MOUNT VERNON COMMUNITY SCHOOL DISTRICT
MOUNT VERNON, IOWA

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

JUNE 30, 2006

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MOUNT VERNON COMMUNITY SCHOOL DISTRICT

OFFICIALS

Name	Title		Term Expires
	Board of Education		
	(Before September 2005 Election)		
Thomas Wieseler	President		2007
Todd Tripp	Vice President		2006
Eldean Borg	Board Member		2007
Ann Stoner	Board Member		2005
Bob Penn	Board Member		2005
Janet Griffith	Board Member		2007
Rebecca Brandt	Board Member		2006
	Board of Education		
	(After September 2005 Election)		
Thomas Wieseler	President		2007
Todd Tripp	Vice President		2006
Eldean Borg	Board Member		2007
Ann Stoner	Board Member		2008
Bob Penn	Board Member		2008
Janet Griffith	Board Member		2007
Rebecca Brandt	Board Member	(Resigned 6-12-06)	2006
Carol Dillard	Board Member	(Appointed 6-12-06)	2006
	School Officials		
Jeff Schwiebert	Superintendent		2006
Matt Burke	District Secretary/Treasurer		2006
Guy Booth	Attorney		Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Mount Vernon 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 Mount Vernon Community School District, 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 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mount Vernon Community School District as of 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 Mount Vernon 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.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 16 and 56 through 57 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mount Vernon Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein). For the year ended June 30, 2005, we expressed an adverse opinion on the financial statements due to the omission of the discretely presented component unit and unqualified opinions on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. For the two years ended June 30, 2004, we expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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.

Oskaloosa, Iowa
September 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Mount Vernon 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 $7,914,597 in fiscal 2005 to $8,130,151 in fiscal 2006, while General Fund expenditures increased from $7,928,188 in fiscal 2005 to $8,654,844 in fiscal 2006. The District's General Fund balance decreased from $1,363,150 in fiscal 2005 to $838,653 in fiscal 2006, a 38% decrease.

- The increase in General Fund revenues was primarily attributable to an increase in property taxes and the instructional support income surtax. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, the hiring of new teaching positions, and the purchase of furniture and equipment related to the construction of a new high school building.

- The fund balance in the Capital Projects Fund decreased from $7,453,636 in fiscal 2005 to $32,474 in fiscal 2006 primarily due to the construction costs for the new high school building and the construction costs to remodel the old high school building into a middle school building.

- The Debt Service Fund expenditures decreased from $915,920 in fiscal 2005 to $762,031 in fiscal 2006 primarily due to the final payment in fiscal 2005 of a previous bond issue.

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 Mount Vernon 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 Mount Vernon Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The Fiduciary Fund statements provide financial information about activities for which

Mount Vernon Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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
Mount Vernon Community School District Annual Financial Report

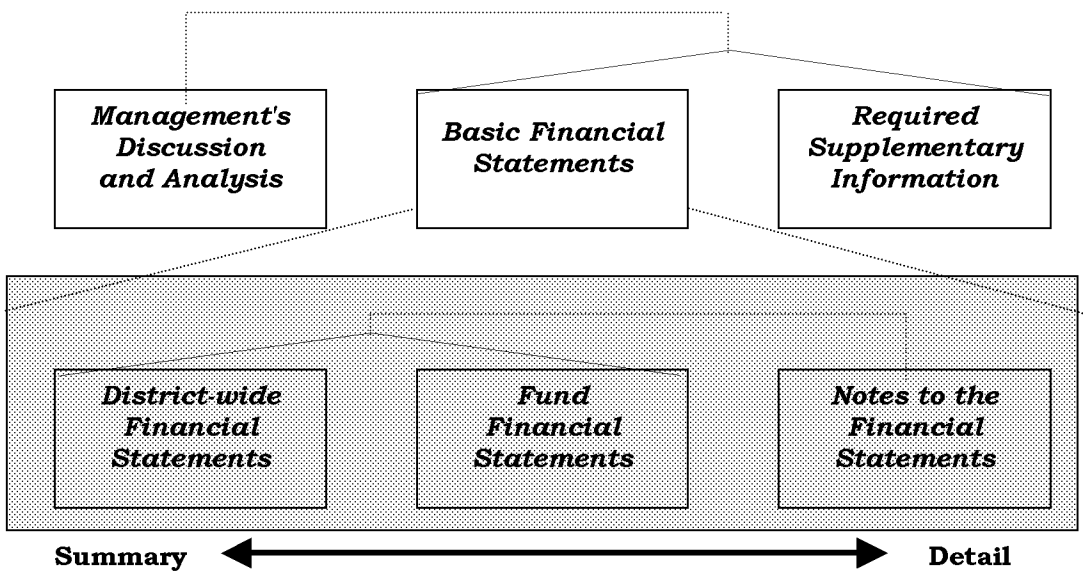

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and day care	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:

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 two Enterprise Funds, the School Nutrition Fund and the Daycare Fund.

The required financial statements for proprietary funds include a statement of net assets, 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 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 employee wellness program funds.

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 as compared to June 30, 2005.

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

	Governmental Activities June 30,		Business type Activities June 30,		Total District June 30,		Total Change June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	$7,266	$13,408	$106	$67	$7,372	$13,475	$(6,103)
Capital assets	14,294	4,978	149	9	14,443	4,987	9,456
Total assets	21,560	18,386	255	76	21,815	18,462	3,353
Long-term liabilities	10,020	8,685	-	-	10,020	8,685	1,335
Other liabilities	4,637	3,919	15	5	4,652	3,924	728
Total liabilities	14,657	12,604	15	5	14,672	12,609	2,063
Net assets:							
Invested in capital assets, Net of related debt	4,728	3,724	149	9	4,877	3,733	1,144
Restricted	1,087	495	-	-	1,087	495	592
Unrestricted	1,088	1,563	91	62	1,179	1,625	(446)
Total net assets	6,903	5,782	240	71	7,143	5,853	1,290

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.

