111)	5,111	-
<u>1,480,119</u>	<u>5,111</u>	<u>1,485,230</u>
182,990	(2,436)	180,554
1,134,526	8,728	1,143,254
<u>\$ 1,317,516</u>	<u>6,292</u>	<u>1,323,808</u>

Meservey-Thornton Community School District  
Thornton, Iowa

Balance Sheet  
Governmental Funds

June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>
<b>Assets</b>			
Cash and pooled investments	\$ 331,357	25,064	251,372
Receivables:			
Property tax:			
Delinquent	8,452	-	-
Succeeding year	574,000	-	-
Accounts	67		
Due from other governments	59,371	-	33,261
Prepaid expenses	26,343	-	-
<b>Total assets</b>	<u>\$ 999,590</u>	<u>25,064</u>	<u>284,633</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 4,377	-	-
Salaries and benefits payable	405	-	-
Deferred revenue:			
Succeeding year property tax	574,000	-	-
Other	55,000	-	-
Total liabilities	<u>633,782</u>	<u>-</u>	<u>-</u>
Fund balances:			
Reserved for prepaid expenses	26,343	-	-
Reserved for teacher salary improvement	22,575	-	-
Reserved for debt service	-	25,064	-
Unreserved	316,890	-	284,633
Total fund balances	<u>365,808</u>	<u>25,064</u>	<u>284,633</u>
<b>Total liabilities and fund balances</b>	<u>\$ 999,590</u>	<u>25,064</u>	<u>284,633</u>

See notes to financial statements.

Exhibit C

Nonmajor Special <u>Revenue</u>	<u>Total</u>
135,507	743,300
1,223	9,675
97,000	671,000
550	617
-	92,632
-	26,343
<u>234,280</u>	<u>1,543,567</u>
1,141	5,518
-	405
97,000	671,000
-	55,000
<u>98,141</u>	<u>731,923</u>
-	26,343
-	22,575
-	25,064
<u>136,139</u>	<u>737,662</u>
<u>136,139</u>	<u>811,644</u>
<u>234,280</u>	<u>1,543,567</u>

Meservey-Thornton Community School District  
Thornton, Iowa

Exhibit D

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

June 30, 2006

<b>Total fund balances of governmental funds (page 20)</b>	<b>\$ 811,644</b>
 <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.	629,728
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	55,000
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(1,008)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(177,848)</u>
<b>Net assets of governmental activities (page 16)</b>	<b><u><u>\$ 1,317,516</u></u></b>

See notes to financial statements.

Meservey-Thornton Community School District  
Thornton, Iowa

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year ended June 30, 2006

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues:					
Local sources:					
Local tax	\$ 708,580	-	169,866	93,839	972,285
Tuition	231,512	-	-	-	231,512
Other	10,503	-	636	20,584	31,723
State sources	666,642	-	-	70	666,712
Federal sources	<u>59,701</u>	<u>-</u>	<u>-</u>	<u>8,518</u>	<u>68,219</u>
Total revenues	<u>1,676,938</u>	<u>-</u>	<u>170,502</u>	<u>123,011</u>	<u>1,970,451</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	830,809	-	-	-	830,809
Special instruction	263,841	-	-	-	263,841
Other instruction	<u>55,448</u>	<u>-</u>	<u>-</u>	<u>27,899</u>	<u>83,347</u>
	<u>1,150,098</u>	<u>-</u>	<u>-</u>	<u>27,899</u>	<u>1,177,997</u>
Support services:					
Student services	16,624	-	-	-	16,624
Instructional staff services	30,317	-	-	-	30,317
Administration services	207,764	-	-	43,534	251,298
Operation and maintenance of plant services	106,784	-	-	26,433	133,217
Transportation services	<u>65,226</u>	<u>-</u>	<u>-</u>	<u>67,987</u>	<u>133,213</u>
	<u>426,715</u>	<u>-</u>	<u>-</u>	<u>137,954</u>	<u>564,669</u>
Other expenditures:					
Long-term debt:					
Principal	-	60,000	-	-	60,000
Interest and fiscal charges	-	9,152	-	-	9,152
AEA flowthrough	<u>54,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,911</u>
	<u>54,911</u>	<u>69,152</u>	<u>-</u>	<u>-</u>	<u>124,063</u>
Total expenditures	<u>1,631,724</u>	<u>69,152</u>	<u>-</u>	<u>165,853</u>	<u>1,866,729</u>
Excess (deficiency) of revenues over (under) expenditures	<u>45,214</u>	<u>(69,152)</u>	<u>170,502</u>	<u>(42,842)</u>	<u>103,722</u>
Other financing sources (uses):					
Sale of capital assets	4,350	-	-	-	4,350
Operating transfers in	-	69,152	-	-	69,152
Operating transfers out	<u>(5,111)</u>	<u>-</u>	<u>(69,152)</u>	<u>-</u>	<u>(74,263)</u>
Total other financing sources (uses)	<u>(761)</u>	<u>69,152</u>	<u>(69,152)</u>	<u>-</u>	<u>(761)</u>
Net change in fund balances	44,453	-	101,350	(42,842)	102,961
Fund balances beginning of year	<u>321,355</u>	<u>25,064</u>	<u>183,283</u>	<u>178,981</u>	<u>708,683</u>
Fund balances end of year	<u>\$ 365,808</u>	<u>25,064</u>	<u>284,633</u>	<u>136,139</u>	<u>811,644</u>

