

MFL MARMAC 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  
MFL MarMac 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 MFL MarMac Community School District, Monona, 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 basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 MFL MarMac Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2006, on our consideration of MFL MarMac Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 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 MFL MarMac 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 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

October 16, 2006

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

MFL MarMac 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**

Overall Tax Rates decreased by approximately five cents (.05) per thousand dollars of assessed valuation. This is the third year in a row of a tax levy decrease. It is projected that the tax levy rate will decrease by another five cents per thousand (.05) in 07.

General Fund revenues increased from \$6,689,249 in fiscal 2005 to \$ 6,864,759 in fiscal 2006, while General Fund expenditures increased from \$6,745,525 in fiscal 2005 to \$6,830,225 in fiscal 2006. The District's General Fund balance increased from \$1,878,304 in fiscal 2005 to \$1,903,721 in fiscal 2006, a 1.4% increase.

The District's Solvency Ratio still remains in the mid-twenties, which is extremely healthy.

The increase in General Fund revenues was attributable to an increase in state and local 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 MFL MarMac 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 MFL MarMac 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 MFL

MarMac Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

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

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

<b>Figure A-1 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in fund net assets Statement of cash flows	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

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

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

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

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

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

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

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

The District has three kinds of funds:

***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.

**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 two Enterprise Funds; the School Nutrition Fund and Day Care Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District has one internal service fund used to account for the District's employee flexible benefit plan.

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.

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

Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other individuals, and other governments.

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

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

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2006

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	5,867,497	6,283,784	76,796	85,630	5,944,293	6,369,414	7%
Capital assets	1,644,248	1,835,229	6,937	6,019	1,651,185	1,841,248	12%
<b>Total assets</b>	<b>7,511,745</b>	<b>8,119,013</b>	<b>83,733</b>	<b>91,649</b>	<b>7,595,478</b>	<b>8,210,662</b>	<b>8%</b>
Long-term liabilities	1,062,203	1,036,588	-	-	1,062,203	1,036,588	-3%
Other liabilities	2,714,805	2,668,832	4,783	3,674	2,719,588	2,672,506	-2%
<b>Total liabilities</b>	<b>3,777,008</b>	<b>3,705,420</b>	<b>4,783</b>	<b>3,674</b>	<b>3,781,791</b>	<b>3,709,094</b>	<b>-2%</b>
Net Assets:							
Invested in capital assets, net of related debt	734,248	1,025,229	6,937	6,019	741,185	1,031,248	39%
Restricted	1,010,551	1,402,993	-	-	1,010,551	1,402,993	39%
Unrestricted	1,989,938	1,985,371	72,013	81,956	2,061,951	2,067,327	1%
<b>TOTAL NET ASSETS</b>	<b>3,734,737</b>	<b>4,413,593</b>	<b>78,950</b>	<b>87,975</b>	<b>3,813,687</b>	<b>4,501,568</b>	<b>18%</b>

The District's combined net assets increased by nearly 18%, or approximately \$687,881, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

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 \$392,442 or 39% over the prior year. The increase was primarily a result of decreased expenditures in the Capital Projects and Physical Plant and Equipment Levy Funds and increased revenues in the Management 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 \$5,376, or 1%. This increase in unrestricted net assets was a result of increased revenues for the year, as well as a planned deliberate reduction in overall staff size. This staff size reduction is in correlation to student enrollment decline.

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

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	495,647	544,914	236,720	239,115	732,367	784,029	7%
Operating grants & contributions	826,187	821,360	167,542	169,779	993,729	991,139	-1%
Capital grants & contributions	-	-	-	-	-	-	
General Revenues:							
Property taxes	2,607,011	2,626,196	-	-	2,607,011	2,626,196	1%
Income Surtax	323,540	206,270	-	-	323,540	206,270	-36%
Local option sales tax	490,586	436,159	-	-	490,586	436,159	-11%
Unrestricted state grants	3,575,341	3,589,053	-	-	3,575,341	3,589,053	0%
Unrestricted investment earnings	61,339	126,138	474	728	61,813	126,866	105%
Other revenue	63	30	-	-	63	30	-52%
<b>Total Revenues</b>	<b>8,379,714</b>	<b>8,350,120</b>	<b>404,736</b>	<b>409,622</b>	<b>8,784,450</b>	<b>8,759,742</b>	<b>-0%</b>
Expenses:							
Instruction	4,569,150	4,758,439	-	-	4,569,150	4,758,439	4%
Support services	2,160,789	2,362,403	-	-	2,160,789	2,362,403	9%
Non-instructional programs	8,254	-	389,321	409,744	397,575	409,744	3%
Other expenditures	852,436	541,275	-	-	852,436	541,275	-37%
<b>Total expenses</b>	<b>7,590,629</b>	<b>7,662,117</b>	<b>389,321</b>	<b>409,744</b>	<b>7,979,950</b>	<b>8,071,861</b>	<b>1%</b>
<b>Change in net assets before transfers</b>	<b>789,085</b>	<b>688,003</b>	<b>15,415</b>	<b>(122)</b>	<b>804,500</b>	<b>687,881</b>	<b>-15%</b>
Transfers	-	(9,147)	-	9,147	-	-	0%
<b>CHANGE IN NET ASSETS</b>	<b>789,085</b>	<b>678,856</b>	<b>15,415</b>	<b>9,025</b>	<b>804,500</b>	<b>687,881</b>	<b>-15%</b>
Net assets beginning of year	2,945,652	3,734,737	63,535	78,950	3,009,187	3,813,687	27%
Net assets end of year	3,734,737	4,413,593	78,950	87,975	3,813,687	4,501,568	18%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 88% of the total expenses.

