

**SOUTH O'BRIEN
COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2006**

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
FOR THE YEAR ENDED JUNE 30, 2006
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SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT

LIST OF PRINCIPAL OFFICIALS

Board of Education (Before September 2005 Election)

		Term Expires
Brad McDowell	President	2006
Laura Lundquist	Vice President	2005
Bruce Billick	Board Member	2005
Bill Johannsen	Board Member	2006
Sue McCauley	Board Member	2007
Phil Syndergaard	Board Member	2005
Bonnie Wallinga	Board Member	2007
Sharla Rupert	Board Secretary	2005

Board of Education (After September 2005 Election)

Brad McDowell	President	2006
Phil Sundergaard	Vice President	2008
Brian Feltman	Board Member	2008
John Friedrichsen	Board Member	2008
Bonnie Wallinga	Board Member	2007
Bill Johannsen	Board Member	2006
Sue McCauley	Board Member	2007
Sharla Rupert	Board Secretary	2006

School Officials

Jerry Nichols	Superintendent	June, 2006
Julie Sampson	Secretary-Business Manager	July, 2006



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INDEPENDENT AUDITORS' REPORT

To the Board of Education of
South O'Brien Community School District

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the 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 activity, each major fund, and the aggregate remaining fund information of South O'Brien Community School District as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof 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 August 18, 2006 on our consideration of the South O'Brien 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part 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 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 South O'Brien Community School District's basic financial statements. The financial statements for the three years ended June 30, 2005 (none of which are presented herein) were audited by us or other auditors in accordance with the standards referred to in the second paragraph of this report and had unqualified opinions expressed on them and expressed unqualified opinions on those financial statements. The supplementary information, included in Schedules 1 through 6, 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.

Williams & Company, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Le Mars, Iowa
August 18, 2006

Management Discussion and Analysis

The South O'Brien Community District provides this Management Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the Fiscal Year ended June 30, 2006. Readers are encouraged to consider this information in conjunction with the District's financial statements, which follow this section.

2006 FINANCIAL HIGHLIGHTS

General fund revenues increased from \$5,992,627 in fiscal 2005 to \$6,093,754 in fiscal 2006, which General Fund expenditures increased from \$5,781,719 in fiscal year 2005 to \$6,038,219 in fiscal 2006. The District's General fund balance increased from \$1,081,026 in fiscal 2005 to \$1,136,561 in fiscal 2006 a 5% increase.

The increase in General fund revenue was attributable to an overall increase in state aid due to increased enrollment. The increase in expenditures was due primarily to increased utilities, fuel, and insurance benefits.

USING THIS ANNUAL REPORT

This 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 analytical overview of the District's financial activities.
- The District-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the 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 the District's operations in more detail than the district-wide statements by providing information about the most significant funds.

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

Required supplementary information further explains and supports the financial statements with comparison of District's budget for the year.

Other Supplementary Information provides detailed information about the non-major special revenue Funds, Capital Project Funds, and Debt Service Fund.

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

Figure A-1
South O'Brien Community School District
Annual Financial Report

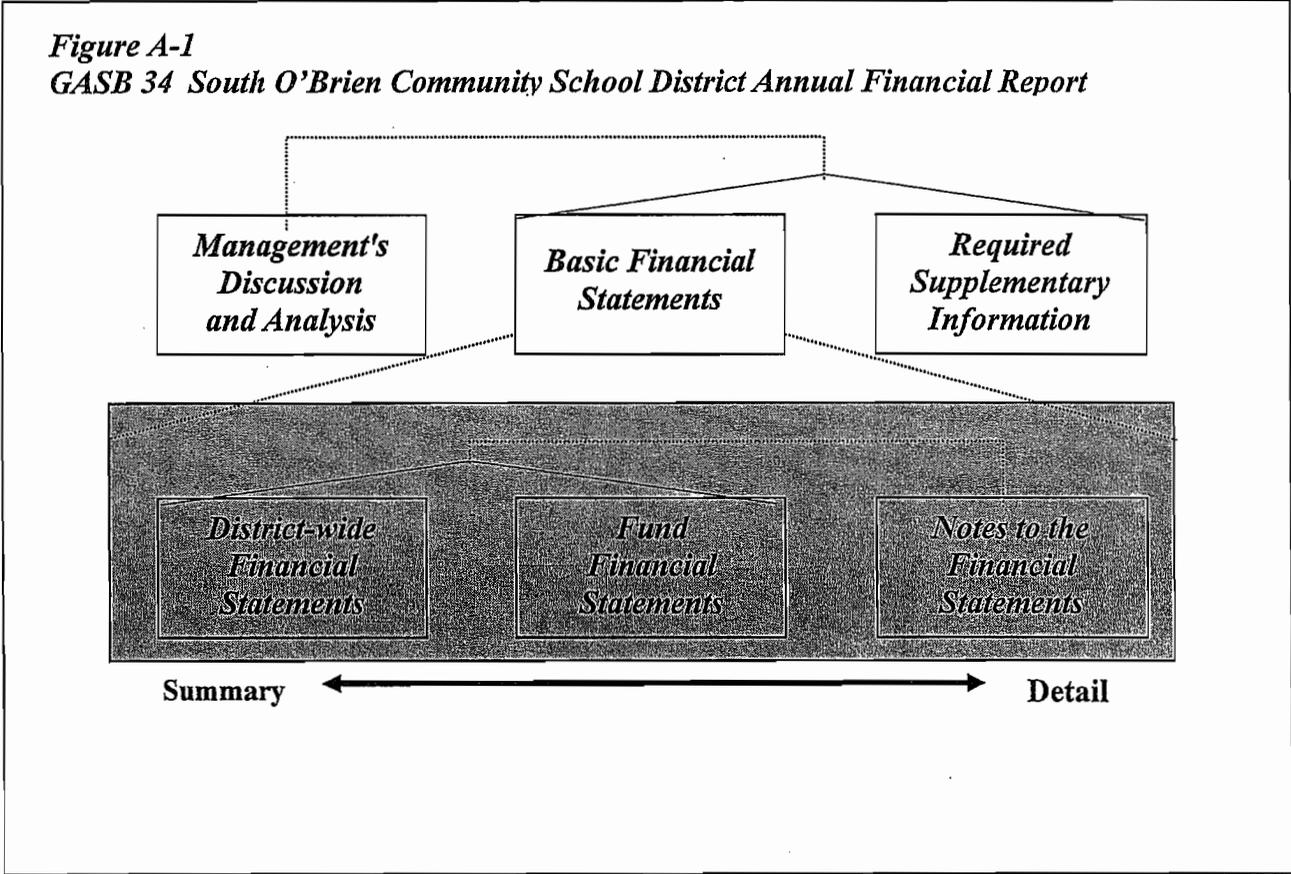


Figure A-2 below summarizes the major feature of the District's financial statements, including the position of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide financial statements

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

The two government-wide statements report the District's net assets and how they have changed. Net assets (the difference between the district's assets and liabilities) are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.

To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- **Governmental funds:** most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether these 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 Project Funds, and Fiduciary funds.

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

- **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 district-wide statements. The District's enterprise funds (one type of proprietary) are the same as its business-type activities but provide more detail and additional information, such as cash flows.

The District currently has one enterprise fund, the school nutrition fund.

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

Reconciliations between the district-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 and 2005.