See notes to financial statements.

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 (page 22)** \$ 102,961

*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 and remaining book value of capital assets sold in the current year, as follows:

Expenditures for capital assets	\$ 107,207	
Depreciation expense	(58,675)	
Book value of capital assets sold	<u>(8,666)</u>	39,866

Income surtax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. 7,000

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments are as follows:

Repaid		60,000
--------	--	--------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 471

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		<u>(27,308)</u>
------------------	--	-----------------

**Change in net assets of governmental activities (page 18)** \$ 182,990

See notes to financial statements.

Meservey-Thornton Community School District  
Thornton, Iowa

Exhibit G

Statement of Net Assets  
Proprietary Fund

June 30, 2006

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 3,107
Accounts receivable	74
Inventories	3,111
Capital assets, net of accumulated depreciation	<u>520</u>
<b>Total assets</b>	<u>6,812</u>
<b>Liabilities</b>	
Accounts payable	<u>520</u>
<b>Total liabilities</b>	<u>520</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	520
Unrestricted	<u>5,772</u>
<b>Total net assets</b>	<u>\$ 6,292</u>

See notes to financial statements.

Meservey-Thornton Community School District  
 Thornton, Iowa

Exhibit H

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

Year ended June 30, 2006

	<u>School Nutrition</u>
Operating revenues:	
Local sources:	
Charges for service	\$ <u>36,749</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	32,367
Benefits	9,444
Purchased services	507
Supplies	25,819
Depreciation	<u>742</u>
Total operating expenses	<u>68,879</u>
Operating loss	<u>(32,130)</u>
Non-operating revenues:	
State sources	761
Federal sources	<u>23,822</u>
Total non-operating revenues	<u>24,583</u>
Net loss	(7,547)
Other financing sources:	
Transfers in	<u>5,111</u>
Change in net assets	(2,436)
Net assets beginning of year	<u>8,728</u>
Net assets end of year	<u>\$ <u>6,292</u></u>

See notes to financial statements.

Meservey-Thornton Community School District  
Thornton, Iowa

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

School  
Nutrition

Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 36,885
Cash received from miscellaneous operating activities	35
Cash paid to employees for services	(41,811)
Cash paid to suppliers for goods or services	<u>(20,390)</u>
Net cash used by operating activities	<u>(25,281)</u>
Cash flows from non-capital financing activities:	
State grants received	761
Federal grants received	17,112
Transfers from General Fund	<u>5,111</u>
Net cash provided by non-capital financing activities	<u>22,984</u>
Net increase in cash and cash equivalents	(2,297)
Cash and cash equivalents beginning of year	<u>5,404</u>
Cash and cash equivalents end of year	<u>\$ 3,107</u>

Meservey-Thornton Community School District  
Thornton, Iowa

Exhibit I

Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

School  
Nutrition

**Reconciliation of operating loss to net cash used by  
operating activities:**

Operating loss	\$ (32,130)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	6,710
Depreciation	742
Increase in inventories	(832)
Decrease in accounts receivable	171
Increase in accounts payable	<u>58</u>
Net cash used by operating activities	<u>\$ (25,281)</u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received \$6,710 of federal commodities.