### Governmental Activities

Revenues for governmental activities were \$8,350,120 and expenses were \$7,662,117. The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

**Total and Net Cost of Governmental Activities**

	<b>Total Cost Of Services 2005</b>	<b>Total Cost of Services 2006</b>	<b>Net Cost of Services 2005</b>	<b>Net Cost Of Services 2006</b>
	\$	\$	\$	\$
Instruction	4,569,150	4,758,439	3,613,764	3,774,202
Support Services	2,160,789	2,362,403	2,114,231	2,274,895
Non-instructional Programs	8,254	-	8,254	-
Other Expenses	<u>852,436</u>	<u>541,275</u>	<u>532,546</u>	<u>246,746</u>
<b>TOTAL</b>	<u>7,590,629</u>	<u>7,662,117</u>	<u>6,268,795</u>	<u>6,295,843</u>

The cost financed by users of the District’s programs was \$544,914.

Federal and state governments subsidized certain programs with grants and contributions totaling \$821,360.

The net cost of governmental activities was financed with \$3,268,625 in property and other taxes and \$3,589,053 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$409,622 and expenses were \$409,744. The District’s business type activities include the School Nutrition Fund and Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, MFL MarMac 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 \$3,441,303, well above last year’s ending fund balances of \$2,968,683.

**Governmental Fund Highlights**

The District’s General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues.

The General Fund balance increased from \$1,878,304 to \$1,903,721, due in part to the existing expenditure commitments of the District, and a gradual reduction in the overall size of the staff. This is in relation to the enrollment decline.

The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$234,276 in fiscal 2005 to \$172,974 in fiscal 2006. While revenues remained approximately the same, the District increased spending in the PEEL Fund during the year. The purpose of this was for infrastructure and energy conservation purposes.

The Management Fund balance increased from \$504,054 to \$747,283. The purpose of this increase is to prepare for the numerous anticipated early retirements, in which the district will then save money in the general fund.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$72,352 at June 30, 2005 to \$75,802 at June 30, 2006, representing an increase of approximately 11%. For fiscal 2005, the District increased meal prices, resulting in the increase in net assets. The District also revamped its school lunch program to provide students with the option of salad and/or pasta bars at lunch with little additional cost to the program. This change resulted in an increase in meals served and a related increase in revenue and net assets. The district has also further utilized the food cooperative offered by AEA 1.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, MFL MarMac Community School District amended its annual budget one time to reflect additional expenditures and revenue. The District is now the fiscal agent for Hawc Empowerment which increased revenue and expenditures.

The District's receipts were slightly less than budgeted receipts. The most significant variance resulted from the District receiving less in federal aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2006, the District had invested \$1.8 million, 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) More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$162,659.

The original cost of the District's capital assets was \$5.6 million. Governmental funds account for \$5.5 million, with the remainder of \$0.1 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building improvements and equipment additions.

Figure A-6

**Capital Assets (net of depreciation)**

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	10,000	10,000	-	-	10,000	10,000	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	155,024	288,917	-	-	155,024	288,917	86%
Improvements	1,114,279	1,154,154	-	-	1,114,279	1,154,154	4%
Equipment & Furniture	364,945	382,158	6,937	6,019	371,882	388,177	4%
<b>TOTAL</b>	<b>1,644,248</b>	<b>1,835,229</b>	<b>6,937</b>	<b>6,019</b>	<b>1,651,185</b>	<b>1,841,248</b>	<b>12%</b>

**Long-Term Debt**

At June 30, 2006, the District had \$1,036,588 in capital loan notes, revenue bonds and other long-term debt outstanding. This represents a decrease of approximately 3% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

**Figure A-7  
Outstanding Long-Term Obligations**

	Total School District		Percentage Change 2005-2006
	2005	2006	
	\$	\$	
Local Option Sales and Services			
Tax Revenue Bonds	150,000	135,000	-10%
Capital Loan Notes	760,000	675,000	-11%
Early Retirement	152,203	226,588	49%
	<b>1,062,203</b>	<b>1,036,588</b>	<b>-3%</b>

## **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:

Due to the completion of property revaluation assessments, the District's total taxable valuation will increase about 1.5% percent for property tax collected in fiscal 2006.

School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by 22 students. This drop in enrollment will decrease the District's funding for fiscal year 2007 approximately \$119,000.00. The district can anticipate this trend to continue. Currently the enrollment is at 912, and it is expected to decline over the next five years to about 800 students. This additional decline will cause the district to lose an additional \$670,000.00. The district has increased reserves and reduced staff in order to prepare for this decline.

The District has evaluated the condition of its transportation vehicles and determined, due to safety precautions, one bus must be replaced during fiscal 2007 at a cost of \$70,000. To pay for these buses, the District will use the Physical Plant and Equipment Levy Fund.