Figure A-3
Condensed Statement of Net Assets

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$8,285,944	\$5,921,973	\$38,218	\$27,560	\$8,324,162	\$5,949,533	-28.5%
Capital assets	2,095,535	4,508,730	19,895	79,641	2,115,430	4,588,371	116.9%
Total Assets	10,381,479	10,430,703	58,113	107,201	10,439,592	10,537,904	0.9%
Current liabilities	3,683,998	3,532,930	10,026	11,435	3,694,024	3,544,365	-4.1%
Long-term liabilities	3,664,795	3,407,061	-	-	3,664,795	3,407,061	-7.0%
Total Liabilities	7,348,793	6,939,991	10,026	11,435	7,358,819	6,951,426	-5.5%
Net Assets							
Invested in capital assets, net of related debt	(1,039,465)	1,745,081	19,895	79,641	(1,019,570)	1,824,722	279.0%
Restricted	3,149,623	770,591	-	-	3,149,623	770,591	-75.5%
Unrestricted	922,528	975,040	28,192	16,125	950,720	991,165	4.3%
Total Net Assets	\$3,032,686	\$3,490,712	\$48,087	\$95,766	\$3,080,773	\$3,586,478	16.4%

The District's combined net assets increased by 16.4% or \$505,705, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. The current year invested in capital assets, net of related debt is positive due to the fact the construction of the Paullina building addition is complete.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased approximately \$2,400,000 or 75.0% from the prior year. The decrease is primarily a result of the completion of the Paullina building addition.

Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements-increased approximately \$40,500 or 4.0%.

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

Figure A-4
Changes in Net Assets from Operations

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2005	2006	2005	2006	2005	2006	
Revenue:							
Program Revenue:							
Charges for Services	\$638,862	\$625,614	\$136,596	\$139,345	\$775,458	\$764,959	-1.4%
Operating Grants and Contributions	531,355	478,322	131,441	116,066	662,796	594,388	-10.3%
Capital Grants and Contributions	1,438	-	-	-	1,438	-	-100.0%
General Revenues:							
Property Tax	3,272,645	3,024,638	-	-	3,272,645	3,024,638	-7.6%
Local Option Sales and Service Tax	365,753	408,055	-	-	365,753	408,055	11.6%
Unrestricted State Grants	2,202,813	2,483,895	-	-	2,202,813	2,483,895	12.8%
Unrestricted Investment Earnings	103,852	132,791	-	-	103,852	132,791	27.9%
(Loss) on Disposal of Assets	(81,966)	(10,847)	-	-	(81,966)	(10,847)	-86.8%
Use of Money & Property	3,213	537	440	1,513	3,653	2,050	-43.9%
Other	15,380	21,714	512	237	15,892	21,951	38.1%
TOTAL REVENUES	7,053,345	7,164,719	268,989	257,161	7,322,334	7,421,880	1.4%
Program Expenses:							
Instruction	3,963,251	4,053,931	-	-	3,963,251	4,053,931	2.3%
Support Services	2,114,216	2,237,843	-	-	2,114,216	2,237,843	5.9%
Non-Instructional Programs			260,367	253,220	260,367	253,220	-2.8%
Other Expenses	633,886	441,820			633,886	441,820	-30.3%
TOTAL EXPENSES	6,711,353	6,733,594	260,367	253,220	6,971,720	6,986,814	0.2%
Change in Net Assets	\$341,992	\$431,125	\$8,622	\$3,941	\$350,614	\$435,066	24.1%

Property tax, local option sales and state grants accounts for state aid account for approximately 80% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for over 90% of the total expenses.

Governmental Activities

Figure A-5 presents the cost of four major district activities: instruction, support services, non-instructional and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial impact placed on the taxpayers by each function.

**Figure A-5
Net Cost of Governmental
Activities**

Activities	Total Cost of Services		%	Net Cost of Services		%
	2005	2006		2005	2006	
Instruction	3,963,251	4,053,931	2.3%	3,082,859	3,269,560	6.1%
Support Services	2,114,216	2,237,843	5.9%	2,058,115	2,161,826	5.0%
Non-Instructional	-	-	-	-	(4,472)	100.0%
Other	633,886	441,820	-30.3%	398,724	202,744	-49.2%
TOTAL	6,711,353	6,733,594	0.3%	5,539,698	5,629,658	1.6%

- The cost financed by users of the District's programs was \$625,614.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$478,322.
- The net cost of governmental activities was financed with \$3,432,693 in property and other taxes and \$2,483,895 in unrestricted state grants.

Business Type Activities

Revenues of the District's business type activity (school fund and nutrition services) were \$257,161 and expenses were \$253,220 (Refer to Figure A-4). Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the District used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,918,758 below last year's ending fund balances of \$4,235,499. The significant difference is due to the sale of LOSST revenue bonds and PPEL capital loan notes in fiscal 2005.

Governmental Fund Highlights

- The General Fund balance increased slightly from \$1,081,026 in fiscal 2005 to \$1,136,561 in fiscal 2006.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from \$1,485,517 in fiscal 2005 to a balance of \$180,672 in fiscal 2006. This balance reflects the issuances of capital loan notes in fiscal 2005 and completion of Paullina building project in fiscal 2006
- The Capital Projects LOST Fund balance decreased from \$1,494,213 at June 30, 2005 to \$501,670 on June 30, 2006. This balance reflects the issuance of revenue bonds in fiscal 2005 and completion of Paullina building project in fiscal 2006.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$48,087 at June 30, 2005 to \$95,766 at June 30, 2006. This increase is due in part to reclassification of assets from general fixed assets, and several assets purchased in the new prep kitchen at the Paullina location.

General Fund Budgeting Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following a required public notice and hearing. The budget may be amended during the year utilizing statutory prescribed procedure. The District's budget is prepared on the cash basis. During the year expenditures did not exceed the certified amounts. Detail can be found in the supplementary information section of this report as required.

Capital Asset and Debt Administration

Capital Assets

At June 30 2006, the District had invested \$9,329,030 in a broad range of assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see figure A-6). More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year equaled \$258,783.

The largest change in capital asset activity during the year occurred in the construction in progress and buildings category. The district finished the Paullina building addition project that started in fiscal 2005.

Figure A-6
Capital Assets

	Governmental Activities		Business-type Activities		Total District		Total % Change
	2005	2006	2005	2006	2005	2006	
Land	51,351	51,351	-	-	51,351	51,351	0.0%
Constr. In Progress	613,600	0	-	-	613,600	0	-100.0%
Buildings	3,360,190	6,462,043	-	-	3,360,190	6,462,043	92.3%
Improvements other than buildings	120,585	120,585			120,585	120,585	0.0%
Furniture and Equipment	2,515,198	2,517,759	165,480	177,292	2,680,678	2,695,051	0.5%
Total Assets	6,660,924	9,151,738	165,480	177,292	6,826,404	9,329,030	36.7%

At year end, the District had \$1,240,000 in general obligation bonds outstanding, \$1,575,000 in LOSST revenue bonds payable outstanding, \$124,000 in early retirement obligations, \$34,357 in special assessments notes payable, and \$7,704 in compensated absences. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Economic Factors Bearing on District's Future

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

- Enrollment declined and budget guarantee will be reflected in the fiscal 2007 budget.
- There will be no new money for fiscal 2007. The expenditures for fiscal 2007 are projected to increase by \$225,000. This scenario will require critical review of utilization of staff for fiscal 2007.
- Reducing agricultural land valuation during fiscal 2004 negatively impacted our PPEL levy by approximately \$55,000 a year. Over a ten year period, PPEL receipts will be less by at least \$550,000.
- The board certified budget included a cash reserve levy in the amount of \$269,502 and was denied due to the cash reserve formula. This levy was to fund the special education deficit and open enrolled out shortfall. This has negatively affected the fiscal 2007 budget.
- During fiscal 2005 and 2006, receipts in the General Fund were greater than expenditures. This is the result of closely monitoring staffing and expenses district wide.

Contacting the District's Financial Manager

This financial report is designed to provide the District's patrons, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the revenue it receives. If you have questions about this report or need additional financial information, contact Richard Nervig, Supt. or Julie Sampson, School Business Manager, South O'Brien Community School District, 206 S. Rutledge St., Paullina, Iowa.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business Type Activity	Total
ASSETS			
Cash and Pooled Investments	\$ 1,999,126	\$ 16,775	\$ 2,015,901
Receivables:			
Property Tax	62,455		62,455
Succeeding Year Property Tax	2,898,216		2,898,216
Accrued Interest	149		149
Accounts	82,458	51	82,509
Due from Other Governments	95,861		95,861
Restricted Assets:			
ISCAP Investments	425,408		425,408
Bankers Trust Reserve	174,000		174,000
Bankers Trust Debt Service	120,279		120,279
Inventories	4,135	10,734	14,869
Bond Issue Costs	8,535		8,535
Land	51,351		51,351
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	4,508,730	79,641	4,588,371
Total Assets	10,430,703	107,201	10,537,904
LIABILITIES			
Accounts Payable and Accrued Liabilities	37,661	2,792	40,453
Salaries and Benefits Payable	517,411	8,643	526,054
Accrued Interest Payable	34,034		34,034
Unearned Revenue	42,261		42,261
Deferred Revenue - Succeeding Year Taxes	2,898,216		2,898,216
ISCAP Unamortized Premium	3,242		3,242
ISCAP Interest Payable	105		105
Noncurrent Liabilities:			
Debt Due Within One Year:			
Compensated Absences	7,704		7,704
ISCAP Warrants Payable	426,000		426,000
Notes Payable	11,454		11,454
Bonds Payable	170,000		170,000
General Obligation Capital Loan Notes Payable	165,000		165,000
Early Retirement Payable	16,000		16,000
Due in More Than One Year:			
Notes Payable	22,903		22,903
Bonds Payable	1,405,000		1,405,000
General Obligation Capital Loan Notes Payable	1,075,000		1,075,000
Early Retirement Payable	108,000		108,000
Total Liabilities	6,939,991	11,435	6,951,426
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,745,081	79,641	1,824,722
Restricted for:			
Physical Plant and Equipment Levy	180,672		180,672
Management Levy	59,360		59,360
Capital Projects	501,670		501,670
Other Special Revenue Purposes	28,889		28,889
Unrestricted	975,040	16,125	991,165
Total Net Assets	\$ 3,490,712	\$ 95,766	\$ 3,586,478

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants Contributions</u>
Governmental Activities:			
Instruction:			
Regular Instruction	\$ 2,460,553	\$ 98,728	\$ 261,952
Special Instruction	932,684	102,519	152,739
Other Instruction	660,694	153,241	10,537
			4,655
Support Services:			
Student Services	262,464		
Instructional Staff Services	375,498		
Administration Services	673,378		
Operation and Maintenance	565,499	30,787	
Transportation Services	361,004	1,263	43,967
Non-instructional Programs			4,472
Other Expenditures:			
Facilities Acquisition and Construction Services	21,851		
Long-term Debt Interest	180,893		
AEA Flowthrough	239,076	239,076	
Total governmental activities	6,733,594	625,614	478,322
Business Type Activities			
Non-instructional Programs			
Food Service Operations	253,220	139,345	116,066
Total	\$ 6,986,814	\$ 764,959	\$ 594,388
General Revenues:			
Property Tax Levied For:			
General Purposes			
Local Option Sales Tax			
Unrestricted State Grants			
Unrestricted Investment Earnings			
Use of Money and Property			
Other			
(Loss) on Disposal of Fixed Assets			
Transfers			
Total general revenues and transfers			
Change in net assets			
Net assets - beginning			
Prior Period Adjustment			
Net assets - beginning, restated			
Net assets - ending			

See Accompanying Notes to Financial Statements

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activity	Total
\$ (2,099,873)		\$ (2,099,873)
(677,426)		(677,426)
(496,916)		(496,916)
4,655		4,655
(262,464)		(262,464)
(375,498)		(375,498)
(673,378)		(673,378)
(534,712)		(534,712)
(315,774)		(315,774)
4,472		4472
(21,851)		(21,851)
(180,893)		(180,893)
<u>(5,629,658)</u>		<u>(5,629,658)</u>
	\$ 2,191	2,191
<u>(5,629,658)</u>	<u>2,191</u>	<u>(5,627,467)</u>
3,024,638		3,024,638
408,055		408,055
2,483,895		2,483,895
132,791		132,791
537	1,513	2,050
21,714	237	21,951
(10,847)		(10,847)
(43,738)	43,738	-
<u>6,017,045</u>	<u>45,488</u>	<u>6,062,533</u>
387,387	47,679	435,066
3,032,686	48,087	3,080,773
70,639		70,639
<u>3,103,325</u>	<u>48,087</u>	<u>3,151,412</u>
<u>\$ 3,490,712</u>	<u>\$ 95,766</u>	<u>\$ 3,586,478</u>

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
Governmental Funds
June 30, 2006**

	General	Capital Project LOST	Physical Plant and Equipment Levy	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and Pooled Investments	\$ 1,559,715	\$ 126,234	\$ 196,810	\$ 116,367	\$ 1,999,126
Receivables:					
Property Tax	54,993		6,344	1,118	62,455
Succeeding Year Property Tax	2,490,120		308,096	100,000	2,898,216
Accrued Interest	132			17	149
Accounts	913			388	1,301
Due from Other Governments	95,861	81,157			177,018
Restricted Assets:					
ISCAP Investments	425,408				425,408
Bankers Trust Reserve		174,000			174,000
Bankers Trust Debt Service		120,279			120,279
Inventories	3,810			325	4,135
Total Assets	4,630,952	501,670	511,250	218,215	5,862,087
Liabilities and Equity					
Liabilities:					
Accounts Payable and Accrued Liabilities	13,109		22,236	2,316	37,661
Salaries and Benefits Payable	517,411				517,411
Early Retirement Payable				16,000	16,000
Unearned Revenue	44,404		246	44	44,694
Deferred Revenue - Succeeding Year Taxes	2,490,120		308,096	100,000	2,898,216
ISCAP Unamortized Premium	3,242				3,242
ISCAP Warrants Payable	426,000				426,000
Total Liabilities	3,494,391		330,578	118,360	3,943,329
Fund Balances:					
Reserved for:					
Scholarships				2,472	2,472
Inventory	3,810			325	4,135
Unreserved for:					
General Fund	1,132,751				1,132,751
Special Revenue Fund			180,672	97,058	277,730
Capital Project Fund		501,670			501,670
Total Fund Balances	1,136,561	501,670	180,672	99,855	1,918,758
Total Liabilities and Equity	\$ 4,630,952	\$ 501,670	\$ 511,250	\$ 218,215	\$ 5,862,087

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
For the Year Ended June 30, 2006**

Amounts reported for Governmental Activities in the Statement of Net assets are different because:

Total Fund Balance - Governmental Funds (page 16)	\$ 1,918,758
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,560,081
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.	(34,034)
Bond issue costs are reported in the governmental activities but are not reported in the governmental funds as they do not provide current economic resources	8,535
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds	2,433
Long-term liabilities, including notes payable, bonds payable, early retirement payable, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,965,061)</u>
Total Net Assets - Governmental Activities (page 13)	<u>\$ 3,490,712</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended June 30, 2006