See notes to financial statements.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

**(1) Summary of Significant Accounting Policies**

Meservey-Thornton 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 Meservey and Thornton, Iowa, and the predominate agricultural territory in Cerro Gordo, Hancock, Franklin and Wright 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, Meservey-Thornton 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. Meservey-Thornton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization – 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 Franklin County Assessor's Conference Board.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 attributable 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 imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given

function or segment are offset by program revenues. Direct expenses are those 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.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The District reports the following major proprietary fund:

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 also reports fiduciary funds which focus on net assets and changes in net assets. The District has no fiduciary funds.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

Under 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.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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

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

D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Non-negotiable certificates of deposit 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.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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.

Meservey-Thornton Community School District  
 Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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	\$ 500
Buildings	500
Improvements other than buildings	500
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

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

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

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 represents the amount of assets that have

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences – District employees do not accumulate earned but unused vacation. District employees accumulate a limited amount of earned but unused sick leave benefits. An accrual for earned but unused sick leave is not recorded in these financial statements because sick leave can only be used for time off for illness.

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. Budgets and Budgetary Accounting

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

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

**(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 during the year or at June 30, 2006. The District deposited its excess funds in money market checking, savings accounts and certificates of deposit during the year ended June 30, 2006.

**(3) Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
School Nutrition	General	\$ 5,111
Debt Service	Capital Projects	<u>69,152</u>
Total		\$ 74,263
		=====

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

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

**(4) Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ <u>4,049</u>	---	---	<u>4,049</u>
Capital assets being depreciated:				
Buildings	761,189	7,290	---	768,479
Improvements other than buildings	56,306	---	---	56,306
Furniture and equipment	<u>591,971</u>	<u>99,917</u>	<u>88,850</u>	<u>603,038</u>
Total capital assets being depreciated	<u>1,409,466</u>	<u>107,207</u>	<u>88,850</u>	<u>1,427,823</u>
Less accumulated depreciation for:				
Buildings	325,186	10,521	---	335,707
Improvements other than buildings	46,978	773	---	47,751
Furniture and equipment	<u>451,489</u>	<u>47,381</u>	<u>80,184</u>	<u>418,686</u>
Total accumulated depreciation	<u>823,653</u>	<u>58,675</u>	<u>80,184</u>	<u>802,144</u>
Total capital assets being depreciated, net	<u>585,813</u>	<u>48,532</u>	<u>8,666</u>	<u>625,679</u>
Governmental activities capital assets, net	\$ <u>589,862</u>	<u>48,532</u>	<u>8,666</u>	<u>629,728</u>
	=====	=====	=====	=====

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Business type activities:</b>				
Furniture and equipment	\$ 8,907	---	---	8,907
Less accumulated depreciation	<u>7,645</u>	<u>742</u>	<u>---</u>	<u>8,387</u>
Business type activities capital assets, net	\$ 1,262	(742)	---	520
	=====	=====	=====	=====

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular

\$ 13,383

Support services:

Instructional staff

1,034

Administration

1,832

Operation and maintenance of plant

2,992

Transportation

27,149

46,390

Unallocated

12,285

Total depreciation expense – governmental activities

\$ 58,675

=====

Business type activities:

Food service operations

\$ 742

=====

**(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
General obligation bonds	\$ 185,000	---	60,000	125,000	60,000
Early retirement	<u>25,540</u>	<u>30,956</u>	<u>3,648</u>	<u>52,848</u>	<u>8,365</u>
Total	\$ 210,540	30,956	63,648	177,848	68,365
	=====	=====	=====	=====	=====

Meservey-Thornton Community School District  
 Thornton, Iowa

Notes to Financial Statements

June 30, 2006

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a percentage based on age at time of retirement of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. Early retirement expenditures for the year ended June 30, 2006, totaled \$3,648.

General Obligation Bonds Payable

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

Year Ending June 30,	Interest Rates	<u>Bond Issue of December 1, 1997</u>		
		Principal	Interest	Total
2007	4.800%	\$ 60,000	6,032	66,032
2008	4.850	<u>65,000</u>	<u>3,153</u>	<u>68,153</u>
Total		<u>\$ 125,000</u>	<u>9,185</u>	<u>134,185</u>
		=====	=====	=====

**(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.

Meservey-Thornton Community School District  
Thornton, Iowa

Notes to Financial Statements

June 30, 2006

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 \$50,596, \$48,900 and \$47,805, respectively, equal to the required contributions for each year.

**(7) Risk Management**

Meservey-Thornton 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 \$54,911 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.

**(9) Subsequent Event**

The Meservey-Thorton Community District and the Sheffield-Chapin Community School District approved by special election on August 8, 2006 to be reorganized into a new school district and school corporation to be known as the Sheffield Chapin Meservey Thorton Community School District pursuant to the provisions of Iowa Code, Chapter 275.