Fiscal year 2006 was the last year of a three-year contract with the MFL MarMac Education Teacher Association (MEA). The District has negotiated a new agreement during fiscal 2007 which will be in effect until 1010. This settlement is slightly above the state average for FY 08, and slightly below the anticipated state average for FY 09. The FY 10 settlement will be equal to the state average. Settlements in excess of "new money" or allowable growth in state funding can have an adverse effect on the District's General Fund budget and related fund balance. The district will have to continue to reduce staff, utilize early retirement and the management fund, and it will need to use some of its reserves that have been created for this purpose.

## **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 Dr. Dale R. Crozier, Superintendent, MFL MarMac Community Schools; 700 South Page, Monona, Iowa, 52159.

## BASIC FINANCIAL STATEMENTS

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	3,218,895	72,834	3,291,729
Receivables:			
Property tax:			
Delinquent	51,028	-	51,028
Succeeding year	2,655,707	-	2,655,707
Accounts	6,278	9,837	16,115
Accrued interest	6,630	-	6,630
Due from other governments	345,246	-	345,246
Inventories	-	2,959	2,959
Capital assets, net of accumulated depreciation	1,835,229	6,019	1,841,248
	<u>8,119,013</u>	<u>91,649</u>	<u>8,210,662</u>
<b>Liabilities</b>			
Accounts payable	2,774	-	2,774
Accrued interest payable	10,351	-	10,351
Deferred revenue:			
Succeeding year property tax	2,655,707	-	2,655,707
Other	-	3,674	3,674
Long-term liabilities:			
Portion due within one year:			
Revenue bonds payable	15,000	-	15,000
Notes payable	90,000	-	90,000
Early retirement	41,348	-	41,348
Portion due after one year:			
Revenue bonds payable	120,000	-	120,000
Notes payable	585,000	-	585,000
Early retirement	185,240	-	185,240
	<u>3,705,420</u>	<u>3,674</u>	<u>3,709,094</u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,025,229	6,019	1,031,248
Restricted for:			
Management levy	520,695	-	520,695
Physical plant and equipment levy	264,974	-	264,974
Other special revenue purposes	112,628	-	112,628
Local option sales tax capital projects	504,696	-	504,696
Unrestricted	<u>1,985,371</u>	<u>81,956</u>	<u>2,067,327</u>
<b>Total net assets</b>	<u><u>4,413,593</u></u>	<u><u>87,975</u></u>	<u><u>4,501,568</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	3,052,311	199,147	321,196	-
Special instruction	764,176	7,312	152,399	-
Other instruction	941,952	292,295	11,888	-
	<u>4,758,439</u>	<u>498,754</u>	<u>485,483</u>	<u>-</u>
Support services:				
Student services	237,145	-	-	-
Instructional staff services	187,403	43,459	41,348	-
Administration services	838,052	-	-	-
Operation and maintenance of plant services	620,219	410	-	-
Transportation services	479,584	2,291	-	-
	<u>2,362,403</u>	<u>46,160</u>	<u>41,348</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	147,958	-	-	-
Long-term debt interest	28,241	-	-	-
AEA flowthrough	294,529	-	294,529	-
Depreciation (unallocated)*	70,547	-	-	-
	<u>541,275</u>	<u>-</u>	<u>294,529</u>	<u>-</u>
Total governmental activities	<u>7,662,117</u>	<u>544,914</u>	<u>821,360</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	394,619	218,415	169,779	-
Preschool	15,125	20,700	-	-
Total business type activities	<u>409,744</u>	<u>239,115</u>	<u>169,779</u>	<u>-</u>
Total	<u>8,071,861</u>	<u>784,029</u>	<u>991,139</u>	<u>-</u>
<b>General Revenues:</b>				
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.

See notes to financial statements.