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

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

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

	Governmental Activities June 30,		Business type Activities June 30,		Total District June 30,		Total Change June 30,
Revenues:	2006	2005	2006	2005	2006	2005	2005-2006
Program revenues:							
Charges for service	$1,439	1,493	$440	$382	1,879	$1,875	0.0%
Operating grants, contributions and restricted interest	774	708	160	114	934	822	13.6 %
Capital grants, contributions and restricted interest	772	-	142	-	914	-	100.0%
General revenues:							
Property tax	2,945	2,847	-	-	2,945	2,847	3.4%
Local option sales and service tax	8	10	-	-	8	10	(10.0)%
Unrestricted state grants	3,894	3,924	-	-	3,894	3,924	(.8)%
Unrestricted investment earnings	214	282	6	2	220	284	(22.5)%
Other	383	208	-	-	383	208	84.1%
Total revenues	10,429	9,472	748	498	11,177	9,970	12.1%
Program expenses:							
Governmental activities:							
Instruction	5,870	5,432	-	-	5,870	5,432	8.1%
Support services	2,581	2,417	-	-	2,581	2,417	6.8%
Non-instructional programs	-	1	569	487	569	488	16.6%
Other expenses	858	861	10	-	868	861	.1%
Total expenses	9,309	8,711	579	487	9,888	9,198	7.5%
Change in net assets	$1,120	761	169	$11	1,289	$772	67.0%

Property tax and unrestricted state grants account for 66% of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total governmental activities expenses.

Overall net assets increased approximately $1,289,000 for the current year.

Capital grants and contributions increased by about $914,000 or 100% due to funding received for building construction.

A decrease in cash balances related to building construction led to an approximate $64,000 (22.5%) decrease in investment earnings.

Governmental Activities

Revenues for governmental activities were $10,430,093 and expenses were $9,309,453.

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
(Expressed in Thousands)

	Total Cost of Services		Net Cost of Services	
	2005	2006	2005	2006
Instruction	$5,432	5,870	3,571	3,999
Support services	2,417	2,581	2,365	2,529
Non-instructional programs	1	-	1	-
Other expenses	861	858	573	(203)
Totals	$8,711	9,309	6,510	6,325

The cost financed by users of the District's programs was $1,439,316.

- Federal and state governments subsidized certain programs with grants and contributions totaling $774,148.
- The net cost of governmental activities was financed with $3,278,475 in property and other taxes and $3,894,336 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were $748,312 and expenses were $579,551. The District's business type activities include the School Nutrition Fund and Daycare Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the School Board approved an increase in meal prices for the 2005-2006 fiscal year to offset increasing food costs in the Nutrition Program as well as replacing obsolete kitchen equipment in the main production kitchen in the high school.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Mount Vernon 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 $2,401,187 as compared to last year's ending fund balances

of $9,289,421. The primary reason for the decrease was the construction costs for the new high school building in the Capital Projects Fund.

Governmental Fund Highlights

- The District's General Fund financial position declined in fiscal 2006 as compared to the previous fiscal year. Resident student enrollment in district had slight decrease in fiscal 2006, open enrolled student enrollment in the district had a slight decrease in fiscal 2006, and general fund expenditures increased compared to the previous fiscal year related to the additional costs to operate and equip the new high school building.

- General Fund revenues increased from $7,914,597 in fiscal 2005 to $8,130,151 in fiscal 2006, while General Fund expenditures increased from $7,928,188 in fiscal 2005 to $8,654,844 in fiscal 2006. The District's General Fund balance decreased from $1,363,150 in fiscal 2005 to $838,653 in fiscal 2006, a 38% decrease.

- The increase in General Fund revenues was primarily attributable to an increase in property taxes and state foundation aid revenue. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and an increase in costs to operate and equip the new high school building.

- The decrease in the Capital Projects Fund unreserved fund balance from $7,453,636 in fiscal 2005 to $32,474 in fiscal 2006 was primarily attributable to the construction costs for the new high school building. The available funds in the Capital Projects Fund originated from the receipt of $9,009,907 from the issuance of general obligation bonds during fiscal 2004. The proceeds from these bonds are being held in the Capital Projects Fund for the construction of a new high school building west of the current high school building and the remodeling of the current high school building into a middle school. The high school construction project bid was awarded to Kleiman Construction, Inc. at a total bid price of $10,447,540. The high school construction project is expected to be completed by August, 2006 and the construction work to remodel the current high school building into a middle school is expected to be completed by December, 2006.

- During fiscal 2006 the district issued $575,000 in energy loan notes in the General Fund related to the high school and middle school construction projects. The entire balance of the energy loan notes was transferred to the Capital Projects Fund during fiscal 2006 for these construction projects.

- During fiscal 2006 the district issued $1,135,000 in capital loan notes in the Physical Plant and Equipment Fund related to the high school and middle school construction projects. None of these funds were spent on the construction projects during fiscal 2006. The Physical Plant and Equipment Levy (PPEL) Fund balance increased from $351,808 in fiscal 2005 to $1,403,566 in fiscal 2006.

- The Debt Service Fund expenditures decreased from $915,920 in fiscal 2005 to $762,031 in fiscal 2006 primarily due to the final payment in fiscal 2005 of a previous bond issue.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from $37,925 at June 30, 2005 to $189,683 at June 30, 2006 primarily due to the capital contribution of new kitchen equipment related to the high school construction project. During fiscal 2006 the district increased the prices of school lunches to offset the increasing costs of food purchased by the Nutrition Fund.

BUDGETARY HIGHLIGHTS

Over the course of the year, Mount Vernon Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the nutrition program and changes in purchased services. No functional budget areas were exceeded at year end.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested $14.4 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 5 to the financial statements. Depreciation expense for the year was $261,430.

The original cost of the District's capital assets was $18.1 million which is primarily in the governmental funds. The District's construction in progress totaled $11,016,447 at June 30, 2006 which represents the beginning of construction of the new high school building.

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

	Governmental Activities June 30,		Business type Activities June 30,		Total District June 30,		Total Change June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
Land	$298	298	-	-	298	298	-
Construction in progress	11,016	1,767	-	-	11,016	1,767	9,249
Buildings	2,424	2,440	-	-	2,424	2,440	(16)
Improvements other than buildings	203	199	-	-	203	199	4
Furniture and equipment	353	274	149	9	502	283	219
Totals	14,294	4,978	149	9	14,443	4,987	9,456

Long-Term Debt

At June 30, 2006, the District had $10,020,000 in general obligation debt and capital loan notes outstanding. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

(Expressed in Thousands)

	Total District June 30, 2006	2005	Total Change June 30, 2005-2006
General obligation bonds	$8,310	8,610	(300)
Energy Loan Notes	575	-	575
Capital Loan Notes	1,135	75	1,060
Totals	10,020	8,685	1,335

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Construction continues on the new high school building. Construction of the building by Kleiman Construction of Cedar Rapids, Iowa began in April, 2005 with expected completion in August, 2006.