**Required Supplementary Information**

Meservey-Thornton Community School District  
Thornton, Iowa

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances/Net Assets -  
Budget and Actual (Modified Accrual Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Fund <u>Actual</u>
Revenues:		
Local sources	\$ 1,235,520	36,749
State sources	666,712	761
Federal sources	<u>68,219</u>	<u>23,822</u>
Total revenues	<u>1,970,451</u>	<u>61,332</u>
Expenditures:		
Instruction	1,177,997	-
Support services	564,669	-
Non-instructional programs	-	68,879
Other expenditures	<u>124,063</u>	<u>-</u>
Total expenditures	<u>1,866,729</u>	<u>68,879</u>
Excess (deficiency) of revenues over (under) expenditures	103,722	(7,547)
Other financing sources, net	<u>(761)</u>	<u>5,111</u>
Excess of revenues and other financing sources over expenditures and other financing uses	102,961	(2,436)
Balances beginning of year	<u>708,683</u>	<u>8,728</u>
Balances end of year	<u>\$ 811,644</u>	<u>6,292</u>

See accompanying independent auditor's report.

<u>Total Actual</u>	<u>Budgeted Amounts</u>		<u>Final to Actual Variance</u>
	<u>Original</u>	<u>Final</u>	
1,272,269	1,269,429	1,269,429	2,840
667,473	668,093	668,093	(620)
<u>92,041</u>	<u>95,500</u>	<u>95,500</u>	<u>(3,459)</u>
<u>2,031,783</u>	<u>2,033,022</u>	<u>2,033,022</u>	<u>(1,239)</u>
1,177,997	1,255,000	1,255,000	77,003
564,669	605,000	605,000	40,331
68,879	85,885	85,885	17,006
<u>124,063</u>	<u>254,048</u>	<u>254,048</u>	<u>129,985</u>
<u>1,935,608</u>	<u>2,199,933</u>	<u>2,199,933</u>	<u>264,325</u>
96,175	(166,911)	(166,911)	263,086
<u>4,350</u>	<u>-</u>	<u>-</u>	<u>4,350</u>
100,525	(166,911)	(166,911)	267,436
<u>717,411</u>	<u>513,648</u>	<u>513,648</u>	<u>203,763</u>
<u><u>817,936</u></u>	<u><u>346,737</u></u>	<u><u>346,737</u></u>	<u><u>471,199</u></u>

Meservey-Thornton Community School District  
Thornton, Iowa

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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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. 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 District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted.

## **Other Supplementary Information**

Meservey-Thornton Community School District  
 Thornton, Iowa

Schedule 1

Combining Balance Sheet  
 Nonmajor Special Revenue Funds

June 30, 2006

	Manage- ment <u>Levy</u>	Student Activity <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$ 29,931	20,663	84,913	135,507
Receivables:				
Property tax:				
Delinquent	391	-	832	1,223
Succeeding year	31,000	-	66,000	97,000
Accounts	<u>-</u>	<u>-</u>	<u>550</u>	<u>550</u>
<b>Total assets</b>	<u>\$ 61,322</u>	<u>20,663</u>	<u>152,295</u>	<u>234,280</u>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ -	-	1,141	1,141
Deferred revenue:				
Succeeding year property tax	<u>31,000</u>	<u>-</u>	<u>66,000</u>	<u>97,000</u>
Total liabilities	<u>31,000</u>	<u>-</u>	<u>67,141</u>	<u>98,141</u>
Fund equity:				
Unreserved fund balances	<u>30,322</u>	<u>20,663</u>	<u>85,154</u>	<u>136,139</u>
<b>Total liabilities and fund equity</b>	<u>\$ 61,322</u>	<u>20,663</u>	<u>152,295</u>	<u>234,280</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District  
 Thornton, Iowa

