

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

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Independent Auditor's Report

To the Board of Education of  
Pomeroy-Palmer Community School District:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pomeroy-Palmer Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated August 3, 2006, on our consideration of Pomeroy-Palmer Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pomeroy-Palmer Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

August 3, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,215,494 in fiscal 2005 to \$2,344,495 in fiscal 2006, while General Fund expenditures increased from \$2,246,432 in fiscal 2005 to \$2,442,215 in fiscal 2006. The District's General Fund balance decreased from \$959,784 in fiscal 2005 to \$855,314 in fiscal 2006, a 10% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax, tuition and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2006. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Sample Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pomeroy-Palmer Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pomeroy-Palmer Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

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

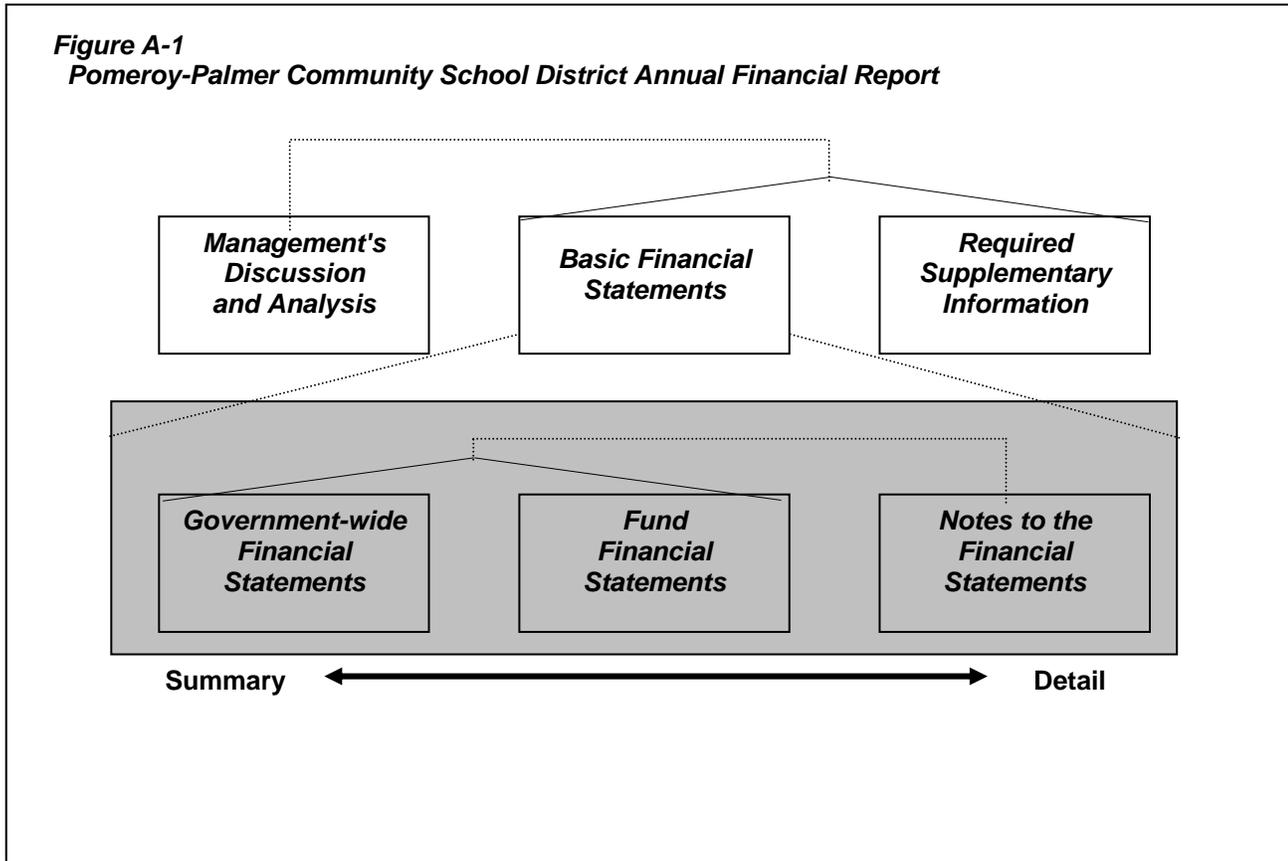


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund 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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

### *Fund Financial Statements*

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

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

The District has 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 fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Management, PPEL, Capital Projects and Student Activity funds.

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

*Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has only one Enterprise Fund, the School Nutrition Fund. The District uses *internal service funds*, the other kind of proprietary fund, to report activities that provide supplies and services for its other programs and activities. The District currently has one internal service fund used to account for the District's employee flexible benefit plan.