- Construction continues to remodel the current high school building into a middle school. Construction of the building by Kleiman Construction of Cedar Rapids, Iowa began in June, 2006 with expected completion in December, 2006.

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 Matt Burke, School District Secretary/Treasurer, Mount Vernon Community School District, 525 Palisades Road, Mount Vernon, Iowa, 52314.

Basic Financial Statements

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	$ 3,426,627	$ 104,673	$ 3,531,300
Receivables:			
Property tax:			
Current year	26,858	-	26,858
Succeeding year	2,682,162	-	2,682,162
Income surtax	278,366	-	278,366
Accounts	14,636	-	14,636
Due from other governments	216,271	-	216,271
Inventories	-	1,650	1,650
Restricted ISCAP assets (note 4):			
Investments	621,135	-	621,135
Accrued interest receivable	193	-	193
Capital assets, net of accumulated depreciation (note 5)	14,294,409	148,956	14,443,365
Total assets	21,560,657	255,279	21,815,936
Liabilities			
Accounts payable	693,313	397	693,710
Salaries and benefits payable	584,334	6,090	590,424
Accrued interest payable	50,772	-	50,772
ISCAP warrants payable (note 4)	622,000	-	622,000
ISCAP accrued interest payable (note 4)	153	-	153
ISCAP unamortized premium (note 4)	4,733	-	4,733
Deferred revenue:			
Succeeding year property tax	2,682,162	-	2,682,162
Other	-	8,811	8,811
Long-term liabilities (note 6):			
Portion due within one year:			
Bonds payable	315,000	-	315,000
Notes payable	240,000	-	240,000
Portion due after one year:			
Bonds payable	7,995,000	-	7,995,000
Notes payable	1,470,000	-	1,470,000
Total liabilities	14,657,467	15,298	14,672,765

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
Net Assets			
Invested in capital assets, net of related debt	$ 4,728,335	$ 148,956	$ 4,877,291
Restricted for:			
Management levy	64,300	-	64,300
Physical plant and equipment levy	936,947	-	936,947
Other special revenue purposes	53,068	-	53,068
Capital projects	32,474	-	32,474
Unrestricted	1,088,066	91,025	1,179,091
Total net assets	$ 6,903,190	$ 239,981	$ 7,143,171

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	$ 5,870,263	$ 1,412,280	$ 459,452	$ -
Support services:				
Student services	189,548	-	7,140	-
Instructional staff services	260,544	-	14,510	-
Administration services	1,002,951	-	-	-
Operation and maintenance of plant services	760,121	6,810	-	-
Transportation services	367,428	20,226	2,750	-
	2,580,592	27,036	24,400	-
Other expenditures:				
Facilities acquisition	782	-	-	771,634
Long-term debt interest and fiscal charges	405,473	-	-	-
AEA flowthrough	290,296	-	290,296	-
Depreciation (unallocated) *	162,047	-	-	-
	858,598	-	290,296	771,634
Total governmental activities	9,309,453	1,439,316	774,148	771,634
Business-Type Activities:				
Support services:				
Administration services	10,128	-	-	-
Non-instructional programs:				
Food service operations	515,536	371,397	159,730	142,508
Daycare operations	41,825	59,341	-	-
Summer daycare operations	12,062	9,224	-	-
	569,423	439,962	159,730	142,508
Total business-type activities	579,551	439,962	159,730	142,508
Total	$ 9,889,004	$ 1,879,278	$ 933,878	$ 914,142

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ (3,998,531)	$ -	$ (3,998,531)
(182,408)	-	(182,408)
(246,034)	-	(246,034)
(1,002,951)	-	(1,002,951)
(753,311)	-	(753,311)
(344,452)	-	(344,452)
(2,529,156)	-	(2,529,156)
770,852	-	770,852
(405,473)	-	(405,473)
-	-	-
(162,047)	-	(162,047)
203,332	-	203,332
(6,324,355)	-	(6,324,355)
-	(10,128)	(10,128)
-	158,099	158,099
-	17,516	17,516
-	(2,838)	(2,838)
-	172,777	172,777
-	162,649	162,649
(6,324,355)	162,649	(6,161,706)

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs

General Revenues:

Property tax levied for:
  General purposes
  Debt service
  Capital outlay
Income surtax
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
$ 1,961,180	$ -	$ 1,961,180
686,199	-	686,199
297,581	-	297,581
324,925	-	324,925
8,590	-	8,590
3,894,336	-	3,894,336
214,202	6,112	220,314
57,982	-	57,982
7,444,995	6,112	7,451,107
1,120,640	168,761	1,289,401
5,782,550	71,220	5,853,770
$ 6,903,190	$ 239,981	$ 7,143,171

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Debt Service	Capital Projects
Assets				
Cash and pooled investments	$ 1,249,467	$ 2,022,381	$ 2,711	$ 32,474
Receivables:				
Property tax:				
Current year	16,823	2,782	6,415	-
Succeeding year	1,726,867	269,326	588,428	-
Income surtax	278,366	-	-	-
Accounts	14,636	-	-	-
Due from other governments	216,271	-	-	-
Restricted ISCAP assets (note 4):				
Investments	621,135	-	-	-
Accrued interest receivable	193	-	-	-
Total assets	$ 4,123,758	$ 2,294,489	$ 597,554	$ 32,474

Nonmajor Governmental Funds	Total Governmental Funds
$ 119,594	$ 3,426,627
838	26,858
97,541	2,682,162
-	278,366
-	14,636
-	216,271
-	621,135
-	193
$ 217,973	$ 7,266,248

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Debt Service	Capital Projects
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 68,652	$ 621,597	$ -	$ -
Salaries and benefits payable	584,334	-	-	-
ISCAP warrants payable (note 4)	622,000	-	-	-
ISCAP accrued interest payable (note 4)	153	-	-	-
ISCAP unamortized premium (note 4)	4,733	-	-	-
Deferred revenue:				
Succeeding year property tax	1,726,867	269,326	588,428	-
Other	278,366	-	-	-
Total liabilities	3,285,105	890,923	588,428	-
Fund balance:				
Reserved for:				
Debt service	-	-	9,126	-
Unreserved:				
Designated for:				
Instructional support	232,161	-	-	-
Cash flow	571,551	-	-	-
Reported in nonmajor Special Revenue Funds	-	-	-	-
Undesignated	34,941	1,403,566	-	32,474
Total fund balances	838,653	1,403,566	9,126	32,474
Total liabilities and fund balances	$ 4,123,758	$ 2,294,489	$ 597,554	$ 32,474

See notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
$ 3,064	$ 693,313
-	584,334
-	622,000
-	153
-	4,733
97,541	2,682,162
-	278,366
100,605	4,865,061
-	9,126
-	232,161
-	571,551
117,368	117,368
-	1,470,981
117,368	2,401,187
$ 217,973	$ 7,266,248

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances of governmental funds	$ 2,401,187
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	14,294,409
Other long-term assets, including income surtax receivable, are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	278,366
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.	(50,772)
Long-term liabilities, including bonds and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(10,020,000)
Net assets of governmental activities	$ 6,903,190

See notes to financial statements.

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MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Debt Service	Capital Projects
Revenues:				
Local sources:				
Local tax	$ 2,145,643	$ 297,413	$ 685,814	$ 8,590
Tuition	1,203,706	-	-	-
Other	111,111	376,583	8,626	164,857
State sources	4,519,224	167	385	-
Federal sources	150,467	-	-	400,000
Total revenues	8,130,151	674,163	694,825	573,447
Expenditures:				
Current:				
Instruction	5,835,516	-	-	-
Support services:				
Student services	187,837	-	-	-
Instructional staff services	260,544	-	-	-
Administration services	897,187	-	-	-
Operation and maintenance of plant services	847,901	-	-	-
Transportation services	335,563	-	-	-
	2,529,032	-	-	-
Other expenditures:				
Facilities acquisition	-	681,074	-	8,569,609
Long term debt:				
Principal	-	-	375,000	-
Interest and fiscal charges	-	-	387,031	-
AEA flowthrough	290,296	-	-	-
	290,296	681,074	762,031	8,569,609
Total expenditures	8,654,844	681,074	762,031	8,569,609
Excess (deficiency) of revenues over (under) expenditures	(524,693)	(6,911)	(67,206)	(7,996,162)

Nonmajor Governmental Funds	Total
$ 92,991	$ 3,230,451
-	1,203,706
218,055	879,232
60	4,519,836
-	550,467
311,106	10,383,692
208,800	6,044,316
-	187,837
-	260,544
105,764	1,002,951
-	847,901
-	335,563
105,764	2,634,796
-	9,250,683
-	375,000
-	387,031
-	290,296
-	10,303,010
314,564	18,982,122
(3,458)	(8,598,430)

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	General	Special Revenue Physical Plant and Equipment Levy	Debt Service	Capital Projects
Other financing sources (uses):				
Sale of equipment	$ 196	$ -	$ -	$ -
Interfund transfers in	-	-	76,331	575,000
Interfund transfers out	(575,000)	(76,331)	-	-
Energy loan notes issued	575,000	-	-	-
Capital loan notes	-	1,135,000	-	-
Total other financing sources (uses)	196	1,058,669	76,331	575,000
Net change in fund balances	(524,497)	1,051,758	9,125	(7,421,162)
Fund balances beginning of year	1,363,150	351,808	1	7,453,636
Fund balances end of year	$ 838,653	$ 1,403,566	$ 9,126	$ 32,474

See notes to financial statements.

Nonmajor Governmental Funds	Total
$ -	$ 196
-	651,331
-	(651,331)
-	575,000
-	1,135,000
-	1,710,196
(3,458)	(6,888,234)
120,826	9,289,421
$ 117,368	$ 2,401,187

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Net change in fund balances - total governmental funds		$ (6,888,234)
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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Expenditures for capital assets	$ 9,574,534	
Depreciation expense	(258,423)	9,316,111
Income surtax revenue not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the Statement of Activities.		46,205
Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		375,000
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, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(18,442)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets and do not affect the Statement of Activities.		(1,710,000)
Change in net assets of governmental activities		$ 1,120,640

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006

	School Nutrition	Nonmajor Enterprise Funds	Total
Assets			
Cash and cash equivalents	$ 48,026	$ 56,647	$ 104,673
Inventories	1,650	-	1,650
Capital assets, net of accumulated depreciation	148,956	-	148,956
Total assets	198,632	56,647	255,279
Liabilities			
Accounts payable	-	397	397
Salaries and benefits payable	138	5,952	6,090
Deferred revenue	8,811	-	8,811
Total liabilities	8,949	6,349	15,298
Net Assets			
Invested in capital assets	148,956	-	148,956
Unrestricted	40,727	50,298	91,025
Total net assets	$ 189,683	$ 50,298	$ 239,981

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	School Nutrition	Nonmajor Enterprise Funds	Total
Operating revenues:			
Local sources:			
Charges for services	$ 371,397	$ 68,565	$ 439,962
Operating expenses:			
Support services:			
Administration services	10,128	-	10,128
Non-instructional programs	515,536	53,887	569,423
	525,664	53,887	579,551
Operating income (loss)	(154,267)	14,678	(139,589)
Non-operating revenues:			
Interest on investments	3,787	2,325	6,112
Capital contributions	142,508	-	142,508
State sources	5,508	-	5,508
Federal sources	154,222	-	154,222
Total non-operating revenues	306,025	2,325	308,350
Change in net assets	151,758	17,003	168,761
Net assets beginning of year	37,925	33,295	71,220
Net assets end of year	$ 189,683	$ 50,298	$ 239,981

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	School Nutrition	Nonmajor Enterprise Funds	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 370,925	$ -	$ 370,925
Cash received from miscellaneous operating activities	5,605	68,565	74,170
Cash payments to employees for services	(185,609)	(29,922)	(215,531)
Cash payments to suppliers for goods or services	(328,991)	(17,654)	(346,645)
Net cash provided by (used by) operating activities	(138,070)	20,989	(117,081)
Cash flows from non-capital financing activities:			
State grants received	5,508	-	5,508
Federal grants received	145,838	-	145,838
Net cash provided by non-capital financing activities	151,346	-	151,346
Cash flows from investing activities:			
Interest on investments	3,787	2,325	6,112
Net increase in cash and cash equivalents	17,063	23,314	40,377
Cash and cash equivalents beginning of year	30,963	33,333	64,296
Cash and cash equivalents end of year	$ 48,026	$ 56,647	$ 104,673

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	School Nutrition	Nonmajor Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided by (used by) operating activities:			
Operating income (loss)	$ (154,267)	$ 14,678	$ (139,589)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:			
Depreciation	3,007	-	3,007
Commodities used	8,384	-	8,384
Decrease in accounts receivable	1,017	-	1,017
Decrease in interfund receivable	726	-	726
(Increase) in inventories	(465)	-	(465)
Increase in accounts payable	-	359	359
Increase in salaries and benefits payable	138	5,952	6,090
Increase in deferred revenue	3,390	-	3,390
Net cash provided by (used by) operating activities	$ (138,070)	$ 20,989	$ (117,081)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2006, the District received $8,384 of federal commodities and $142,508 of capital contributions.

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets:		
Cash and pooled investments	$ 866	$ 2,209
Liabilities:		
Other payables	-	2,209
Net assets:		
Reserved for scholarships	$ 866	$ -

See notes to financial statements.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	$ 1,000
Interest	11
Total additions	1,011
Deductions:	
Support services:	
Scholarships awarded	1,000
Change in net assets	11
Net assets beginning of year	855
Net assets end of year	$ 866

See notes to financial statements.

Note 1. Summary of Significant Accounting Policies

Mount Vernon Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Mount Vernon, Iowa, and agricultural territory in Linn, Jones, and Johnson 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, Mount Vernon 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. Mount Vernon Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

The District appoints members of the Mount Vernon School Foundation Board, which is considered a related organization.

B. Basis of Presentation

District-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 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.

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 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 that are 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 District-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 other 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 expenses, including instructional, support and other costs.

The Special Revenue, Physical Plant and Equipment Levy Fund is used to account for the payment of capital and related expenditures for building improvements and certain types of equipment.

The Debt Service Fund is used 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 Enterprise, School Nutrition 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's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements with restrictions of 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.

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the 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 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.

All proprietary funds of the District apply 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.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and 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 that the tax asking is certified by the Board of Education. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes 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.

Income surtax receivable – Income surtax budgeted for the fiscal year ended June 30, 2006 will not be received by the District until several months after the fiscal year end. Accordingly, income surtax is recorded as a receivable and included in deferred revenue on the modified accrual basis for the governmental funds. For the District-wide statements, on the Statement of Activities the income surtax revenue is recognized.

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 contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-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 repairs 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.

Asset Class	Amount
Land	$ 2,500
Buildings	2,500
Improvements other than buildings	2,500
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	2,500

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

Asset Class	Estimated Useful Lives
Buildings	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or 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 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 in the governmental funds consists of the succeeding year property tax receivable and other receivables not collected within sixty days after year end. Deferred revenue for proprietary funds and business-type activities consists of unearned meal revenues.

Deferred revenue in the Statement of Net Assets for governmental activities consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave. The District's policy is not to reimburse employees for sick leave or vacation. Vacation can only be used by the employee in the year it is earned. The District has no compensated absences liability at June 30, 2006.

Long-term Liabilities – In the District-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 Balances – 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.

Designated Fund Balance – The District designated a portion of its fund balance for instructional support and cash flows.

Invested in capital assets, net of related debt – In the District-wide Statement of Net Assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted Net Assets – In the District-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 Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 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.

Note 2. Cash and Pooled Investments (continued)

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

	Amortized Cost
Diversified Portfolio	$ 3,139,266

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

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

Note 3. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Physical Plant and Equipment Levy	$ 76,331
Capital Projects	General	575,000
Total		$ 651,331

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

Note 4. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable	Unamortized Premium
2006-07A	6/28/2006	6/28/2007	$ 621,135	$ 193	$ 622,000	$ 153	$ 4,733

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no ISCAP advance activity in the General Fund for the year ended June 30, 2006.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

Note 5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 298,137	$ -	$ -	$ 298,137
Construction in progress	1,766,546	9,249,901	-	11,016,447
Total capital assets not being depreciated	2,064,683	9,249,901	-	11,314,584
Capital assets being depreciated:				
Buildings	4,567,132	66,432	-	4,633,564
Improvements other than buildings	634,546	21,000	-	655,546
Furniture and equipment	1,080,696	237,201	-	1,317,897
Total capital assets being depreciated	6,282,374	324,633	-	6,607,007
Less accumulated depreciation for:				
Buildings	2,127,005	82,599	-	2,209,604
Improvements other than buildings	434,864	17,530	-	452,394
Furniture and equipment	806,890	158,294	-	965,184
Total accumulated depreciation	3,368,759	258,423	-	3,627,182
Total capital assets being depreciated, net	2,913,615	66,210	-	2,979,825
Governmental activities capital assets, net	$ 4,978,298	$ 9,316,111	$ -	$ 14,294,409

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	$ 25,340	$ 142,508	$ -	$ 167,848
Less accumulated depreciation	15,885	3,007	-	18,892
Business-type activities capital assets, net	$ 9,455	$ 139,501	$ -	$ 148,956

Depreciation expense was charged by the District to the following functions:

Governmental activities:	
Instruction	$ 56,842
Support services:	
Student services	1,711
Operation and maintenance of plant services	2,989
Transportation	34,834
	96,376
Unallocated depreciation	162,047
Total governmental activities depreciation expense	$ 258,423
Business-type activities:	
Food service operations	$ 3,007

Note 6. Long-Term Liabilities

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

	General Obligation Bonds	Energy Loan Notes	Capital Loan Notes	Total
Balance beginning of year	$ 8,610,000	$ -	$ 75,000	$ 8,685,000
Additions	-	575,000	1,135,000	1,710,000
Reductions	300,000	-	75,000	375,000
Balance end of year	$ 8,310,000	$ 575,000	$ 1,135,000	$ 10,020,000
Due within one year	$ 315,000	$ 40,000	$ 200,000	$ 555,000