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
Governmental Activities	Business Type Activities	Total
\$	\$	\$
(2,531,968)	-	(2,531,968)
(604,465)	-	(604,465)
(637,769)	-	(637,769)
<u>(3,774,202)</u>	<u>-</u>	<u>(3,774,202)</u>
(237,145)	-	(237,145)
(102,596)	-	(102,596)
(838,052)	-	(838,052)
(619,809)	-	(619,809)
(477,293)	-	(477,293)
<u>(2,274,895)</u>	<u>-</u>	<u>(2,274,895)</u>
(147,958)	-	(147,958)
(28,241)	-	(28,241)
-	-	-
(70,547)	-	(70,547)
<u>(246,746)</u>	<u>-</u>	<u>(246,746)</u>
<u>(6,295,843)</u>	<u>-</u>	<u>(6,295,843)</u>
-	(6,425)	(6,425)
-	5,575	5,575
<u>-</u>	<u>(850)</u>	<u>(850)</u>
<u>(6,295,843)</u>	<u>(850)</u>	<u>(6,296,693)</u>
2,400,540	-	2,400,540
225,656	-	225,656
206,270	-	206,270
436,159	-	436,159
3,589,053	-	3,589,053
126,138	728	126,866
30	-	30
<u>6,983,846</u>	<u>728</u>	<u>6,984,574</u>
(9,147)	9,147	-
<u>6,974,699</u>	<u>9,875</u>	<u>6,984,574</u>
678,856	9,025	687,881
<u>3,734,737</u>	<u>78,950</u>	<u>3,813,687</u>
<u>4,413,593</u>	<u>87,975</u>	<u>4,501,568</u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Management Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	1,814,916	739,779	168,297	495,903	3,218,895
Receivables:					
Property tax:					
Delinquent	38,847	7,504	4,677	-	51,028
Succeeding year	2,088,880	334,000	232,827	-	2,655,707
Accounts	2,607	-	-	3,671	6,278
Accrued interest - other	6,630	-	-	-	6,630
Due from other governments	135,495	-	92,000	117,751	345,246
<b>Total assets</b>	<b><u>4,087,375</u></b>	<b><u>1,081,283</u></b>	<b><u>497,801</u></b>	<b><u>617,325</u></b>	<b><u>6,283,784</u></b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	2,774	-	-	-	2,774
Deferred revenue:					
Succeeding year property tax	2,088,880	334,000	232,827	-	2,655,707
Other	92,000	-	92,000	-	184,000
Total liabilities	<u>2,183,654</u>	<u>334,000</u>	<u>324,827</u>	<u>-</u>	<u>2,842,481</u>
Fund balances:					
Reserved for:					
Debt service	-	-	-	1	1
Unreserved reported in:					
General fund	1,903,721	-	-	-	1,903,721
Special revenue funds	-	747,283	172,974	112,628	1,032,885
Capital projects funds	-	-	-	504,696	504,696
Total fund balances	<u>1,903,721</u>	<u>747,283</u>	<u>172,974</u>	<u>617,325</u>	<u>3,441,303</u>
<b>Total liabilities and fund balances</b>	<b><u>4,087,375</u></b>	<b><u>1,081,283</u></b>	<b><u>497,801</u></b>	<b><u>617,325</u></b>	<b><u>6,283,784</u></b>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	3,441,303
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,835,229
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	184,000
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.	(10,351)
Long-term liabilities, including bonds payable, notes payable and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,036,588)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>4,413,593</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Management Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,121,777	387,638	334,530	436,159	3,280,104
Tuition	145,874	-	-	-	145,874
Other	187,126	4,286	3,788	286,520	481,720
Intermediate sources	2,441	-	-	-	2,441
State sources	4,202,566	266	165	-	4,202,997
Federal sources	204,975	-	-	-	204,975
Total revenues	<u>6,864,759</u>	<u>392,190</u>	<u>338,483</u>	<u>722,679</u>	<u>8,318,111</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,027,579	32,566	-	-	3,060,145
Special instruction	764,176	-	-	-	764,176
Other instruction	672,905	-	-	269,047	941,952
	<u>4,464,660</u>	<u>32,566</u>	<u>-</u>	<u>269,047</u>	<u>4,766,273</u>
Support services:					
Student services	237,145	-	-	-	237,145
Instructional staff services	143,944	-	-	-	143,944
Administration services	780,254	-	-	-	780,254
Operation and maintenance of plant services	510,295	116,395	-	-	626,690
Transportation services	399,398	-	70,276	-	469,674
	<u>2,071,036</u>	<u>116,395</u>	<u>70,276</u>	<u>-</u>	<u>2,257,707</u>
Other expenditures:					
Facilities acquisition	-	-	329,509	58,995	388,504
Long-term debt:					
Principal	-	-	-	100,000	100,000
Interest and fiscal charges	-	-	-	29,361	29,361
AEA flowthrough	294,529	-	-	-	294,529
	<u>294,529</u>	<u>-</u>	<u>329,509</u>	<u>188,356</u>	<u>812,394</u>
Total expenditures	<u>6,830,225</u>	<u>148,961</u>	<u>399,785</u>	<u>457,403</u>	<u>7,836,374</u>
Excess (deficiency) of revenues over (under) expenditures	<u>34,534</u>	<u>243,229</u>	<u>(61,302)</u>	<u>265,276</u>	<u>481,737</u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Management Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Sales of materials and equipment	30	-	-	-	30
Operating transfers in	-	-	-	129,361	129,361
Operating transfers out	(9,147)	-	-	(129,361)	(138,508)
Total other financing sources (uses)	<u>(9,117)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,117)</u>
Net change in fund balances	25,417	243,229	(61,302)	265,276	472,620
Fund balances beginning of year	<u>1,878,304</u>	<u>504,054</u>	<u>234,276</u>	<u>352,049</u>	<u>2,968,683</u>
Fund balances end of year	<u><u>1,903,721</u></u>	<u><u>747,283</u></u>	<u><u>172,974</u></u>	<u><u>617,325</u></u>	<u><u>3,441,303</u></u>