	General	Capital Project LOST	Physical Plant and Equipment Levy	Other Governmental Funds	Total Governmental Funds
Revenue:					
Local Sources:					
Local Tax	\$ 2,594,221	\$ 408,055	\$ 379,420	\$ 49,980	\$ 3,431,676
Tuition	121,513				121,513
Other	131,581	37,490	11,349	171,045	351,465
State Sources	2,957,773		237	41	2,958,051
Federal Sources	288,666		25,000		313,666
Total Revenue	6,093,754	445,545	416,006	221,066	7,176,371
Expenditures:					
Current:					
Instruction:					
Regular Instruction	2,366,324			22,669	2,388,993
Special Instruction	932,684				932,684
Other Instruction	554,416			165,815	720,231
Support Services:					
Student Services	253,542			8,922	262,464
Instructional Staff Services	312,508				312,508
Administration Services	609,320	1,419	204	61,796	672,739
Operation and Maintenance	492,605	43,431	25,810	24,999	586,845
Transportation Services	277,744		59,618	11,753	349,115
Other Expenditures:					
Facilities Acquisition and Construction Services		1,140,868	1,415,738		2,556,606
Long-term Debt:					
Principal				331,454	331,454
Interest and Fiscal Charges		59,334		114,575	173,909
AEA Flowthrough	239,076				239,076
Total Expenditures	6,038,219	1,245,052	1,501,370	741,983	9,526,624
Excess of Revenues Over Expenditures	55,535	(799,507)	(1,085,364)	(520,917)	(2,350,253)
Other Financing Sources (Uses):					
Transfers In				446,029	446,029
Transfers Out		(226,548)	(219,481)		(446,029)
Total Other Financing Sources (Uses)	-	(226,548)	(219,481)	446,029	-
Net Change in Fund Balances	55,535	(1,026,055)	(1,304,845)	(74,888)	(2,350,253)
Fund Balances (Deficits) - Beginning of Year	1,081,026	1,494,213	1,485,517	174,743	4,235,499
Prior Period Adjustment		33,512			33,512
Fund Balances (Deficits) - Beginning of Year, Restated	1,081,026	1,527,725	1,485,517	174,743	4,269,011
Fund Balances - End of Year	\$ 1,136,561	\$ 501,670	\$ 180,672	\$ 99,855	\$ 1,918,758

See Accompanying Notes to Financial Statements

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 18) \$ (2,350,253)

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense exceeded capital outlays in the current year as follows:

Expenditures for capital assets	\$	2,705,774	
Depreciation expense		<u>(252,433)</u>	2,453,341

Capital contributions reported in the Statement of Activities that do not provide current financial resources and not reported as revenues in the fund (13,252)

Governmental funds report only the proceeds from the sale of capital assets as revenue whereas the statement of activities reports the gain or loss on the sale or disposal of fixed assets. This is the effect on the change in net assets on the statement of activities (12,670)

Accrued interest expense that does not require current financial resources 5,683

Accrued compensated absences not reported on the modified accrual basis 1,280

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

Early retirement	(28,000)
------------------	----------

The effect of bond issuance costs when new debt is issued, whereas, these amounts are deferred and amortized in the Statement of Activities (1,213)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues 1,017

The repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. The principal paid on long-term debt during the current year was as follows:

Bonds Payable	165,000		
Capital Loan Notes Payable	155,000		
Notes Payable	<u>11,454</u>		<u>331,454</u>

Change in net assets of governmental activities (page 15) \$ 387,387

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2006

	Business Type Activity
	School Nutrition Fund
ASSETS	
Current Assets:	
Cash and Pooled Investments	\$ 16,775
Accounts Receivable	51
Inventories	10,734
Total Current Assets	27,560
Noncurrent Assets:	
Infrastructure, Property and Equipment, Net of Accumulated Depreciation	79,641
Total Noncurrent Assets	79,641
Total Assets	107,201
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	2,792
Salaries and Benefits Payable	8,643
Total Liabilities	11,435
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	79,641
Unrestricted	16,125
Total Net Assets	\$ 95,766

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Business Type Activity
	School Nutrition Fund
Operating Revenues:	
Local Sources:	
Charges for Services	\$ 139,345
Miscellaneous	237
	139,582
Total Operating Revenue	139,582
Operating Expenditures:	
Non-instructional programs:	
Food Service Operations:	
Salaries	68,519
Benefits	31,133
Services	4,697
Supplies	805
Other	134,698
Depreciation	6,350
Loss on Disposal of Capital Assets	7,018
	253,220
Total Operating Expenses	253,220
Operating (Loss)	(113,638)
Non-Operating Revenues :	
Interest Income	1,513
State Lunch Reimbursements	3,561
National School Lunch Program	83,926
Federal Food Commodities Received	28,579
	117,579
Total Non-Operating Revenues	117,579
Income before Contributions	3,941
Capital Contributions	43,738
	47,679
Change in Net Assets	47,679
Net Assets Beginning of Year	48,087
	95,766
Net Assets End of Year	\$ 95,766

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
Proprietary Fund
For the Year Ended June 30, 2006

	<u>Business Type</u> <u>Activity</u> <u>School Nutrition</u> <u>Fund</u>
Cash Flows from Operating Activities:	
Cash Received from Sale of Lunches and Breakfasts	\$ 139,318
Cash Received from Miscellaneous Operating Activities	237
Cash Paid for Employees for Services	(99,034)
Cash Paid to Suppliers for Goods and Services	(112,827)
Total Cash (Used) by Operating Activities	<u>(72,306)</u>
Cash Flows from Capital & Related Financing Activities:	
Acquisition of Capital Assets	<u>(29,374)</u>
Cash Flows from Non-Capital & Related Financing Activities:	
State Grants Received	3,561
Federal Grants Received	83,926
Total Cash Provided by Non-Capital & Related Financing Activities	<u>87,487</u>
Cash flows from Investing Activities:	
Interest on Investments	<u>1,513</u>
Net Increase in Cash and Cash Equivalents	(12,680)
Cash and Cash Equivalents at Beginning of Year	<u>29,455</u>
Cash and Cash Equivalents at End of year	<u><u>16,775</u></u>
Reconciliation of Operating (Loss) to Net Cash (Used) in	
Operating Activities:	
Operating (Loss)	(113,638)
Adjustments to reconcile net operating loss to net cash used by operating activities:	
Depreciation Expense	6,350
Loss on Disposal of Capital Assets	7,018
Commodities Used	26,698
(Increase) decrease in assets and increase (decrease) in liabilities:	
Purchased Inventories	(115)
Accounts Receivable	(27)
Salaries and Benefits Payable	618
Accounts Payable	790
Net Cash (Used) by operating activities	<u>\$ (72,306)</u>
Non-Cash Investing, Capital and Financing Activities	
Federal food commodities received	\$ 28,579
Capital Contributions	43,738
	<u>\$ 72,317</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The South O'Brien Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. 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 cities of Paullina, Primghar and Sutherland, Iowa, and the predominate agricultural territory in O'Brien, Cherokee, and Clay Counties in Iowa. The district is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, South O'Brien 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. In June, 2002, the District established the South O'Brien Community School District Foundation by appointing a board of trustees to incorporate a foundation under the Iowa Non-Profit Corporation Act, Iowa Code Chapter 504A. The focus of the Foundation is exclusively for charitable, scientific and educational purposes of the District. The financial activity of the Foundation is included in the financial statements of the South O'Brien Community School District as a component unit for the year ended June 30, 2006. The Foundation has elected a December 31, fiscal year-end and, therefore, the activity of the Foundation included in these financial statements is for the fiscal year ended December 31, 2005.

These financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (GAAP) that apply to governmental units. All funds created under the authority of the State Code of Iowa, the operations of which are under the control of the District's governing body, and by financial reporting standards for governmental units are included herewith.

The Governmental Accounting Standards Board is responsible for establishing U.S. GAAP for state and local government through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The District applies only the applicable FASB pronouncements issued prior to November 30, 1989 in accounting and reporting its proprietary operations. The more significant accounting policies established in U.S. GAAP and used by the District are discussed below.