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	\$2,649,433	\$2,633,016	\$5,708	\$11,049	\$2,655,141	\$2,644,065	.4
Capital assets	\$467,536	\$506,204	\$4,200	\$5,192	\$471,736	\$511,396	-7.8
<b>Total assets</b>	<b>\$3,116,969</b>	<b>\$3,139,220</b>	<b>\$9,908</b>	<b>\$16,241</b>	<b>\$3,126,877</b>	<b>\$3,155,461</b>	<b>-9</b>
Long-term liabilities	\$0	\$11,800	\$0	\$0	\$0	\$11,800	-100.0
Other liabilities	\$1,184,211	\$1,200,779	\$616	\$647	\$1,184,827	\$1,201,426	-1.4
<b>Total liabilities</b>	<b>\$1,184,211</b>	<b>\$1,212,579</b>	<b>\$616</b>	<b>\$647</b>	<b>\$1,184,827</b>	<b>\$1,213,226</b>	<b>-2.3</b>
Net Assets:							
Invested in capital assets, net of related debt	\$467,536	\$506,204	\$4,200	\$5,192	\$471,736	\$511,396	-7.8
Restricted	\$527,081	\$417,968	\$0	\$0	\$527,081	\$417,968	26.1
Unrestricted	\$938,141	\$1,002,469	\$5,092	\$10,402	\$943,233	\$1,012,871	-6.9
<b>TOTAL NET ASSETS</b>	<b>\$1,932,758</b>	<b>\$1,926,641</b>	<b>\$9,292</b>	<b>\$15,594</b>	<b>\$1,942,050</b>	<b>\$1,942,235</b>	<b>0.0</b>

The District's combined net assets showed no measurable change over the past year. The largest portion of the District's net assets is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The restricted net assets increased because the District is accumulating local option sales tax proceeds for future capital projects.

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

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Revenues:							
Program Revenues:							
Charges for services	\$265,092	\$161,792	\$38,498	\$41,653	\$303,590	\$203,445	4.9
Operating grants & contributions	\$316,283	\$301,701	\$44,565	\$50,708	\$360,848	\$352,409	2.4
Capital grants & contributions	\$0	\$1,010	\$0	\$0	\$0	\$1,010	-100.0
General Revenues:							
Property taxes	\$1,159,065	\$1,021,574	\$0	\$0	\$1,159,065	\$1,021,574	13.4
Income Surtax	\$81,939	\$62,401	\$0	\$0	\$81,939	\$62,401	31.3
Local option sales tax	\$126,326	\$123,400	\$0	\$0	\$126,326	\$123,400	2.4
Unrestricted state grants	\$718,920	\$819,886	\$0	\$0	\$718,920	\$819,886	12.3
Unrestricted investment earnings	\$35,700	\$23,900	\$101	\$24	\$35,801	\$23,924	49.6
Other revenue	\$16,158	\$504	\$0	\$0	\$16,158	\$504	3105.9
<b>Total Revenues</b>	<b>\$2,719,483</b>	<b>\$2,516,168</b>	<b>\$83,164</b>	<b>\$92,385</b>	<b>\$2,802,647</b>	<b>\$2,608,553</b>	<b>7.4</b>

Expenses:							
Instruction	\$1,765,305	\$1,720,503	\$0	\$0	\$1,765,305	\$1,720,503	2.6
Support services	\$803,766	\$710,340	\$0	\$0	\$803,766	\$710,340	13.1
Non-instructional programs	\$739	\$10,307	\$96,216	\$90,414	\$96,955	\$100,721	-3.7
Other expenditures	\$136,806	\$148,935	\$0	\$0	\$136,806	\$148,935	-8.1
<b>Total expenses</b>	<b>\$2,706,616</b>	<b>\$2,590,085</b>	<b>\$96,216</b>	<b>\$90,414</b>	<b>\$2,802,832</b>	<b>\$2,680,499</b>	<b>4.6</b>
<b>Net</b>	12,867	(73,917)	(13,520)	1,971	(185)	(71,946)	99.7
Transfers	(6,750)	-	6,750	-	-	-	-
<b>CHANGE IN NET ASSETS</b>	\$6,117	(\$73,917)	(\$6,302)	\$1,971	(\$185)	(\$71,946)	99.7
Net assets beginning of year	\$1,926,641	\$2,000,558	\$15,594	\$13,623	\$1,942,235	\$2,014,181	-3.6
Net assets end of year	\$1,932,758	\$1,926,641	\$9,292	\$15,594	\$1,942,050	\$1,942,235	0.0

Property tax and unrestricted state grants account for 88% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 98% of the total expenses.

### Governmental Activities

There were no significant changes in net assets.

Revenues for governmental activities were \$2,719,483 and expenses were \$2,706,616. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5

### Total and Net Cost of Governmental Activities

	Total Cost of Services 2006 \$	Total Cost of Services 2005 \$	Net Cost of Services 2006 \$	Net Cost of Services 2005 \$
Instruction	\$1,765,305	\$1,720,503	\$1,269,856	\$1,334,102
Support Services	\$803,766	\$710,340	\$803,499	\$709,808
Non-instructional Programs	\$739	\$10,307	\$739	\$10,307
Other Expenses	\$136,806	\$148,935	\$51,147	\$61,365
<b>TOTAL</b>	<b>\$2,706,616</b>	<b>\$2,590,085</b>	<b>\$2,125,241</b>	<b>\$2,115,582</b>

- The cost financed by users of the District's programs was \$265,092.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$316,283.
- The net cost of governmental activities was financed with \$1,159,065 in property taxes, \$81,939 in income surtaxes and \$718,920 in unrestricted state grants.

## **Business Type Activities**

Revenues for business type activities were \$83,164 and expenses were \$96,216. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements.

Revenues decreased due to a decline in the number of students available to participate in the school lunch program. Expenses increased due to an increase in salaries and benefits. The District paid the difference in expenses and revenues from the general fund. This increase resulted in maintaining the revenue level in the School Nutrition fund, as the number of students available to participate declined.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,398,247.

## **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$959,784 to \$855,314, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$249,946 in fiscal 2005 to \$261,611 in fiscal 2006. While revenues remained approximately the same, the District reduced spending from the PPEL Fund in order to improve the financial condition of the fund.
- The balance of the Nonmajor Governmental Funds increased from \$155,630 at June 30, 2005 to \$281,322 at June 30, 2006. Almost all of this increase was due to local option sales taxes that were collected in fiscal year 2006, but will be spent in future years.

## **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$15,594 at June 30, 2005 to \$9,292 at June 30, 2006, representing a decrease of approximately 43%. The cause of the decrease in net assets for fiscal 2006 was the increase in salaries and benefits.

## **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except blended component units, internal service funds, permanent funds and agency funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared in

accordance with generally accepted accounting principles. The District has not amended its certified budget for several years.

School districts have two levels of budgetary control. One form of budgetary control exists through the “certified budget”, which includes all funds of the District as noted above. This budget is certified with the County Auditor and Department of Management each year. Iowa school districts may not certify a general fund budget in excess of its spending authority.

The other level of budgetary control is the “unspent (maximum) authorized budget” and pertains only to the General Fund of the District. The maximum authorized budget is the total “spending authority” in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the “actual General Fund cash”. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

A schedule showing the original and final budget amounts compared to the District’s actual financial activity is included in the required supplementary information section of this audit report.

The District has not amended its budget for several years because we prepare the initial budget using the maximum expenditures that the District could have based on projected revenues and carryover balances. Actual expenditures are controlled during the year using a line item budget that bases expenditures on projected revenues for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

**Capital Assets** - At June 30, 2006 the District has invested \$471,736, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, and transportation equipment. This amount represents a net decrease of seven percent from last year. More detailed information about capital assets is available in Note 4 to the Financial Statements. Depreciation expense for the year was \$66,282.

Significant capital assets activities included new classroom and lab computers, district servers, a new air conditioner in the elementary wing, and new asphalt in the parking lot.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2005-2006
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Land	\$10,601	\$10,601	\$0	\$0	\$10,601	\$10,601	0.0
Buildings	\$268,828	\$284,301	\$0	\$0	\$268,828	\$284,301	-5.5
Improvements	\$35,765	\$20,961	\$0	\$0	\$35,765	\$20,961	70.6
Equipment & Furniture	\$152,342	\$190,341	\$4,200	\$5,192	\$156,542	\$195,533	-19.9
<b>TOTAL</b>	<b>\$467,536</b>	<b>\$506,204</b>	<b>\$4,200</b>	<b>\$5,192</b>	<b>\$471,736</b>	<b>\$511,396</b>	<b>-7.8</b>

## **Long-Term Debt**

**Long-term Debt** – The District does not have any general obligation debt, but has incurred a long-term liability for Early Retirement payments. The district paid out \$28,835 in early retirement benefits for fiscal 2006. However, the balance at the end of year was zero due to no expected early retirement obligations at this time.

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

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

- The District has been experiencing declining enrollment for the past several years. Additionally, the graduating class of 2004 was the last class to have an enrollment over 30 students with a kindergarten enrollment of only 5 for 2005-2006. This decline in enrollment along with the phasing out of the budget guarantee will continue to lower funding of the General Fund.
- The District's faculty is reaching retirement age at a steadily increasing rate. The levy rate for the Management fund will be set to cover anticipated early retirement obligations and the District insurance premium for the next year.
- In February 2004, the District patrons passed a Local Option Sales Tax measure in both Calhoun and Pocahontas counties. The funding from the measure will be used for property tax relief, lowering the PPEL rate as the funds are generated from Local Option Sales Tax.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Megan Hauswirth, Business Manager, Pomeroy-Palmer Community School District, 202 East Harrison Street, Pomeroy, IA 50575.

## BASIC FINANCIAL STATEMENTS

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents	1,254,795	4,288	1,259,083
Receivables:			
Property tax:			
Delinquent	12,516	-	12,516
Succeeding year	1,162,700	-	1,162,700
Accounts	386	231	617
Accrued interest	3,400	-	3,400
Due from other governments	215,636	-	215,636
Inventories	-	1,189	1,189
Capital assets, net of accumulated depreciation	467,536	4,200	471,736
<b>Total assets</b>	<b>3,116,969</b>	<b>9,908</b>	<b>3,126,877</b>
<b>Liabilities</b>			
Accounts payable	7,157	-	7,157
Salaries and benefits payable	14,354	554	14,908
Deferred revenue:			
Succeeding year property tax	1,162,700	-	1,162,700
Other	-	62	62
<b>Total liabilities</b>	<b>1,184,211</b>	<b>616</b>	<b>1,184,827</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	467,536	4,200	471,736
Restricted for:			
Gifted and talented program	23,943	-	23,943
Management levy	38,805	-	38,805
Physical plant and equipment levy	222,242	-	222,242
Other special revenue purposes	34,092	-	34,092
Local option sales tax capital projects	207,999	-	207,999
Unrestricted	938,141	5,092	943,233
<b>Total net assets</b>	<b>1,932,758</b>	<b>9,292</b>	<b>1,942,050</b>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	1,087,622	72,131	162,169	
Special instruction	192,645	-	13,908	-
Other instruction	485,038	192,811	54,430	-
	<u>1,765,305</u>	<u>264,942</u>	<u>230,507</u>	<u>-</u>
Support services:				
Student services	41,806	-	117	-
Instructional staff services	71,093	-	-	-
Administration services	301,837	-	-	-
Operation and maintenance of plant services	248,106	150	-	-
Transportation services	140,924	-	-	-
	<u>803,766</u>	<u>150</u>	<u>117</u>	<u>-</u>
Non-instructional programs	<u>739</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	33,940	-	-	-
AEA flowthrough	85,659	-	85,659	-
Depreciation (unallocated)*	17,207	-	-	-
	<u>136,806</u>	<u>-</u>	<u>85,659</u>	<u>-</u>
Total governmental activities	2,706,616	265,092	316,283	-
Business type activities:				
Non-instructional programs:				
Food service operations	<u>96,216</u>	<u>38,498</u>	<u>44,565</u>	<u>-</u>
Total	<u>2,802,832</u>	<u>303,590</u>	<u>360,848</u>	<u>-</u>
<b>General Revenues:</b>				
Property taxes levied for:				
General purposes				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	\$	\$
(853,322)	-	(853,322)
(178,737)	-	(178,737)
(237,797)	-	(237,797)
<u>(1,269,856)</u>	<u>-</u>	<u>(1,269,856)</u>
(41,689)	-	(41,689)
(71,093)	-	(71,093)
(301,837)	-	(301,837)
(247,956)	-	(247,956)
(140,924)	-	(140,924)
<u>(803,499)</u>	<u>-</u>	<u>(803,499)</u>
(739)	-	(739)
(33,940)	-	(33,940)
-	-	-
(17,207)	-	(17,207)
<u>(51,147)</u>	<u>-</u>	<u>(51,147)</u>
(2,125,241)	-	(2,125,241)
-	(13,153)	(13,153)
<u>(2,125,241)</u>	<u>(13,153)</u>	<u>(2,138,394)</u>
1,094,546	-	1,094,546
64,519	-	64,519
81,939	-	81,939
126,326	-	126,326
718,920	-	718,920
35,700	101	35,801
16,158	-	16,158
<u>2,138,108</u>	<u>101</u>	<u>2,138,209</u>
(6,750)	6,750	-
<u>2,131,358</u>	<u>6,851</u>	<u>2,138,209</u>
6,117	(6,302)	(185)
<u>1,926,641</u>	<u>15,594</u>	<u>1,942,235</u>
<u>1,932,758</u>	<u>9,292</u>	<u>1,942,050</u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	760,905	260,914	229,942	1,251,761
Receivables:				
Property tax:				
Delinquent	10,848	697	971	12,516
Succeeding year	1,053,688	69,012	40,000	1,162,700
Accounts	386	-	-	386
Accrued interest	3,400	-	-	3,400
Due from other governments	165,227	-	50,409	215,636
	<u>1,994,454</u>	<u>330,623</u>	<u>321,322</u>	<u>2,646,399</u>
<b>Total assets</b>				
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	5,933	-	-	5,933
Salaries and benefits payable	14,354	-	-	14,354
Deferred revenue:				
Succeeding year property tax	1,053,688	69,012	40,000	1,162,700
Other	65,165	-	-	65,165
Total liabilities	<u>1,139,140</u>	<u>69,012</u>	<u>40,000</u>	<u>1,248,152</u>
Fund balances:				
Reserved for:				
Gifted and talented program	23,943	-	-	23,943
Unreserved reported in:				
General fund	831,371	-	-	831,371
Special revenue funds	-	261,611	73,323	334,934
Capital projects funds	-	-	207,999	207,999
Total fund balances	<u>855,314</u>	<u>261,611</u>	<u>281,322</u>	<u>1,398,247</u>
	<u>1,994,454</u>	<u>330,623</u>	<u>321,322</u>	<u>2,646,399</u>
<b>Total liabilities and fund balances</b>				

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 1,398,247
<b><i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	467,536
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	65,165
An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	<u>1,810</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>1,932,758</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Physical Plant and Equipment Levy	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,086,517	64,519	182,727	1,333,763
Tuition	169,631	-	-	169,631
Other	53,144	7,389	86,786	147,319
State sources	916,519	-	33,567	950,086
Federal sources	118,684	-	-	118,684
Total revenues	<u>2,344,495</u>	<u>71,908</u>	<u>303,080</u>	<u>2,719,483</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	1,060,155	2,849	35,203	1,098,207
Special instruction	192,645	-	-	192,645
Other instruction	394,079	-	90,959	485,038
	<u>1,646,879</u>	<u>2,849</u>	<u>126,162</u>	<u>1,775,890</u>
Support services:				
Student services	38,221	-	-	38,221
Instructional staff services	75,414	-	-	75,414
Administration services	298,042	-	3,795	301,837
Operation and maintenance of plant services	199,546	6,916	39,419	245,881
Transportation services	98,454	-	7,273	105,727
	<u>709,677</u>	<u>6,916</u>	<u>50,487</u>	<u>767,080</u>
Non-instructional programs	-	-	739	739
Other expenditures:				
Facilities acquisition	-	50,478	-	50,478
AEA flowthrough	85,659	-	-	85,659
	<u>85,659</u>	<u>50,478</u>	<u>-</u>	<u>136,137</u>
Total expenditures	<u>2,442,215</u>	<u>60,243</u>	<u>177,388</u>	<u>2,679,846</u>
Excess (deficiency) of revenues over (under) expenditures	(97,720)	11,665	125,692	39,637
Other financing sources (uses):				
Operating transfers out	<u>(6,750)</u>	-	-	<u>(6,750)</u>
Net change in fund balances	(104,470)	11,665	125,692	32,887
Fund balances beginning of year	<u>959,784</u>	<u>249,946</u>	<u>155,630</u>	<u>1,365,360</u>
Fund balances end of year	<u><u>855,314</u></u>	<u><u>261,611</u></u>	<u><u>281,322</u></u>	<u><u>1,398,247</u></u>

See notes to financial statements.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds to the  
Statement of Activities

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		32,887

**Amounts reported for governmental activities in the  
Statement of Activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:

Expenditures for capital assets	26,622	
Depreciation expense	<u>(65,290)</u>	(38,668)

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

Termination benefits		11,800
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An internal service fund is used by the District's management to charge the costs of the employee flexible benefit program to the individual funds. The net revenue (expense) of the internal service fund is reported with governmental activities.

<u>98</u>
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<b>Changes in net assets of governmental activities (Exhibit B)</b>		<u><u>6,117</u></u>
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## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Enterprise Fund <u>Nonmajor School Nutrition</u> \$	Governmental Activities - Internal Service Fund <u>                    </u> \$
<b>Assets</b>		
Cash and cash equivalents	4,288	3,034
Accounts receivable	231	-
Inventories	1,189	-
Capital assets, net of accumulated depreciation	<u>4,200</u>	<u>-</u>
<b>Total assets</b>	<u>9,908</u>	<u>3,034</u>
<b>Liabilities</b>		
Accounts payable	-	1,224
Salaries and benefits payable	554	-
Deferred revenue	62	-
<b>Total liabilities</b>	<u>616</u>	<u>1,224</u>
<b>Net assets</b>		
Invested in capital assets, net of related debt	4,200	-
Unrestricted	<u>5,092</u>	<u>1,810</u>
<b>Total net assets</b>	<u><u>9,292</u></u>	<u><u>1,810</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Enterprise Fund	Governmental Activities - Internal Service Fund
	<u>Nonmajor School Nutrition</u>	<u>Service Fund</u>
	\$	\$
Operating revenue:		
Local sources:		
Charges for service	38,498	8,560
Operating expenses:		
Non-instructional programs:		
Salaries	38,470	-
Benefits	14,851	8,462
Purchased services	1,103	-
Supplies	40,800	-
Depreciation	992	-
	<u>96,216</u>	<u>8,462</u>
Operating gain (loss)	<u>(57,718)</u>	<u>98</u>
Non-operating revenue:		
State sources	1,247	-
Federal sources	43,318	-
Interest income	101	-
Total non-operating revenue	<u>44,666</u>	<u>-</u>
Gain (loss) before transfers	(13,052)	98
Transfers in	<u>6,750</u>	<u>-</u>
Change in net assets	(6,302)	98
Net assets beginning of year	<u>15,594</u>	<u>1,712</u>
Net assets end of year	<u><u>9,292</u></u>	<u><u>1,810</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Proprietary Funds

Year ended June 30, 2006

	Enterprise Fund	Governmental Activities - Internal Service Fund
	Nonmajor School Nutrition	Service Fund
	\$	\$
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	37,879	-
Cash received from other services	-	8,560
Cash payments to employees for services	(52,767)	(7,953)
Cash payments to suppliers for goods or services	(36,023)	-
Net cash used by operating activities	<u>(50,911)</u>	<u>607</u>
Cash flows from non-capital financing activities		
Transfer from General Fund	6,750	-
State grants received	1,247	-
Federal grants received	37,942	-
Net cash provided by non-capital financing activities	<u>45,939</u>	<u>-</u>
Cash flows from capital and related financing activities	-	-
Cash flows from investing activities:		
Interest on investments	101	-
Net increase (decrease) in cash and cash equivalents	(4,871)	607
Cash and cash equivalents at beginning of year	9,159	2,427
Cash and cash equivalents at end of year	<u>4,288</u>	<u>3,034</u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>		
Operating gain (loss)	(57,718)	98
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:		
Commodities used	5,376	-
Depreciation	992	-
Decrease (increase) in inventories	221	-
Decrease (increase) in accounts receivable	(34)	-
Decrease (increase) in prepaid expenses	283	-
(Decrease) increase in accounts payable	-	509
(Decrease) increase in salaries and benefits payable	554	-
(Decrease) increase in deferred revenue	(585)	-
Net cash used in operating activities:	<u>(50,911)</u>	<u>607</u>

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

During the year ended June 30, 2006, the District received \$5,376 of federal commodities.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
<b>Assets</b>	
Cash and pooled investments	300
<b>Liabilities</b>	
	<u>-</u>
<b>Net Assets</b>	
Reserved for scholarships	<u><u>300</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	600
Deductions:	
Support services:	
Scholarships awarded	<u>300</u>
Change in net assets	300
Net assets beginning of year	<u>-</u>
Net assets end of year	<u><u>300</u></u>

# POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

Pomeroy-Palmer Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Pomeroy and Palmer, Iowa and the predominately agricultural territory in a portion of Pocahontas and Calhoun Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

#### A. Reporting Entity

For financial reporting purposes, Pomeroy-Palmer Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Pomeroy-Palmer Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

#### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions, and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	1,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20-40 years
Furniture and equipment	4-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the

governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

#### E. Budgeting and Budgetary Control

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

## 2. **Cash and Pooled Investments**

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

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

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

### 3. Interfund Transfers

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

Transfer to	Transfer from	Amount \$
Enterprise: School Nutrition Fund	General Fund	6,750

The transfer from the General Fund to the School Nutrition Fund covered a deficit in the School Nutrition Fund.

### 4. Capital Assets

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

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	10,601	-	-	10,601
Capital assets being depreciated:				
Buildings	1,086,668	-	-	1,086,668
Improvements other than buildings	36,275	16,538	-	52,813
Furniture and equipment	556,461	10,084	-	566,545
Total capital assets being deprec.	<u>1,679,404</u>	<u>26,622</u>	-	<u>1,706,026</u>
Less accumulated depreciation for:				
Buildings	802,367	15,473	-	817,840
Improvements other than buildings	15,314	1,734	-	17,048
Furniture and equipment	366,120	48,083	-	414,203
Total accumulated depreciation	<u>1,183,801</u>	<u>65,290</u>	-	<u>1,249,091</u>
Total capital assets being depreciated, net	<u>495,603</u>	<u>(38,668)</u>	-	<u>456,935</u>
Governmental activities capital assets, net	<u>506,204</u>	<u>(38,668)</u>	-	<u>467,536</u>
	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
<b>Business type activities:</b>				
Furniture and equipment	71,858	-	-	71,858
Less accumulated depreciation	66,666	992	-	67,658
Business type activities capital assets, net	<u>5,192</u>	<u>992</u>	-	<u>4,200</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	5,371
Other	3,585
Support services:	
Instructional staff services	1,705
Operation and maintenance of plant services	2,225
Transportation	35,197
	48,083
Unallocated depreciation	17,207
	65,290
Business type activities:	
Food services	992

## 5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination benefits	11,800	17,035	28,835	-	-

### Termination Benefits

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

Early retirement benefits are equal to 60% of base of the highest paid salary during the last 5 years of employment with the District and includes a payment for unused sick leave of up to a maximum of 120 days at the rate of \$20 per day.

Early retirement benefits will be paid in one lump sum amount.

At June 30, 2006, the District has paid all early retirement benefits. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$28,835.

## 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to

IPERS for the years ended June 30, 2006, 2005, and 2004 were \$76,676, \$74,911 and \$77,575 respectively, equal to the required contributions for each year.

**7. Risk Management**

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

**8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$85,659 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**9. Commitment – Operating Lease**

The District has entered into a lease for two copy machines, which qualifies as an operating lease. The following minimum payments will be made over the lease term:

<u>Year ended June 30,</u>	<u>Minimum Lease Payment</u>
2007	\$ 15,504
2008	15,504
2009	15,504
2010	15,504

REQUIRED SUPPLEMENTARY INFORMATION

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Revenues:						
Local sources	1,650,713	38,599	1,689,312	1,654,301	1,654,301	35,011
Intermediate sources	-	-	-	500	500	(500)
State sources	950,086	1,247	951,333	935,135	935,135	16,198
Federal sources	118,684	43,318	162,002	284,000	284,000	(121,998)
Total revenues	<u>2,719,483</u>	<u>83,164</u>	<u>2,802,647</u>	<u>2,873,936</u>	<u>2,873,936</u>	<u>(71,289)</u>
Expenditures:						
Instruction	1,775,890	-	1,775,890	2,308,832	2,308,832	532,942
Support services	767,080	-	767,080	1,552,606	1,512,923	745,843
Non-instructional programs	739	96,216	96,955	207,466	207,466	110,511
Other expenditures	136,137	-	136,137	93,204	216,679	80,542
Total expenditures	<u>2,679,846</u>	<u>96,216</u>	<u>2,776,062</u>	<u>4,162,108</u>	<u>4,245,900</u>	<u>1,469,838</u>
Excess (deficiency) of revenues over (under) expenditures	39,637	(13,052)	26,585	(1,288,172)	(1,371,964)	1,398,549
Other financing sources (uses) net	<u>(6,750)</u>	<u>6,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	32,887	(6,302)	26,585	(1,288,172)	(1,371,964)	1,398,549
Balance beginning of year	<u>1,365,360</u>	<u>15,594</u>	<u>1,380,954</u>	<u>1,445,098</u>	<u>1,445,098</u>	<u>(64,144)</u>
Balance end of year	<u><u>1,398,247</u></u>	<u><u>9,292</u></u>	<u><u>1,407,539</u></u>	<u><u>156,926</u></u>	<u><u>73,134</u></u>	<u><u>1,334,405</u></u>

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District adopted one budget amendment increasing budgeted expenditures by \$83,792.

OTHER SUPPLEMENTARY INFORMATION

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

Assets	Special Revenue Funds		Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Sales Tax	
	\$	\$	\$	
Cash and pooled investments	37,834	34,518	157,590	229,942
Receivables:				
Property tax:				
Delinquent	971	-	-	971
Succeeding year	40,000	-	-	40,000
Due from other governments	-	-	50,409	50,409
<b>Total assets</b>	<b>78,805</b>	<b>34,518</b>	<b>207,999</b>	<b>321,322</b>
<b>Liabilities &amp; Fund Balances</b>				
Liabilities:				
Succeeding year property tax	40,000	-	-	40,000
Fund balances:				
Unreserved reported in:				
Special revenue funds	38,805	34,518	-	73,323
Capital projects funds	-	-	207,999	207,999
Total fund balances	38,805	34,518	207,999	281,322
<b>Total liabilities and fund balances</b>	<b>78,805</b>	<b>34,518</b>	<b>207,999</b>	<b>321,322</b>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds		Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Sales Tax	
	\$	\$	\$	
Revenues:				
Local sources:				
Local tax	89,968	-	92,759	182,727
Other	1,003	85,764	19	86,786
State sources	-	-	33,567	33,567
Total revenues	<u>90,971</u>	<u>85,764</u>	<u>126,345</u>	<u>303,080</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	35,203	-	-	35,203
Other instruction	-	90,959	-	90,959
Support services:				
Administration services	3,795	-	-	3,795
Operation and maintenance of plant services	37,283	-	2,136	39,419
Transportation services	7,273	-	-	7,273
Non-instructional programs	739	-	-	739
Total expenditures	<u>84,293</u>	<u>90,959</u>	<u>2,136</u>	<u>177,388</u>
Excess (deficiency) of revenues over (under) expenditures	6,678	(5,195)	124,209	125,692
Fund balances beginning of year	<u>32,127</u>	<u>39,713</u>	<u>83,790</u>	<u>155,630</u>
Fund balances end of year	<u><u>38,805</u></u>	<u><u>34,518</u></u>	<u><u>207,999</u></u>	<u><u>281,322</u></u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	<u>Balance Beginning of Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Intra-Fund Transfers</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$	\$
Annual	5,246	2,290	2,459	179	5,256
Cheerleader	809	1,052	1,373	17	505
Class of 2004	2	-	-	-	2
Class of 2005	997	-	-	35	1,032
Class of 2006	1,962	1,367	3,007	11	333
Class of 2007	1,218	12,726	10,757	113	3,300
Class of 2008	365	510	-	31	906
Class of 2009	-	385	10	13	388
Electathon	1,288	150	2,273	500	(335)
FFA	1,557	14,896	14,051	85	2,487
FCCLA	2,551	2,573	2,120	106	3,110
General athletics	6,325	22,852	28,974	(150)	53
Interest	243	945		(1,188)	-
NHS	-	-	66	66	-
Student council	13,539	13,799	17,884	(96)	9,358
Student activity	3,462	524	1,623	84	2,447
French club	(14)	11,695	6,362	188	5,507
Auto club	163	-	-	6	169
	<u>39,713</u>	<u>85,764</u>	<u>90,959</u>	<u>-</u>	<u>34,518</u>
Total	<u>39,713</u>	<u>85,764</u>	<u>90,959</u>	<u>-</u>	<u>34,518</u>

## POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,333,763	1,213,063	1,276,624	1,203,778
Tuition	169,631	68,997	60,876	49,178
Other	147,319	118,209	140,128	144,187
State sources	950,086	1,010,057	887,071	995,805
Federal sources	118,684	111,530	114,753	110,392
Total revenues	<u>2,719,483</u>	<u>2,521,856</u>	<u>2,479,452</u>	<u>2,503,340</u>
Expenditures:				
Instruction:				
Regular instruction	1,098,207	1,265,579	1,134,862	1,143,633
Special instruction	192,645	193,204	222,482	221,231
Other instruction	485,038	330,069	313,740	313,507
Support services:				
Student services	38,221	53,332	48,263	45,081
Instructional staff services	75,414	70,033	70,333	62,932
Administration services	301,837	225,825	244,025	201,887
Operation and maintenance of plant services	245,881	251,280	268,099	238,634
Transportation services	105,727	173,901	83,183	130,636
Non-instructional programs	739	10,307	18,894	600
Other expenditures:				
Facilities acquisition	50,478	39,685	-	-
Long-term debt:				
Principal	-	-	-	18,000
AEA flowthrough	85,659	87,570	89,601	97,161
Total expenditures	<u>2,679,846</u>	<u>2,700,785</u>	<u>2,493,482</u>	<u>2,473,302</u>

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

To the Board of Education of  
Pomeroy-Palmer Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pomeroy-Palmer Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pomeroy-Palmer Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 06-I-A and 06-I-B are material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pomeroy-Palmer Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pomeroy-Palmer Community School District and other parties to whom Pomeroy-Palmer 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 Pomeroy-Palmer Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

August 3, 2006

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

06-I-B Signatures on Checks: We noted that District is using a computer program to print checks with the signatures included. The person that enters the invoices, posts the invoices and prints the checks has access to the computer disk that contains the signatures.

Recommendation: This practice negates the control established by requiring two signatures on a check. The person that enters the invoices into the system and posts the invoices should not have access to the signature disk.

District Response: We will review our current procedures.

Conclusion: Response accepted.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related Statutory Reporting:

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

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

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

06-II-D Business Transactions: Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Russell Buddin, Teacher	Window installation	\$ 405
Roger Eichelberger, Board Member, owner of R & J Lumber, co-owner of Manson Lumber and co-owner of Pocahontas Lumber	Supplies and Windows	8,753

\$8,753 of the transactions with the Board member appears to be a conflict of interest because the amount exceeds the \$2,500 limit set by the Code of Iowa.

Recommendation: The District should consult legal council regarding this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

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

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

06-II-H Deposits and Investments: We noted no instances of 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.

06-II-I Certified Annual Report (CAR): Our audit was completed before the Certified Annual Report due date.

POMEROY-PALMER COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related Statutory Reporting (Continued):

06-II-J Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$1,020 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

Recommendation: The District should investigate the status of all old outstanding checks. Checks that were issued in error or in duplicate should be voided and removed from the list of outstanding checks. The District should search for the owners of all other outstanding checks, and then reissue new checks if the owners are found. If the owners can not be found, the District must file an unclaimed property report with and send the money to the Treasurer State of Iowa.

Response: We will begin investigating the status of old outstanding checks and we will file an unclaimed property report with the Treasurer of Iowa if necessary.

Conclusion: Response accepted.