## MFL MARMAC 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

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		472,620
<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. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	357,847	
Disposal of assets with remaining basis	(5,125)	
Depreciation expense	<u>(161,741)</u>	190,981
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(11,480)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		100,000
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.		1,120
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>(74,385)</u>
<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>678,856</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Nonmajor Enterprise Funds
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	72,834
Accounts receivable	9,837
Inventories	2,959
Capital assets, net of accumulated depreciation	<u>6,019</u>
<b>Total assets</b>	91,649
<b>Liabilities</b>	
Deferred revenue	<u>3,674</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	6,019
Unrestricted	<u>81,956</u>
<b>Total net assets</b>	<u><u>87,975</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor Enterprise Funds \$	Governmental Activities - Internal Service Fund \$
Operating revenue:		
Local sources:		
Charges for service	<u>239,115</u>	<u>43,459</u>
Operating expenses:		
Non-instructional programs:		
Salaries	168,208	-
Benefits	65,094	43,459
Purchased services	3,951	-
Supplies	171,573	-
Depreciation	918	-
	<u>409,744</u>	<u>43,459</u>
Operating gain (loss)	<u>(170,629)</u>	<u>-</u>
Non-operating revenue:		
State sources	5,134	-
Federal sources	164,645	-
Interest income	728	-
Total non-operating revenue	<u>170,507</u>	<u>-</u>
Gain (loss) before transfers	(122)	-
Transfers in	<u>9,147</u>	<u>-</u>
Change in net assets	9,025	-
Net assets beginning of year	<u>78,950</u>	<u>-</u>
Net assets end of year	<u><u>87,975</u></u>	<u><u>-</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise Funds	Governmental Activities - Internal Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	214,079	-
Cash received from daycare services	20,700	-
Cash received from charges to other funds	-	43,459
Cash payments to employees for services	(233,301)	-
Cash payments to suppliers for goods or services	(144,898)	(43,459)
Net cash used by operating activities	<u>(143,420)</u>	<u>-</u>
Cash flows from non-capital financing activities:		
State grants received	23,258	-
Federal grants received	119,163	-
Net cash provided by non-capital financing activities	<u>142,421</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Transfer in	<u>9,146</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>728</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	8,875	-
Cash and cash equivalents at beginning of year	<u>63,959</u>	<u>-</u>
Cash and cash equivalents at end of year	<u><u>72,834</u></u>	<u><u>-</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(170,629)	-
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	27,359	-
Depreciation	918	-
Decrease (increase) in inventories	3,268	-
Decrease (increase) in accounts receivable	(3,227)	-
(Decrease) increase in deferred revenue	<u>(1,109)</u>	<u>-</u>
Net cash used in operating activities	<u><u>(143,420)</u></u>	<u><u>-</u></u>

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

During the year ended June 30, 2006, the District received \$27,359 of federal commodities.

MFL MARMAC COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
Cash and pooled investments	303	328,224
<b>Liabilities</b>		
Other payables	<u>-</u>	<u>328,224</u>
<b>Net Assets</b>		
Reserved for scholarships	<u><u>303</u></u>	<u><u>-</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u>\$</u>
Additions	-
Deductions	<u>-</u>
Change in net assets	-
Net assets beginning of year	<u>303</u>
Net assets end of year	<u><u>303</u></u>

# MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

MFL MarMac 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 Monona, Farmersburg, Luana, Marquette and McGregor, Iowa and the predominately agricultural territory in a portion of Clayton and Allamakee 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, MFL MarMac 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 MFL MarMac 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 Management Fund is a special revenue fund that is used to account for the revenues from and expenditures of the management property tax levy.

The Physical Plant and Equipment Levy Fund is a special revenue fund that is used to account for the revenues from and expenditures of the physical plant and equipment property tax levy.

The District proprietary funds include the Nonmajor Enterprise, School Nutrition and Preschool Funds. These funds are used to account for the operations of both funds.

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 collection and disbursement of certain fees and charges.

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

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

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

<u>Asset</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-15 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.

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 did not exceed the amounts 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 Statement No. 40.

### 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
		\$
Enterprise School Nutrition	General Fund	9,147
Debt Service	Capital Projects Fund	129,361

The transfers moved revenues from the funds statutorily required to collect the revenues to the funds required to expend the resources.

### 4. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,000			10,000
Capital assets being depreciated:				
Buildings	2,858,531	151,115	-	3,009,646
Improvements other than buildings	1,254,038	94,506	6,172	1,342,372
Furniture and equipment	1,188,136	112,226	85,518	1,214,844
Total capital assets being deprec.	<u>5,300,705</u>	<u>357,847</u>	<u>91,690</u>	<u>5,566,862</u>
Less accumulated depreciation for:				
Buildings	2,703,507	17,222	-	2,720,729
Improvements other than buildings	139,759	53,325	4,866	188,218
Furniture and equipment	823,191	91,194	81,699	832,686
Total accumulated depreciation	<u>3,666,457</u>	<u>161,741</u>	<u>86,565</u>	<u>3,741,633</u>
Total capital assets being depreciated, net	<u>1,634,248</u>	<u>196,106</u>	<u>5,125</u>	<u>1,825,229</u>
Governmental activities capital assets, net	<u>1,644,248</u>	<u>196,106</u>	<u>5,125</u>	<u>1,835,229</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	66,770	-	-	66,770
Less accumulated depreciation	59,833	918	-	60,751
Business type activities capital assets, net	6,937	(918)	-	6,019

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	7,204
Support Services:	
Administration services	2,013
Operation and maintenance of plant services	1,791
Transportation	80,186
	91,194
Unallocated depreciation	70,547
Total depreciation expense – governmental activities	161,741
Business type activities:	
Food services	918

## 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
	\$	\$	\$	\$	\$
Local option sales and services					
tax revenue bonds	150,000	-	15,000	135,000	15,000
Capital loan notes	760,000	-	85,000	675,000	90,000
Termination benefits	152,203	111,000	36,615	226,588	41,348
Total	1,062,203	111,000	136,615	1,036,588	146,348

### Termination Benefit

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

At June 30, 2006, the District has obligations to eleven participants with a total liability of \$226,588. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$36,615.

### Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of May 2002			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	5.250	15,000	7,087	22,087
2008	5.250	20,000	6,300	26,300
2009	5.250	20,000	5,250	25,250
2010	5.250	20,000	3,675	23,675
2011	5.250	20,000	2,625	22,625
2012-2013	5.250	40,000	2,100	42,100
		<u>135,000</u>	<u>27,037</u>	<u>162,037</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

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

- The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues.
- Bonds Maturing after January 1, 2009, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- \$18,000 of proceeds from the bond issue have been placed in a reserve fund. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available. At June 30, 2006 the required amount is in a savings account and is included as part of the Capital Projects Fund.

### Capital Loan Notes

The District issued \$845,000 of capital loan notes on April 1, 2003. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	2.40	90,000	19,582	109,582
2008	2.40	90,000	17,422	107,422
2009	2.60	90,000	15,263	105,263
2010	2.90	100,000	12,923	112,923
2011	3.10	100,000	10,023	110,023
2012-2013	3.30-3.45	205,000	13,845	218,845
		<u>675,000</u>	<u>89,058</u>	<u>764,058</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.

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 \$266,854, \$258,457 and \$258,771 respectively, equal to the required contributions for each year.

## **7. Risk Management**

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

## **8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$294,529 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

MFL MARMAC 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	3,907,698	239,843	4,147,541	4,237,571	4,237,571	(90,030)
Intermediate sources	2,441	-	2,441	-	-	2,441
State sources	4,202,997	5,134	4,208,131	4,242,218	4,242,218	(34,087)
Federal sources	204,975	164,645	369,620	540,000	540,000	(170,380)
Total revenues	<u>8,318,111</u>	<u>409,622</u>	<u>8,727,733</u>	<u>9,019,789</u>	<u>9,019,789</u>	<u>(292,056)</u>
Expenditures:						
Instruction	4,766,273	-	4,766,273	5,380,000	5,700,000	933,727
Support services	2,257,707	-	2,257,707	2,420,000	2,700,000	442,293
Non-instructional programs	-	409,744	409,744	450,000	850,000	440,256
Other expenditures	812,394	-	812,394	724,011	900,000	87,606
Total expenditures	<u>7,836,374</u>	<u>409,744</u>	<u>8,246,118</u>	<u>8,974,011</u>	<u>10,150,000</u>	<u>1,903,882</u>
Excess (deficiency) of revenues over (under) expenditures	481,737	(122)	481,615	45,778	(1,130,211)	1,611,826
Other financing sources (uses) net	<u>(9,117)</u>	<u>9,147</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>30</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	472,620	9,025	481,645	45,778	(1,130,211)	1,611,856
Balance beginning of year	<u>2,968,683</u>	<u>78,950</u>	<u>3,047,633</u>	<u>2,525,043</u>	<u>2,525,043</u>	<u>522,590</u>
Balance end of year	<u><u>3,441,303</u></u>	<u><u>87,975</u></u>	<u><u>3,529,278</u></u>	<u><u>2,570,821</u></u>	<u><u>1,394,832</u></u>	<u><u>2,134,446</u></u>

MFL MARMAC COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on 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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$1,175,989.

OTHER SUPPLEMENTARY INFORMATION

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue	Capital Projects	Debt Service	Total
	Student Activity	Local Option Sales and Services Tax		
	\$	\$	\$	\$
Cash and pooled investments	108,957	386,945	1	495,903
Receivables:				
Accounts	3,671	-	-	3,671
Due from other governments	-	117,751	-	117,751
<b>Total assets</b>	<u>112,628</u>	<u>504,696</u>	<u>1</u>	<u>617,325</u>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities	-	-	-	-
Fund balances:				
Reserved for debt service	-	-	1	1
Unreserved reported in:				
Special revenue funds	112,628	-	-	112,628
Capital projects funds	-	504,696	-	504,696
Total fund balances	<u>112,628</u>	<u>504,696</u>	<u>1</u>	<u>617,325</u>
<b>Total liabilities and fund balances</b>	<u>112,628</u>	<u>504,696</u>	<u>1</u>	<u>617,325</u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue	Capital Projects		
	Student Activity	Local Option Sales and Services Tax	Debt Service	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	-	436,159	-	436,159
Other	280,596	5,924	-	286,520
Total revenues	<u>280,596</u>	<u>442,083</u>	<u>-</u>	<u>722,679</u>
Expenditures:				
Current:				
Instruction:				
Other instruction	269,047	-	-	269,047
Other expenditures:				
Facilities acquisition	-	58,995	-	58,995
Long-term debt:				
Principal	-	-	100,000	100,000
Interest and fiscal charges	-	-	29,361	29,361
Total expenditures	<u>269,047</u>	<u>58,995</u>	<u>129,361</u>	<u>457,403</u>
Excess (deficiency) of revenues over (under) expenditures	<u>11,549</u>	<u>383,088</u>	<u>(129,361)</u>	<u>265,276</u>
Other financing sources (uses):				
Operating transfers in	-	-	129,361	129,361
Operating transfers out	-	(129,361)	-	(129,361)
Total other financing sources (uses)	<u>-</u>	<u>(129,361)</u>	<u>129,361</u>	<u>-</u>
Net changes in fund balances	11,549	253,727	-	265,276
Fund balances beginning of year	<u>101,079</u>	<u>250,969</u>	<u>1</u>	<u>352,049</u>
Fund balances end of year	<u><u>112,628</u></u>	<u><u>504,696</u></u>	<u><u>1</u></u>	<u><u>617,325</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets  
Nonmajor Enterprise Funds

June 30, 2006

	<u>Nonmajor Enterprise Funds</u>		
	School		Total
	<u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	60,661	12,173	72,834
Accounts receivable	9,837	-	9,837
Inventories	2,959	-	2,959
Capital assets, net of accumulated depreciation	<u>6,019</u>	<u>-</u>	<u>6,019</u>
<b>Total assets</b>	79,476	12,173	91,649
<b>Liabilities</b>			
Deferred revenue	<u>3,674</u>	<u>-</u>	<u>3,674</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	6,019	-	6,019
Unrestricted	<u>69,783</u>	<u>12,173</u>	<u>81,956</u>
<b>Total net assets</b>	<u><u>75,802</u></u>	<u><u>12,173</u></u>	<u><u>87,975</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor Enterprise Funds		Total
	School Nutrition	Preschool	
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	<u>218,415</u>	<u>20,700</u>	<u>239,115</u>
Operating expenses:			
Non-instructional programs:			
Salaries	155,796	12,412	168,208
Benefits	62,381	2,713	65,094
Purchased services	3,951	-	3,951
Supplies	171,573	-	171,573
Depreciation	918	-	918
	<u>394,619</u>	<u>15,125</u>	<u>409,744</u>
Operating gain (loss)	<u>(176,204)</u>	<u>5,575</u>	<u>(170,629)</u>
Non-operating revenue:			
State sources	5,134	-	5,134
Federal sources	164,645	-	164,645
Interest income	728	-	728
Total non-operating revenue	<u>170,507</u>	<u>-</u>	<u>170,507</u>
Gain (loss) before transfers	(5,697)	5,575	(122)
Transfers in	<u>9,147</u>	<u>-</u>	<u>9,147</u>
Change in net assets	3,450	5,575	9,025
Net assets beginning of year	<u>72,352</u>	<u>6,598</u>	<u>78,950</u>
Net assets end of year	<u><u>75,802</u></u>	<u><u>12,173</u></u>	<u><u>87,975</u></u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows  
Nonmajor Enterprise Funds

Year ended June 30, 2006

	Nonmajor Enterprise Funds		
	School		Total
	Nutrition	Preschool	
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	214,079	-	214,079
Cash received from daycare services	-	20,700	20,700
Cash payments to employees for services	(218,176)	(15,125)	(233,301)
Cash payments to suppliers for goods or services	(144,898)	-	(144,898)
Net cash provided by (used by) operating activities	(148,995)	5,575	(143,420)
Cash flows from non-capital financing activities:			
State grants received	23,258	-	23,258
Federal grants received	119,163	-	119,163
Net cash provided by non-capital financing activities	142,421	-	142,421
Cash flows from capital and related financing activities:			
Transfers in	9,146	-	9,146
Cash flows from investing activities:			
Interest on investments	728	-	728
Net increase (decrease) in cash and cash equivalents	3,300	5,575	8,875
Cash and cash equivalents at beginning of year	57,361	6,598	63,959
Cash and cash equivalents at end of year	60,661	12,173	72,834
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>			
Operating gain (loss)	(176,204)	5,575	(170,629)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	27,359	-	27,359
Depreciation	918	-	918
Decrease (increase) in inventories	3,268	-	3,268
Decrease (increase) in accounts receivable	(3,227)	-	(3,227)
(Decrease) increase in deferred revenue	(1,109)	-	(1,109)
Net cash used in operating activities	(148,995)	5,575	(143,420)

## MFL MARMAC 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>Expenditure s</u>	<u>Intra- Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Fine arts	6,873	15,705	15,771	-	6,807
Middle school drama	851	889	889	-	851
Band	436	100	59	232	709
Girls basketball	-	4,284	4,284	-	-
Girls basketball activities	-	340	340	-	-
MFL Marmac 2010 girls basketball	-	1,600	1,600	-	-
General athletics	(300)	14,291	14,007	(284)	(300)
MS athletic equipment fund balance	299	-	138	-	161
MS athletic sup. fund balance	-	6,099	6,099	-	-
MS athletic fundraising fund balance	1,135	(390)	-	-	745
MS volleyball	767	2,131	2,475	232	655
Boys basketball (2013-2014)	1,234	3,488	3,533	-	1,189
Cross country	-	1,457	1,457	-	-
Golf	-	1,380	1,380	-	-
Golf activities	-	264	272	-	(8)
Bulldog basketball club activities	874	9,597	7,862	53	2,662
Boys basketball	-	8,856	8,856	-	-
Football	-	5,810	7,119	-	(1,309)
Football activities fund balance	2,148	5,862	7,598	-	412
Youth football club	-	1,112	817	-	295
Baseball fund balance	-	3,438	4,203	-	(765)
Baseball activities	502	620	1,057	-	65
Boys track	-	1,742	1,742	-	-
Wrestling fund balance	-	6,547	6,713	-	(166)
Wrestling club fund balance	1,570	12,705	12,283	-	1,992
Volleyball fund balance	-	2,158	2,158	-	-
Bulldog volleyball club balance	212	680	793	-	99
Softball fund balance	-	3,949	4,749	-	(800)
Softball activities fund balance	21	-	960	-	(939)
Girls track	(1,617)	6,106	4,972	-	(483)
Cheerleaders	778	770	624	-	924
Dance team fund balance	-	1,222	829	-	393
MS cheerleaders fund balance	206	-	-	-	206
Other unreserved fund balance M.S. 3M G	-	2,592	-	-	2,592
FFA	6,860	19,742	19,101	-	7,501
High school student council	1,969	10,027	8,576	-	3,420
Middle school student council	265	1,269	933	-	601
Young Americans	(66)	2,658	2,684	-	(92)
Middle school peer helpers	171	10	28	-	153

See accompanying independent auditor's report.

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditure s \$	Intra- Fund Transfers \$	Balance End of Year \$
High school peer helpers	408	556	577	-	387
Class of 2005	4,306	-	2,306	(2,000)	-
Class of 2006	3,294	4,041	3,945	-	3,390
Class of 2007	382	18,330	14,726	(30)	3,956
Class of 2008	836	220	119	-	937
Class of 2009	130	334	13	-	451
Class of 2010	(724)	6,308	5,130	-	454
Class of 2011	4,502	9,763	14,473	-	(208)
Class of 2012	-	18,715	13,490	-	5,225
Music resale	476	1,369	1,571	(233)	41
Yearbook	9,489	11,865	19,738	2,030	3,646
Student activity tickets	22,513	13,305	3,530	-	32,288
Elem. fund raising	2,748	5,274	3,869	-	4,153
M.S. fund raising	1,746	1,842	3,202	-	386
HS fund raising	5,604	7,191	6,245	-	6,550
MS class trips	75	-	-	-	75
Electrathon team	-	504	980	-	(476)
Pepsi machine (M)	-	16,473	16,473	-	-
Pepsi (McG)	-	1,699	1,699	-	-
FFA savings	19,552	177	-	-	19,729
Cash on hand	100	-	-	-	100
Beginning accruals	454	(151)	-	-	303
Ending accruals	-	3,671	-	-	3,671
	-	-	-	-	-
Total	<u>101,079</u>	<u>280,596</u>	<u>269,047</u>	<u>-</u>	<u>112,628</u>

## MFL MARMAC COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities  
Agency Fund

Year ended June 30, 2006

	<u>Hawc Empowerment</u> \$	<u>Employee Memorial</u> \$	<u>Total</u> \$
Balance beginning of year	-	94	94
Additions:			
Collections	988,469	287	988,756
Deductions:			
Miscellaneous	<u>660,376</u>	<u>250</u>	<u>660,626</u>
Balance end of year	<u><u>328,093</u></u>	<u><u>131</u></u>	<u><u>328,224</u></u>

## MFL MARMAC 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	3,280,104	3,317,657	2,799,270	2,433,819
Tuition	145,874	120,848	125,357	131,466
Other	481,720	437,260	416,695	317,175
Intermediate sources	2,441	-	4,265	-
State sources	4,202,997	4,160,293	3,986,806	4,063,686
Federal sources	204,975	241,235	336,641	249,296
Total revenues	<u>8,318,111</u>	<u>8,277,293</u>	<u>7,669,034</u>	<u>7,195,442</u>
Expenditures:				
Instruction:				
Regular instruction	3,060,145	2,962,300	2,934,875	2,888,217
Special instruction	764,176	750,216	914,195	868,997
Other instruction	941,952	884,218	608,974	528,104
Support services:				
Student services	237,145	298,729	277,687	261,513
Instructional staff services	143,944	133,498	180,711	163,297
Administration services	780,254	848,247	833,883	808,748
Operation and maintenance of plant services	626,690	572,891	429,801	423,901
Transportation services	469,674	380,805	343,605	311,082
Non-instructional programs	-	8,254	1,748	-
Other expenditures:				
Facilities acquisition	388,504	577,333	913,215	670,243
Long-term debt:				
Principal	100,000	100,000	15,000	-
Interest and other charges	29,361	32,198	34,878	6,300
AEA flowthrough	294,529	294,915	296,974	319,147
Total expenditures	<u>7,836,374</u>	<u>7,843,604</u>	<u>7,785,546</u>	<u>7,249,549</u>

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

To the Board of Education of  
MFL MarMac 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 MFL MarMac Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 16, 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 MFL MarMac 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 06-I-A is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MFL MarMac 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 MFL MarMac Community School District and other parties to whom MFL MarMac 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 MFL MarMac Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

October 16, 2006

MFL MARMAC COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

MFL MARMAC 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 did not exceed the amounts budgeted.
- 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: We noted no transactions between the District and District officials or employees.
- 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: We noted no transactions requiring Board approval that had not been approved by the Board.
- 06-II-G Certified Enrollment: We noted no variances in the basic enrollment data certified to the Department of Education.
- 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: The Certified Annual Report was certified to the Iowa Department of Education timely.
- 06-II-J Deficit Balances: The Student Activity Fund has a few accounts with deficit balances.
- Recommendation: The District should monitor this fund and investigate alternatives to eliminate these deficits.
- District Response: We are working on ways to eliminate these deficits.
- Conclusion: Response accepted.