B. Basic Financial Statements- Government-Wide Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The District's general, special revenue, debt service, permanent, and capital project funds are classified as governmental activities. The District's school nutrition fund is classified as a business-type activity.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The District first uses restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions and business-type activities. The functions are also supported by general government expenses (including depreciation) by related program revenues, operating grants, and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

C. Fund Financial Statements

The District uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds are classified into three types: governmental, proprietary and fiduciary. The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column in the fund financial statements. GASB No. 34 sets forth minimum criteria for the determination of major funds. The various funds reported in the financial statements are grouped into fund types as follows:

GOVERNMENTAL FUND TYPES

Governmental funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District's expendable financial resources and the related liabilities, except those accounted for in proprietary funds, are accounted for through governmental funds. The measurement focus is on determination of financial position and changes in financial position, rather than upon net income determination. The following is a description of the governmental funds of the District.

General Fund – The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund accounts for the instructional and most of the support service programs of the District's operations. Revenue of the General Fund consists primarily of local property taxes and state government aid.

Special Revenue Fund – Special Revenue Funds account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specified purposes. Each of the District's Special Revenue Funds has been established to reflect restricted revenue sources provided to school districts by the Iowa State Statutes.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Debt Service Fund – The Debt Service Fund accounts for the accumulation of resources for and the payment of general long-term debt principal and interest.

Capital Projects Fund – The Capital Project Fund accounts for all resources used in the acquisition and construction of capital facilities.

Permanent Fund – The Permanent Fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, can be used for awarded scholarships.

PROPRIETARY FUND TYPES

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. Operating revenues and expenses are distinguished from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses and depreciation on capital assets. The U.S. generally accepted accounting principles used are those applicable to similar businesses in the private sector.

Enterprise Funds – Enterprise Funds are used to account for operations: (a) which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The District reports the following major governmental funds:

General Fund – See the description on the previous page. The General Fund is always considered to be a major fund. The General Fund is always considered to be a major fund.

Capital Project LOST – To account for the collection of a 1% school local sales and services tax to be expended for school infrastructure and property tax relief.

Physical Plant and Equipment Levy – To account for regular property tax levy and a special voted property tax levy per thousand dollars of assessed valuation in the District for use in purchase of equipment and repairing and improving schoolhouse building and grounds.

The District reports the following major enterprise funds:

School Nutrition – Accounts for the food service operations of the District.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting/Measurement Focus

The government-wide and proprietary 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 financial sources.

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

E. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for 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.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

Prepaid Items – Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

Capital Assets – Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$500 for governmental capital assets and school nutrition capital assets.

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

Asset Class	Estimated Useful Lives (In Years)
Buildings and Land Improvements	15-50 years
Furniture and equipment	5-15 years

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

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

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

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

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.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 2 – CASH AND POOLED INVESTMENTS – (CONTINUED)

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

Guaranteed Interest Contract \$ 384,697

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

Credit Risk – The investments in the Iowa Schools Joint Investment Trust were 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 From	Transfer To	Amount
Special Revenue:		
Physical Plant & Equipment Levy	Debt Service	\$ 219,481
Capital Project LOST	Debt Service	<u>226,548</u>
Total		<u>\$ 446,029</u>
 Governmental Activities	 Proprietary – School Nutrition	 <u>\$ 43,738*</u>

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

*\$26,991 of the transfer was recorded to account for capital assets purchased by the Capital Project LOST Fund and transferred to the School Nutrition Enterprise Fund. \$3,495 of the transfer was recorded to account for capital assets purchased by the General Fund and transferred to the School Nutrition Enterprise Fund. The remaining \$13,252 of the transfer was recorded to account for capital assets previously included in governmental activities, and should have been classified as School Nutrition Enterprise Fund capital assets.

NOTE 4 – IOWA SCHOOL CASH ANTICIPATION PROGRAM (ISCAP)

The District participates in the Iowa School Cash Anticipation (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 semi-annual 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 semi-annual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	06/30/06	06/30/07	\$ 425,408	\$ 132	\$ 426,000	\$ 105
			<u>\$ 425,408</u>	<u>\$ 132</u>	<u>\$ 426,000</u>	<u>\$ 105</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
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	4.000%	3.900%

NOTE 5 – CAPITAL ASSETS

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

	Balance July 1, 2005	Additions	Deletions	Reclassification	Prior Period Adjustment	Balance June 30, 2006
Governmental Activities:						
Capital assets not being depreciated:						
Land	\$ 51,351	-	-		-	\$ 51,351
Construction in Progress	613,600	-	\$ 613,600		-	-
Total capital assets not being depreciated	664,951	-	613,600		-	51,351
Capital assets being depreciated:						
Buildings	3,360,190	\$3,101,853	-		-	6,462,043
Improvements other than buildings	120,585	-	-		-	120,585
Furniture and equipment	2,515,198	217,521	279,928	\$ 30,928	\$ 95,896	2,517,759
Total capital assets being depreciated	5,995,973	3,319,374	279,928	30,928	95,896	9,100,387
Less: Accumulated Depreciation for:						
Buildings	2,442,376	97,868	-		-	2,540,246
Improvements other than buildings	120,585	-	-		-	120,585
Furniture and equipment	2,001,370	154,565	266,202	17,676	58,769	1,930,826
Total Accumulated Depreciation	4,564,333	252,433	266,202	17,676	58,769	4,591,657
Total capital assets being depreciated, net	1,431,640	3,066,941	13,726	13,252	37,127	4,508,730
Governmental activities capital assets, net	\$ 2,096,591	\$ 3,066,941	\$ 627,326	\$ 13,252	\$ 37,127	\$ 4,560,081
Business-type Activities:						
Furniture and equipment	\$ 165,481	\$ 59,861	\$ 78,978	\$ 30,928	-	\$ 177,292
Less: Accumulated Depreciation	145,585	6,350	71,960	17,676	-	97,651
Business-type activities capital assets, net	\$ 19,896	\$ 53,511	\$ 7,018	\$ 13,252		\$ 79,641

Depreciation expenses was charged to the functions of the as follows:

Governmental Activities:	
Regular Instruction	\$ 112,816
Other Instruction	3,364
Instructional Staff Services	62,990
Administration Services	638
Operation and Maintenance	1,118
Transportation Services	71,507
Total depreciation expenses – governmental activities	\$ 252,433
Business-type activities:	
Food Service Operations	\$ 6,350

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 5 – CAPITAL ASSETS (CONTINUED)

Reconciliation of Investment in Capital Assets:

	Governmental Activities	Business- Type Activities
Land	\$ 51,351	-
Capital Assets (net of accumulated depreciation)	4,508,730	\$ 79,641
Less: Bonds Payable	(1,575,000)	-
Capital Loan Notes Payable	(1,240,000)	-
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,745,081</u>	<u>\$ 79,641</u>

NOTE 6 – LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
LOST Revenue Bonds	\$ 1,740,000	-	\$ 165,000	\$ 1,575,000	\$ 170,000
Notes Payable	45,811	-	11,454	34,357	11,454
General Obligation Capital Loan Notes	1,395,000	-	155,000	1,240,000	165,000
Early Retirement	92,000	\$ 44,000	12,000	124,000	12,000
Compensated Absences	8,984	7,704	8,984	7,704	7,704
Total	<u>\$ 3,281,795</u>	<u>\$ 51,704</u>	<u>\$ 352,438</u>	<u>\$ 2,981,061</u>	<u>\$ 366,158</u>

General Obligation Capital Loan Notes

On September 9, 2004, the District issued \$1,000,000 general obligation capital loan notes with an interest rate of 1.650%-3.650% to provide funds for capital improvements. On April 1, 2005, the District issued \$495,000 general obligation capital loan notes with an interest rate of 3.100%-4.600% to provide funds for capital improvements as well.

The annual debt service requirements to maturity for general obligation capital loan notes are as follows:

Year Ending June 30	\$495,000 Capital Loan Notes		\$1,000,000 Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 60,000	\$ 16,335	\$ 105,000	\$ 25,190	\$ 165,000	\$ 41,525
2008	60,000	13,575	105,000	22,670	165,000	36,245
2009	60,000	10,815	110,000	19,888	170,000	30,703
2010	60,000	8,955	115,000	16,643	175,000	25,598
2011	65,000	7,315	120,000	13,385	185,000	20,700
2012-2013	135,000	7,005	245,000	12,963	380,000	19,968
Total	<u>\$ 440,000</u>	<u>\$ 64,000</u>	<u>\$ 800,000</u>	<u>\$ 110,739</u>	<u>\$1,240,000</u>	<u>\$ 174,739</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Revenue Bonds

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

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

1. All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
2. Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements each month of the fiscal year. The Sinking Account is shown as a restricted asset in the Capital Project LOST fund.
3. Any monies remaining must be used to pay or redeem the Bonds.

The District was in compliance with all of the provisions during the year ended June 30, 2005.

Revenue bonds as of June 30, 2006 are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amounts</u>
Governmental Activities	2.500%-4.050%	\$ <u>1,575,000</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	170,000	57,423
2008	180,000	52,323
2009	185,000	46,473
2010	190,000	39,998
2011	200,000	33,873
2012-2014	650,000	50,982
Total	<u>\$1,575,000</u>	<u>\$ 281,072</u>

Notes Payable

Detail of the District's June 30, 2006 Special Assessments debt with O'Brien County are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 11,453	\$ 2,165	\$ 13,618
2008	11,453	1,443	12,896
2009	11,451	721	12,172
Total	<u>\$ 34,357</u>	<u>\$ 4,329</u>	<u>\$ 38,686</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 6 – LONG-TERM LIABILITIES (CONTINUED)

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be between the ages of 55 and 64 and have completed at least 20 years of service in the District. Employees must complete an application at least one full year in advance, and it is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to a maximum of one-half of one percent of the employee's current teaching salary as a base salary which is multiplied by the number of years of service the employee has rendered to the District. This total amount shall be in addition to the amount provided for salary in the contract for the final year of employment. Early retirement benefits paid during the year ended June 30, 2006 totaled \$6,815. The cost of early retirement payments liquidated within 60 days is recorded as a liability of the Special Revenue Management Levy Fund in the fund's financial statements.

The non-current portion of the early retirement to recorded in the government-wide financial statements.

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$189,544, \$187,893, and \$191,415 respectively, equal to the required contributions for each year.

NOTE 8 – RISK MANAGEMENT

South O'Brien Valley 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 \$239,076 for the year ended June 30, 2006 and is recorded in the General Fund.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2006

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

During the fiscal year ended June 30, 2005, the Local Option Sales Tax fund should have included a receivable in the amount of \$33,512 for June which was not received until August. The beginning fund balance has been adjusted to correct the understated Local Option Sales Tax fund at June 30, 2005.

Beginning fund balance as previously reported	\$ 1,494,213
Adjustment to record prior year receivable	33,512
Beginning fund balance, restated	<u>\$ 1,527,725</u>

The District also discovered \$37,127 (net of accumulated depreciation) of governmental capital assets that were not accounted for in prior years. The beginning net assets has been adjusted to correct the understated governmental activities at June 30, 2005.

Beginning net assets as previously reported	\$ 3,032,686
Local Option Sales Tax Fund prior period adjustment	33,512
Governmental Activities unrecorded capital assets	37,127
Beginning net assets, restated	<u>\$ 3,103,325</u>

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET
AND ACTUAL, ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND - CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Governmental	Proprietary
	Original	Amended	Funds Actual	Fund Actual
REVENUE:				
Local Sources:				
Local Tax	\$ 3,019,633	\$ 3,019,633	\$ 3,414,255	\$ -
Tuition	110,000	110,000	111,918	-
Other	24,360	24,360	380,709	141,068
Intermediate Sources	22,000	22,000	-	-
State Sources	3,058,858	3,058,858	2,963,422	3,561
Federal Sources	281,000	281,000	331,140	83,926
Total Revenue	6,515,851	6,515,851	7,201,444	228,555
EXPENDITURES:				
Current:				
Instruction	4,409,190	4,409,190	4,010,737	-
Support Services	3,248,150	3,248,150	2,203,088	-
Non-instructional Programs	260,133	260,133	-	241,235
Other Expenditures	3,375,413	3,675,413	3,564,552	-
Total Expenditures	11,292,886	11,592,886	9,778,377	241,235
Excess (Deficiency) of Revenues Over Expenditures	(4,777,035)	(5,077,035)	(2,576,933)	(12,680)
Other Financing Sources (Uses):				
Transfers In	368,250	368,250	446,029	-
Transfers Out	(403,510)	(403,510)	(446,029)	-
Sale of Capital Assets	2,500	2,500	-	-
Total Other Financing Sources (Uses)	(32,760)	(32,760)	-	-
Net Change in Fund Balances	(4,809,795)	(5,109,795)	(2,576,933)	(12,680)
Fund Balances - Beginning of Year	4,605,514	4,605,514	4,576,059	29,455
Fund Balances - End of Year	\$ (204,281)	\$ (504,281)	\$ 1,999,126	\$ 16,775

Total Actual	Final to Actual Variance
\$ 3,414,255	\$ 394,622
111,918	1,918
521,777	497,417
-	(22,000)
2,966,983	(91,875)
415,066	134,066
<u>7,429,999</u>	<u>914,148</u>
4,010,737	398,453
2,203,088	1,045,062
241,235	18,898
<u>3,564,552</u>	<u>110,861</u>
<u>10,019,612</u>	<u>1,573,274</u>
(2,589,613)	2,487,422
446,029	77,779
(446,029)	(42,519)
-	(2,500)
<u>-</u>	<u>32,760</u>
(2,589,613)	2,520,182
<u>4,605,514</u>	<u>-</u>
<u>\$ 2,015,901</u>	<u>\$ 2,520,182</u>

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2006

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional area level, not at the fund or fund type level. This level of control is at a level higher than the individual fund. It is necessary, therefore, to aggregate the expenditures of governmental fund types with expenses of proprietary fund types on a functional area basis and to compare such functional area totals to functional area budgeted totals in order to demonstrate legal compliance with budget. The Code of Iowa also provides that District disbursements in the General Fund may not exceed the amount authorized by the school finance formula. During the fiscal year 2006, there was one budget amendment increasing budgeted disbursements by \$300,000.

As noted previously, the actual results of operations are presented in accordance with generally accepted accounting principles, which differ in certain respects from those practices used in the preparation of the 2005-2006 budget. For purposes of preparing the budget comparison above, the actual expenses have been adjusted to the cash basis, which is consistent with the District's budgeted expenditures/expenses. The adjustments required to convert the expenses/expenditures to cash basis at the end of the year are as follows:

Governmental Fund			
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 7,201,444	\$ (25,073)	\$ 7,176,371
Expenditures	9,778,377	(251,753)	9,526,624
Net	(2,576,933)	226,680	(2,350,253)
Beginning Fund Balance	4,576,059	(307,048)	4,269,011
Ending Fund Balance	\$ 1,999,126	\$ (80,368)	\$ 1,918,758
Proprietary Fund			
School Nutrition			
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 228,555	\$ 28,606	\$ 257,161
Expenses	241,235	10,684	251,919
Net	(12,680)	17,922	5,242
Other Financing Sources	-	42,437	42,437
Beginning Net Assets	29,455	18,632	48,087
Ending Net Assets	\$ 16,775	\$ 78,991	\$ 95,766

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund
For the Year Ended June 30, 2006

Schedule 1

Revenues:	
Local Sources:	
Local Tax:	
Property Tax	\$ 2,377,399
Mobile Home Tax	102
Surtax	216,720
	2,594,221
Other Local Sources:	
Interest on Investments	80,952
Tuition from Other Districts	108,007
Tuition from Individuals	13,506
Rent	31,324
Miscellaneous	19,305
	253,094
	2,847,315
State Sources:	
Foundation Aid-District's Share	2,402,504
Instructional Support State Aid	15,678
Beginning Teacher Induction	1,300
Teachers Compensation Allocation	94,514
Educational Excellence Program:	
Phase I	57,210
Phase II	59,145
Non-Public Transportation Aid	43,967
Non-Public Textbook Aid	1,123
Revenue in Lieu of Taxes - Military Credit	2,013
Vocational Education Aid	4,655
Iowa Early Intervention Block Grant	36,588
AEA Flow-Through	239,076
	2,957,773
Federal Sources:	
Title I Grants to Local Educational Agencies	110,716
Class Size Reduction	42,790
Medical Assistance Program	70,421
Grants for State Assessments & Related Activities (Title VI A Program)	4,254
Comprehensive School Reform Grant	2,739
Safe and Drug-Free Schools and Communities-States Grants	4,472
Innovative Education Program Strategies	1,837
Vocational Education - Basic Grants to States	9,414
Special Education - Grants to States	42,023
	288,666
Total Revenue	\$ 6,093,754

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
For the Year Ended June 30, 2006

Schedule 1 (Continued)

Expenditures:

Instruction:

Regular Instruction:

Salaries	\$	1,573,258
Benefits		409,799
Services		296,181
Supplies		83,381
Property		2,940
Other		765
		2,366,324

Special Education Instruction:

Salaries		316,590
Benefits		97,355
Services		515,843
Supplies		2,516
Property		380
		932,684

Vocational Instruction:

Salaries		151,586
Benefits		40,331
Services		618
Supplies		10,376
Property		6,663
		209,574

Co-Curricular Program Instruction:

Salaries		123,510
Benefits		28,881
Services		1,753
Supplies		375
Property		2,951
		157,470

Other Instruction:

Salaries		144,799
Benefits		39,726
Services		1,255
Supplies		234
		186,014

Nonpublic Instruction:

Supplies		1,358
		1,358

Total Instruction

3,853,424

Support Services

Student Services:

Guidance Services:

Salaries		158,902
Benefits		48,126
Services		2,676
Supplies		2,373
		212,077

Health Services:

Salaries		21,219
Benefits		13,255
Services		2,788
Supplies		4,203
		41,465

Total Student Services

\$ 253,542

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
For the Year Ended June 30, 2006

Schedule 1 (Continued)

Expenditures (Continued):

Support Services:

Instructional Staff Services:

Improvement of Instruction:

Salaries	\$	48,754
Benefits		12,371
Services		20,112
Supplies		19,520
Property		116,256
		217,013

Library/Media Services:

Salaries		61,816
Benefits		19,249
Services		
Supplies		14,156
Property		274
		95,495

Total Instructional Staff Services

312,508

Administration Services:

Board of Education Services:

Services		31,846
Supplies		4,758
		36,604

Executive Administration Services:

Salaries		137,588
Benefits		40,297
Services		19,262
Supplies		6,273
		203,420

Building Administration

Salaries		182,350
Benefits		66,457
Services		7,200
Supplies		7,214
Property		50
		263,271

Business Administration

Salaries		49,104
Benefits		22,909
Services		12,288
Supplies		10,513
Property		600
Other		330
Iowa School Cash Anticipation Program Interest		10,281
		106,025

Total Administration Services

\$ 609,320

Continued

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Statement of Revenue, Expenditures and Changes in Fund Balance
General Fund - Continued
For the Year Ended June 30, 2006

Schedule 1 (Continued)

Expenditures (Continued):

Support Services:

Plant Operation and Maintenance:

Salaries	176,934
Benefits	84,311
Services	49,458
Supplies	160,248
Property	21,654
	492,605

Student Transportation:

Salaries	137,926
Benefits	30,002
Services	25,090
Supplies	82,351
Property	2,375
	277,744

Total Support Services

1,945,719

Other Expenditures:

239,076

Total Expenditures

6,038,219

Excess of Revenues Over Expenditures

55,535

Fund Balance Beginning of Year

1,081,026

Fund Balance End of Year

\$ 1,136,561

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
June 30, 2006**

	Special Revenue Funds		
	Management Levy	Student Activity	Ray Ginger Scholarship
Assets			
Cash and Pooled Investments	\$ 74,286	\$ 30,492	\$ 2,339
Receivables:			
Property Tax	1,118		
Succeeding Year Property Tax	100,000		
Accrued Interest			
Accounts		388	
Inventory		325	
Total Assets	175,404	31,205	2,339
Liabilities and Equity			
Liabilities:			
Accounts Payable and Accrued Liabilities		2,316	
Early Retirement Payable	16,000		
Unearned Revenue	44		
Deferred Revenue - Succeeding Year			
Property Taxes	100,000		
Total Liabilities	116,044	2,316	
Fund Balances:			
Reserved for:			
Scholarships			
Inventory		325	
Unreserved for:			
Special Revenue Fund	59,360	28,564	2,339
Total Fund Balances	59,360	28,889	2,339
Total Liabilities and Equity	\$ 175,404	\$ 31,205	\$ 2,339

Schedule 2

Special Revenue Fund		Permanent Fund		
Foundation		Dell Scholarship	Debt Service Fund	Total
\$	6,795	\$	2,455	\$ 116,367
				1,118
				100,000
		17		17
				388
				325
	6,795	2,472		218,215
				2,316
				16,000
				44
				100,000
				118,360
		2,472		2,472
				325
	6,795			97,058
	6,795	2,472		99,855
\$	6,795	\$	2,472	\$ 218,215

**SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 Governmental Nonmajor Funds
 For the Year Ended June 30, 2006**

	Special Revenue Funds		
	Management Levy	Student Activity	Ray Ginger Memorial
Revenue:			
Local Sources:			
Local Tax	\$ 49,980		
Other	8,256	\$ 153,241	\$ 24
State Sources	41		
Total Revenue	<u>58,277</u>	<u>153,241</u>	<u>24</u>
Expenditures:			
Current:			
Instruction:			
Regular Instruction	22,669		
Other Instruction		165,815	
Support Services:			
Student Services			
Administration Services	61,796		
Operation and Maintenance	24,999		
Transportation Services	11,753		
Other Expenditures:			
Long-term Debt:			
Principal			
Interest and Fiscal Charges			
Total Expenditures	<u>121,217</u>	<u>165,815</u>	
Excess(Deficiency) of Revenues Over Expenditures	<u>(62,940)</u>	<u>(12,574)</u>	<u>24</u>
Other Financing Sources (Uses):			
Transfers In			
Net Change in Fund Balances	(62,940)	(12,574)	24
Fund Balances - Beginning of Year	122,300	41,463	2,315
Fund Balances - End of Year	<u>\$ 59,360</u>	<u>\$ 28,889</u>	<u>\$ 2,339</u>

			Schedule 3	
Special Revenue Fund		Permanent Fund		
Foundation	Dell Scholarship	Debt Service	Total	
			\$	49,980
\$	9,437	\$	87	171,045
				41
	9,437	87		221,066
				22,669
				165,815
	8,772	150		8,922
				61,796
				24,999
				11,753
			\$	331,454
				114,575
	8,772	150		446,029
				741,983
	665	(63)	(446,029)	(520,917)
				446,029
	665	(63)	-	(74,888)
	6,130	2,535	-	174,743
\$	6,795	\$	2,472	\$
			-	\$
				99,855

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Individual Student Activity Accounts
For the Year Ended June 30, 2006

					Schedule 4
	Balance			Operating	Balance
	June 30,	Revenues	Expenditures	Transfers	June 30,
	2005				2006
General Athletics	\$ (894)	\$ 51,438	\$ 52,864		\$ (2,320)
Weight Room Club	193				193
HS Football Club	783		686		97
Bowling Club-Scholarship	150		150		-
HS General Athletics Resale	806	402			1,208
HS Student Council	199	4,201	3,527		873
FFA	4,690	33,662	35,415		2,937
Spanish Club	477		95		382
HS Cheerleaders	1,286	3,196	4,862		(380)
HS Science Club	215				215
National Honor Society	480	402	332		550
Model Un Club	488	803	1,134		157
HS Marketing Club	623		623		-
HS Art Club	32	400	95		337
Dinner Theater Club	4,530	3,419	3,048		4,901
HS Industrial Arts Club	505		505		-
HS Instrumental Music Resale	(1,989)	563	750		(2,176)
HS Vocal Music Resale	458	400	901	42	(1)
Renaissance	1,094				1,094
Yearbook Club	15,834	11,384	17,155		10,063
HS Speech Club	573	178	487		264
JH Student Council	5,147	209	3,948		1,408
HS Activity	94	6,650	8,096	2,652	1,300
EI Student Council	1,582	24,208	20,968		4,822
MS Marketing	1,759	969	593		2,135
HS Musical	42			(42)	-
JH Athletics	780	3,662	4,442		-
Kindergarten Activity	200				200
General Activity Account	(4,112)	992	997		(4,117)
Clothes For Kids	570	400	411	56	615
Computers For Kids	56			(56)	-
Class of 2004	102			(102)	-
Class of 2005	2,550			(2,550)	-
Class of 2006	344	570	762		152
Class of 2007	1,186	2,948	2,329		1,805
Class of 2008	630	610			1,240
Class of 2009		580			580
District Football		525	200		325
Intramural Basketball		470	440		30
Totals - All Activity Funds	\$ 41,463	\$ 153,241	\$ 165,815	\$ -	\$ 28,889

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Comparison of Taxes and Intergovernmental Revenues and Receipts
For the Years Ended June 30, 2006, 2005, 2004, 2003

Schedule 5

	Modified Accrual Basis of Accounting			
	2006	2005	2004	2003
Local Sources:				
Local Taxes:				
Property Taxes	\$ 2,797,069	\$ 3,064,999	\$ 3,178,156	\$ 2,751,441
Mobile Home Taxes	116	124	121	111
Surtaxes	226,436	207,990	193,149	216,483
Local Option Sales and Services Taxes	408,055	365,757	123,950	
	<u>3,431,676</u>	<u>3,638,870</u>	<u>3,495,376</u>	<u>2,968,035</u>
State Sources:				
State Foundation Aid	2,402,504	2,139,544	2,099,598	2,160,993
Foster Care State Aid		3,741		
Instructional Support State Aid	15,678	15,893	16,204	17,323
Beginning Teacher Induction	1,300	2,600	5,200	3,900
Evaluator Training Program				2,000
Teachers Compensation Allocation	94,514	60,483	58,804	52,885
Educational Excellence Program:				
Phase I	57,210	59,186	62,009	66,051
Phase II	59,145	57,448	61,694	63,206
Phase III				15,705
Non-Public Transportation	43,967	45,202	57,540	22,303
Non-Public Textbook Aid	1,123	1,116	1,081	2,843
Vocational Education Aid	4,655	8,473	6,113	
Revenue in Lieu of Taxes - Military Credit	2,291	2,765	2,031	2,332
Iowa Early Intervention Block Grant	36,588	38,371	40,621	40,292
Lunch and Breakfast Program Claims	3,561	3,796	3,608	3,960
AEA Flow-Through	239,076	235,163	241,662	259,229
Other State Aid			429	
	<u>2,961,612</u>	<u>2,673,503</u>	<u>2,656,594</u>	<u>2,713,022</u>
Federal Sources:				
Title I Grants to Local Educational Agencies	110,716	134,429	125,842	117,685
Class Size Reduction	42,790	44,088	46,452	49,087
Safe and Drug Free Schools and Communities -				
State Grants	4,472	6,138	4,360	4,158
Medical Assistance Program	70,421	23,791	166	16,210
Innovative Education Program Strategies				
(Title V Program)	1,837	2,777	3,968	4,138
Grants for State Assessments & Related Activities -				
(Title VI A Program)	4,254	4,200	4,368	3,640
Fund for the Improvement of Education		1,438	776	19,985
National School Lunch Program	75,560	83,599	78,383	72,746
Schoolwide Positive Behavior Support Grant		3,134	6,248	8,850
Goals 2000 - State Grants				2,325
Special Education - Grants to States	42,023	42,654	36,755	6,901
School Breakfast Program	8,366	9,387	8,007	6,900
Food Distribution	28,579	34,659	39,672	35,980
Vocational Education-Basic Grants to States	9,414	12,204	12,486	15,046
Eisenhower Professional Development Grant				2,436
Other				22
Demostration Construction Grant	25,000			
Comprehensive School Reform Grant	2,739	50,000	50,000	
	<u>426,171</u>	<u>452,498</u>	<u>417,483</u>	<u>366,109</u>
Total	<u>\$ 6,819,459</u>	<u>\$ 6,764,871</u>	<u>\$ 6,569,453</u>	<u>\$ 6,047,166</u>

See Accompanying Notes to Financial Statements

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Schedule 6

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was 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.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

There were no prior year audit findings.

REPORTABLE CONDITIONS:

II-A-06 Financial Accounting – Segregation of Duties

- A. Observation – One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties, which are incompatible. Incompatible duties, for accounting control purposes, are those duties that place a person in a position where they could both perpetuate and conceal errors or fraud. In performing our audit, we noted that one person has primary responsibility for many accounting and financial duties of the District.

Recommendation – The size of the District's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of duties. This situation dictates that the Board of Education and Superintendent remain actively involved in the financial affairs of the District to provide oversight and review functions. In addition, the District should periodically review the operating procedures and make changes as necessary to obtain the maximum internal control under the circumstances.

Response – District administration understands the nature of the weakness and the necessity for the Board and Superintendent to provide oversight and review functions. We will continue to review procedures of the District and make changes as deemed necessary and practical.

Conclusion – Response accepted.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Schedule 6 (Continued)

Part III: Other Findings Related to Statutory Reporting:

- III-A-06 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts stated in the resolution were not exceeded during the year.

- III-B-06 Certified Budget – Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.

- III-C-06 Questionable Disbursements – No disbursements were noted that they may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-D-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.

- III-E-06 Business Transactions – Business transactions between the District and District officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction/ Description</u>	<u>Amount</u>
Paul Miller, Employee's Spouse Owner of Whiskey Creek Log Homes	Contractor	\$ 21,998
John Muller, Employee's Spouse Owner of Muller Furniture	Contractor	\$ 16,175

These transactions may represent a conflict of interest and the District should contact legal council for determination.

- III-F-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.

- III-G-06 Board Minutes – No transactions requiring Board approval that had not been approved by the Board were noted.

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

- III-I-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.

SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Schedule 6 (Continued)

Part III: Other Findings Related to Statutory Reporting – (Continued):

III-J-06 Certified Annual Report – The Certified Annual Report was filed timely with the Department of Education.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of the
South O'Brien Community School District

We have audited the financial statements of the governmental activities, the business-type activity, each major fund, and the aggregate remaining fund information of SOUTH O'BRIEN COMMUNITY SCHOOL DISTRICT as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents, and have issued our report thereon dated August 18, 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.

Compliance:

As part of obtaining reasonable assurance about whether the South O'Brien 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting:

In planning and performing our audit, we considered South O'Brien 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 South O'Brien Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-06.

A material weakness is a 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 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, we believe II-A-06 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the board of education, management, employees and citizens of South O'Brien Community School District and other parties to whom the South O'Brien Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of South O'Brien Community School District during the course of our audit. If you have any questions concerning any of the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company, P.C.
Certified Public Accountants

Le Mars, Iowa
August 18, 2006