Bonds Payable

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

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2007	4.50 %	$ 315,000	$ 373,300	$ 688,300
2008	4.50	330,000	359,126	689,126
2009	4.50	345,000	344,276	689,276
2010	4.50	360,000	328,750	688,750
2011	4.50	375,000	312,550	687,550
2012	4.50	390,000	295,676	685,676
2013	4.50	405,000	278,126	683,126
2014	4.50	425,000	259,900	684,900
2015	4.10	445,000	240,776	685,776
2016	4.20	460,000	222,530	682,530
2017	4.25	480,000	203,210	683,210
2018	4.30	500,000	182,810	682,810
2019	4.40	520,000	161,310	681,310
2020	4.50	540,000	138,430	678,430
2021	4.60	565,000	114,130	679,130
2022	4.70	590,000	88,140	678,140
2023	4.75	620,000	60,410	680,410
2024	4.80	645,000	30,960	675,960
Total		$ 8,310,000	$ 3,994,410	$ 12,304,410

During the year ended June 30,2006, the District retired $300,000 of bonds.

Note 6. Long-Term Liabilities (continued)

Energy Loan Notes

Details of the District's June 30, 2006 energy loan notes are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2007	3.25 %	$ 40,000	$ 26,141	$ 66,141
2008	3.30	50,000	19,613	69,613
2009	3.40	55,000	17,962	72,962
2010	3.45	55,000	16,093	71,093
2011	3.55	55,000	14,195	69,195
2012	3.65	60,000	12,242	72,242
2013	3.75	60,000	10,053	70,053
2014	3.85	65,000	7,802	72,802
2015	3.90	65,000	5,300	70,300
2016	3.95	70,000	2,765	72,765
Total		$ 575,000	$ 132,166	$ 707,166

Capital Loan Notes

Details of the District's June 30, 2006 capital loan notes are as follows:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2007	3.25 %	$ 200,000	$ 47,597	$ 247,597
2008	3.30	220,000	31,578	251,578
2009	3.35	230,000	24,317	254,317
2010	3.40	240,000	16,613	256,613
2011	3.45	245,000	8,452	253,452
Total		$ 1,135,000	$ 128,557	$ 1,263,557

Note 7. 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. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were $344,577, $322,898, and $297,529 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Mount Vernon 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.

Note 9. 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 $290,296 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.

Note 10. Construction Commitments

The District entered into various contracts totaling $12,479,527 for construction of a high school building and remodeling of the middle school building. As of June 30, 2006, costs of $10,902,481 had been incurred against the contracts. The balance of $1,577,046 remaining at June 30, 2006 will be paid as work on the project progresses.

Note 11. Deficit Balance

The Summer Daycare Fund within the nonmajor enterprise funds had a $2,838 net assets deficit at June 30, 2006.

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Required Supplementary Information

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
Budget and Actual (Accrual Basis) – All Governmental Funds
and Proprietary Funds
Required Supplementary Information
Year Ended June 30, 2006

	Governmental Funds - Actual	Proprietary Funds - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	$ 5,313,389	$ 588,582	$ 5,901,971	$ 5,852,998	$ 5,852,998	$ 48,973
State sources	4,519,836	5,508	4,525,344	4,646,796	4,646,796	(121,452)
Federal sources	550,467	154,222	704,689	662,055	662,055	42,634
Total revenues	10,383,692	748,312	11,132,004	11,161,849	11,161,849	(29,845)
EXPENDITURES:						
Instruction	6,044,316	-	6,044,316	5,781,543	6,555,508	511,192
Support services	2,634,796	10,128	2,644,924	2,331,954	2,838,707	193,783
Non-instructional programs	-	569,423	569,423	548,489	633,123	63,700
Other expenditures	10,303,010	-	10,303,010	12,852,193	12,852,193	2,549,183
Total expenditures	18,982,122	579,551	19,561,673	21,514,179	22,879,531	3,317,858
Excess (deficiency) of revenues over (under) expenditures	(8,598,430)	168,761	(8,429,669)	(10,352,330)	(11,717,682)	3,288,013
Other financing sources, net	1,710,196	-	1,710,196	1,695,000	1,695,000	15,196
Excess (deficiency) of revenues and other financing sources over (under) expenditures	(6,888,234)	168,761	(6,719,473)	(8,657,330)	(10,022,682)	3,303,209
Balance beginning of year	9,289,421	71,220	9,360,641	10,144,220	10,144,220	(783,579)
Balance end of year	$ 2,401,187	$ 239,981	$ 2,641,168	$ 1,486,890	$ 121,538	$ 2,519,630

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Encumbrances are not recognized on the budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District 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 $1,365,352.

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Other Supplementary Information

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006

	Special Revenue		
	Management Levy	Student Activity	Total
Assets			
Cash and pooled investments	$ 63,462	$ 56,132	$ 119,594
Receivables:			
Property tax:			
Current year	838	-	838
Succeeding year	97,541	-	97,541
Total assets	$ 161,841	$ 56,132	$ 217,973
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	$ -	$ 3,064	$ 3,064
Deferred revenue:			
Succeeding year property tax	97,541	-	97,541
Total liabilities	97,541	3,064	100,605
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	64,300	53,068	117,368
Total liabilities and fund equity	$ 161,841	$ 56,132	$ 217,973

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special Revenue		
	Management Levy	Student Activity	Total
Revenues:			
Local sources:			
Local tax	$ 92,991	$ -	$ 92,991
Other	9,481	208,574	218,055
State sources	60	-	60
Total revenues	102,532	208,574	311,106
Expenditures:			
Current:			
Instruction	-	208,800	208,800
Support services:			
Administration services	105,764	-	105,764
Total expenditures	105,764	208,800	314,564
Excess (deficiency) of revenues over (under) expenditures	(3,232)	(226)	(3,458)
Fund balances beginning of year	67,532	53,294	120,826
Fund balances end of year	$ 64,300	$ 53,068	$ 117,368

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF NET ASSETS
NONMAJOR ENTERPRISE FUNDS
June 30, 2006

	Daycare	Summer Daycare	Total
Assets			
Cash and cash equivalents	$ 53,177	$ 3,470	$ 56,647
Liabilities			
Accounts payable	-	397	397
Salaries and benefits payable	41	5,911	5,952
Total liabilities	41	6,308	6,349
Net Assets			
Unrestricted	$ 53,136	$ (2,838)	$ 50,298

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2006

	Daycare	Summer Daycare	Total
Operating revenues:			
Local sources:			
Charges for services	$ 59,341	$ 9,224	$ 68,565
Operating expenses:			
Non-instructional programs	41,825	12,062	53,887
Operating income (loss)	17,516	(2,838)	14,678
Non-operating revenues:			
Interest on investments	2,325	-	2,325
Change in net assets	19,841	(2,838)	17,003
Net assets beginning of year	33,295	-	33,295
Net assets end of year	$ 53,136	$ (2,838)	$ 50,298

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS
Year Ended June 30, 2006

	Daycare	Summer Daycare	Total
Cash flows from operating activities:			
Cash received from miscellaneous operating activities	$ 59,341	$ 9,224	$ 68,565
Cash payments to employees for services	(26,892)	(3,030)	(29,922)
Cash payments to suppliers for goods or services	(14,930)	(2,724)	(17,654)
Net cash provided by operating activities	17,519	3,470	20,989
Cash flows from investing activities:			
Interest on investments	2,325	-	2,325
Net increase in cash and cash equivalents	19,844	3,470	23,314
Cash and cash equivalents beginning of year	33,333	-	33,333
Cash and cash equivalents end of year	$ 53,177	$ 3,470	$ 56,647
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	$ 17,516	$ (2,838)	$ 14,678
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Increase (decrease) in accounts payable	(38)	397	359
Increase in salaries and benefits payable	41	5,911	5,952
Net cash provided by operating activities	$ 17,519	$ 3,470	$ 20,989

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Activity Fund/Interest	$ 1,369	$ -	$ 1,369	$ -
Strings	84	3,676	3,234	526
Drama & Speech	35	8,116	8,104	47
Vocal	1,338	1,794	2,032	1,100
Band High School	-	7,263	6,895	368
Miscellaneous Athletics	1	4,350	4,351	-
Cross Country Co-Ed	1	3,142	3,143	-
Tennis Co-Ed	1	1,936	1,937	-
Boys Basketball	504	4,570	4,397	677
Boys Football	553	15,583	15,136	1,000
Boys Soccer	448	3,850	3,302	996
Boys Baseball	-	9,109	7,973	1,136
Boys Track	1	2,707	2,577	131
Boys Golf	-	1,458	1,458	-
Boys Wrestling	532	8,351	8,383	500
Girls Basketball	482	6,934	6,745	671
Girls Volleyball	1	8,161	8,120	42
Girls Soccer	1	5,312	5,295	18
Girls Softball	1	4,488	4,489	-
Girls Track	1	2,444	2,445	-
Student Pop and Juice	16	3,759	3,775	-
Art	819	3,137	2,579	1,377
Building Club	1,162	1,000	2,122	40
Industrial Arts Projects	459	-	-	459
Class Pictures	1,594	1,741	217	3,118
Uniform/Robe Rental	3,318	16	469	2,865
Recreation Association	765	-	765	-
Enact	23	-	23	-
Student Council	842	5,555	3,687	2,710
Chess Club	351	-	-	351
Annual High School	9,069	18,591	17,836	9,824
Class of 2001	611	-	593	18
Class of 2002	155	-	150	5
Class of 2003	157	-	150	7
Class of 2004	240	-	150	90
Class of 2005	447	-	159	288
Class of 2006	458	-	100	358
Class of 2007	1,605	252	1,620	237
Class of 2008	-	1,500	-	1,500
Cheerleading	412	6,804	6,093	1,123

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Dance Group	$ 3,558	$ 6,835	$ 10,054	$ 339
Athletic Resale	-	316	316	-
Activity Fees High School	639	-	639	-
Scholarship Fund	236	-	-	236
German Trip	-	6,259	6,094	165
Spanish Trip	1,451	6,837	6,490	1,798
H.S. Special Fees	1,636	1,727	3,323	40
Library	554	397	-	951
Band Middle School	226	1,202	1,051	377
Boys Basketball	1	1,461	1,462	-
Boys Football	-	1,948	1,798	150
Boys Track	1	671	672	-
Boys Wrestling	-	489	489	-
Girls Basketball	1	1,512	1,513	-
Girls Volleyball	-	1,250	1,250	-
Girls Softball	1	-	1	-
Girls Track	116	640	486	270
Class Pictures	4,647	4,588	3,397	5,838
8th Grade Musical	1,943	565	619	1,889
Strings - Middle School	20	42	-	62
Student Council	833	9,659	9,126	1,366
Annual Middle School	1,038	4,524	3,820	1,742
Activity Fees Middle School	570	-	570	-
Middle School Special Fees	1,805	1,508	1,525	1,788
Birthday Books Middle School	-	136	136	-
Class Picture - Elementary	5,984	2,141	4,522	3,603
Strings - Elementary	55	230	250	35
We Tap	50	-	50	-
Activity Fees Elementary	54	16	54	16
Field Trips	-	4,740	4,077	663
Foundation Grant	19	-	19	-
Birthday Books Elementary	-	3,282	3,124	158
Total	$ 53,294	$ 208,574	$ 208,800	$ 53,068

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUND
Year Ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	$ 2,375	$ 5,730	$ 5,896	$ 2,209
Liabilities				
Other payables	$ 2,375	$ 5,730	$ 5,896	$ 2,209

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	$ 3,230,451	$ 3,048,884	$ 2,540,909	$ 2,436,379
Tuition	1,203,706	1,228,175	884,941	822,399
Other	879,232	556,514	402,928	314,684
State sources	4,519,836	4,496,276	4,227,033	4,405,764
Federal sources	550,467	146,445	142,292	130,204
Total revenues	$ 10,383,692	$ 9,476,294	$ 8,198,103	$ 8,109,430
Expenditures:				
Instruction	$ 6,044,316	$ 5,439,988	$ 5,335,853	$ 4,956,329
Support services:				
Student services	187,837	196,895	168,382	179,519
Instructional staff services	260,544	387,478	271,406	223,854
Administration services	1,002,951	780,717	744,773	779,821
Operation and maintenance of plant services	847,901	830,463	653,278	645,050
Transportation services	335,563	312,541	394,811	321,859
Non-instructional programs	-	716	705	618
Other expenditures:				
Facilities acquisition	9,250,683	1,816,041	51,079	30,236
Long-term debt:				
Principal	375,000	510,000	330,000	305,000
Interest and fiscal charges	387,031	405,920	22,004	42,529
AEA flowthrough	290,296	288,897	283,799	305,040
Total expenditures	$ 18,982,122	$ 10,969,656	$ 8,256,090	$ 7,789,855

See accompanying independent auditor's report.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2006

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 06	$ 8,384
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 06	11,969
National School Lunch Program	10.555	FY 06	133,438
Special Milk Program for Children	10.556	FY 06	431
			145,838
U. S. Department of Education:			
Iowa Department of Education:			
Title 1 Grants to Local Educational Agencies	84.010	4554G	50,330
Fund for the Improvement of Education	84.215	FY 06	400,000
Improving Teacher Quality State Grants	84.367	FY 06	19,773
Grants for State Assessments and Related Activities	84.369	FY 06	7,140
State Grants for Innovative Programs	84.298	FY 06	2,810
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 06	3,000
Grant Wood Area Education Agency:			
Special Education - Grants to States	84.027	FY 06	50,507
Vocational Education - Basic Grants to States	84.048	FY 06	6,825
Total			$ 694,607

Basis of Presentation –
The Schedule of Expenditures of Federal Awards includes the federal grant activity of Mount Vernon Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

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
Mount Vernon 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 Mount Vernon 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 Mount Vernon 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 II of the accompanying Schedule of Findings and Questioned Costs.

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 II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mount Vernon 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, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about Mount Vernon Community School 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 Mount Vernon Community School District and other parties to whom Mount Vernon 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 Mount Vernon 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.

Oskaloosa, Iowa
September 15, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education of
Mount Vernon Community School District:

Compliance

We have audited the compliance of Mount Vernon Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Mount Vernon Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Mount Vernon Community School District's management. Our responsibility is to express an opinion on Mount Vernon Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mount Vernon Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mount Vernon Community School District's compliance with those requirements.

In our opinion, Mount Vernon Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Mount Vernon Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Mount Vernon Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Mount Vernon Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program 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 compliance 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 III-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Mount Vernon Community School District and other parties to whom Mount Vernon 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.

Oskaloosa, Iowa
September 15, 2006

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

(a) Unqualified opinions were issued on the financial statements.

(b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

(d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

(g) Major programs were as follows:
- CFDA Number 84.215 – Fund for the Improvement of Education

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Mount Vernon Community School District did not qualify a low-risk auditee.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-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. We noted that the bank deposits, bank reconciliation and the posting of the cash receipts journal, check signing, recording of capital project expenditures, payroll and payroll reports are all done by the same person in the various funds.

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

Response – We will investigate available alternatives as responsibilities change and implement changes whenever possible.

Conclusion – Response accepted.

II-B-06 Gate Admissions - The gate admissions and change box are not always reconciled with prenumbered tickets. Prenumbered tickets are only used for certain events.

Recommendation – The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – Most students and parents purchase season activity tickets. The amount of cash taken in at each event is minimal for those events where prenumbered tickets were not used. We feel our gate receipt procedures in place at these events are adequate.

Conclusion – Response acknowledged, however, the added control of reconciling prenumbered tickets with cash collected could be considered an additional safeguard.

II-C-06 Disbursements – Out of fifty disbursements tested, three were only partially supported by an invoice or receipt. These were mainly items for travel, lodging, and meal expenses and credit card charges. Upon further follow up, no questionable expenditures were noted.

Recommendation – All disbursements should be adequately supported by an invoice, receipt or other written documentation at the time of their payment. The District should amend its credit card policy to address unsupported purchases on District credit cards.

Response – We will make sure that all future disbursements are properly supported prior to their being paid. We will consider amending our credit card policy.

Conclusion – Response accepted.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

CFDA Number 84.215: Fund for the Improvement of Education
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-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. We noted that the bank reconciliation and the posting of the cash receipts journal, check signing, and recording of capital project expenditures are all done by the same person.

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

Response – We will investigate available alternatives as responsibilities change and implement changes whenever possible.

Conclusion – Response accepted.

MOUNT VERNON COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

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

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

IV-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.

IV-D-06 Business Transactions – We noted no business transactions between the District and District officials or employees.

IV-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 that the coverage is adequate for current operations.

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

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

IV-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.

IV-I-06 Certified Annual Report – The Certified Annual Report was certified to the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-06 Student Activity Accounts – The District included accounts in the Special Revenue, Student Activity Fund which include activities that would more appropriately be accounted for in the General, Private Purpose Trust, or Enterprise Fund.

The Iowa Department of Education's Uniform Administrative Procedures for Iowa School Officials Chapter 7, page 77, states "The Student Activity Fund shall not be used as a clearing account for the General Fund or any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents or sales, textbook/library book purchases, curricular activities, or any other revenues or expenditures more properly included in another fund. The purpose of the Student Activity Fund is to account for financial transactions related to the co-curricular and extra-curricular activities offered as a part of the education program for the students."

Recommendation – The accounts should be closed to the General, Private Purpose Trust, or Enterprise Fund where applicable. The District should limit the use of the Student Activity Fund to transactions related to co-curricular and extra-curricular activities.

Response – We will close these accounts and account for the activities within the General, Private Purpose Trust, or Enterprise Fund as appropriate.

Conclusion – Response accepted.

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

IV-K-06 Travel Allowance – We noted that an employee receives a flat dollar travel allowance but the payments did not go through the District's payroll process.

Recommendation – All flat dollar travel allowances should go through the payroll process with the appropriate taxes withheld. Alternatively, the District could switch to a supported plan where the employees would be reimbursed for actual mileage reported.

Response – We will consider changing our procedures for travel allowances. As of now, our software system allows us to adjust an employees W-2 at year end so that the allowance is included as income to the employee.

Conclusion – Response accepted.

IV-L-06 Financial Condition – The nonmajor Enterprise, Summer Daycare Fund had a $2,838 net assets deficit at June 30, 2006.

Recommendation – The District needs to explore alternatives to restore the Summer Daycare Fund to a sound financial condition.

Response – This is the first year of the summer daycare program. We expect the program to generate a net income as participation increases.

Conclusion – Response accepted.