Schedule 2

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

Year ended June 30, 2006

	Manage- ment <u>Levy</u>	Student Activity <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$ 29,992	-	63,847	93,839
Other	-	20,345	239	20,584
State sources	22	-	48	70
Federal sources	-	-	8,518	8,518
Total revenues	<u>30,014</u>	<u>20,345</u>	<u>72,652</u>	<u>123,011</u>
Expenditures:				
Current:				
Instruction:				
Other instruction	-	27,899	-	27,899
Support services:				
Administration services	6,593	-	36,941	43,534
Operation and maintenance of plant services	10,637	-	15,796	26,433
Transportation services	<u>4,535</u>	-	<u>63,452</u>	<u>67,987</u>
Total expenditures	<u>21,765</u>	<u>27,899</u>	<u>116,189</u>	<u>165,853</u>
Excess (deficiency) of revenues over (under) expenditures	8,249	(7,554)	(43,537)	(42,842)
Fund balances beginning of year	<u>22,073</u>	<u>28,217</u>	<u>128,691</u>	<u>178,981</u>
Fund balances end of year	<u>\$ 30,322</u>	<u>20,663</u>	<u>85,154</u>	<u>136,139</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District  
 Thornton, Iowa

Schedule 3

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 and Interfund Transfers</u>	<u>Expenditures</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
Music Fundraiser	\$ 4,984	5,026	4,880	-	5,130
Athletics	(2,661)	530	1,847	4,000	22
Student Council	2,505	3,823	5,090	-	1,238
Fundraiser	5,082	3,971	2,384	-	6,669
Class of 2009	5,891	-	5,891	-	-
Class of 2010	1,444	-	-	-	1,444
Class of 2011	1,367	1,958	1,175	-	2,150
Class of 2012	-	3,557	2,292	-	1,265
Interest	-	64	-	-	64
Field Trips and Assemblies	<u>9,605</u>	<u>1,416</u>	<u>4,340</u>	<u>(4,000)</u>	<u>2,681</u>
Total	<u>\$ 28,217</u>	<u>20,345</u>	<u>27,899</u>	<u>-</u>	<u>20,663</u>

See accompanying independent auditor's report.

Meservey-Thornton Community School District  
 Thornton, Iowa

Schedule 4

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

For the Last Four Years

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:				
Local sources:				
Local tax	\$ 972,285	928,962	843,035	705,514
Tuition	231,512	190,458	215,342	210,610
Other	31,723	47,516	68,510	62,526
State sources	666,712	708,922	631,148	630,244
Federal sources	<u>68,219</u>	<u>65,065</u>	<u>64,822</u>	<u>85,617</u>
Total	<u>\$ 1,970,451</u>	<u>1,940,923</u>	<u>1,822,857</u>	<u>1,694,511</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 830,809	811,575	740,752	752,775
Special instruction	263,841	202,625	280,167	250,447
Other instruction	83,347	97,413	69,549	63,808
Support services:				
Student services	16,624	14,930	16,086	398
Instructional staff services	30,317	35,010	23,418	23,750
Administration services	251,298	213,685	254,247	242,080
Operation and maintenance of plant services	133,217	141,994	118,252	110,692
Transportation services	133,213	61,533	115,584	66,616
Other expenditures:				
Facilities acquisition	-	-	1,776	67,318
Long-term debt:				
Principal	60,000	55,000	50,000	50,000
Interest and other charges	9,152	11,710	14,010	16,315
AEA flowthrough	<u>54,911</u>	<u>55,911</u>	<u>53,680</u>	<u>54,961</u>
Total	<u>\$ 1,866,729</u>	<u>1,701,386</u>	<u>1,737,521</u>	<u>1,699,160</u>

See accompanying independent auditor's report.

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

To the Board of Education of  
Meservey-Thornton 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 Meservey-Thornton 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 September 15, 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 Meservey-Thornton 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 item I-A-06 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Meservey-Thornton 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.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Meservey-Thornton 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.

Cornwell, Frideres, Maher & Associates, P.L.C.  
Certified Public Accountants

September 15, 2006

Meservey-Thornton Community School District  
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2006

**Part I: Findings Related to the Financial Statements:**

**REPORTABLE CONDITIONS:**

I-A-06 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response – We are doing everything we can within our situation and make improvements as the situation changes. We will continue to review our procedures and implement additional controls where possible.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**Other Findings Related To Statutory Reporting:**

II-A-06 Certified Budget – Expenditures for the year ended June 30, 2006 did not exceed the amounts budgeted.

Meservey-Thornton Community School District  
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2006

II-B-06 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.

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

II-D-06 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>
Rich Miller, Board Member	Bus repairs	\$ 700

The transaction with the Board Member, Miller does not appear to represent a conflict of interest since the transaction was less than \$2,500 as provided by Chapter 279.7A of the Code of Iowa.

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

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

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

II-H-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

Meservey-Thornton Community School District  
Thornton, Iowa

Schedule of Findings

Year ended June 30, 2006

II-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely.