

ROLAND-STORY 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
Roland-Story 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 Roland-Story Community School District, Story City, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The financial statements of Roland-Story Community School District Foundation have not been audited, and we were not engaged to audit the Foundation financial statements as part of our audit of the Roland-Story Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because we were not engaged to audit the Foundation's financial statements and because we did not apply any auditing procedures to the Foundation's financial statements, we do not express an opinion on the discretely presented component unit.

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 Roland-Story 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 September 12, 2006, on our consideration of Roland-Story Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 39 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 Roland-Story 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). We expressed unqualified opinions on the financial statements for 2003. For 2005 and 2004 we disclaimed an opinion on the discretely presented component unit and we issued unqualified opinions on the governmental activities, the business type activities, each major fund and the aggregate remaining fund information. 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

September 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Roland-Story Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2006. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section.

2006 FINANCIAL HIGHLIGHTS

- The General Fund ending fund balance decreased from \$559,867 in Fiscal Year 2005 to \$341,734 due primarily to the increase in special education costs and a decrease in student enrollment. This decrease combined with the previous years decrease amounts to a total of \$557,868 in less funds available to run the schools programs.
- This was the first year of actually receiving revenue from the Income Surtax portion of the Instructional Support Levy. The funds collected amounted to \$173,760. This did help the General Fund balance and the district is scheduled to collect them for another four years.
- The District was responsible to pay a settlement of \$27,408 in the Iowa School Employees Benefit Association settlement. Due to the lawsuit brought on by the District and seventy-nine other districts and area education associations, this was half of what the District had been assessed by ISEBA for changing to a different health insurance carrier.
- The District completed the High School Athletic Addition and approved it to be substantially complete at the June 19, 2006 board meeting. The total cost of the project was \$3,772,488. The District was able to host the Heart of Iowa Conference Activities Fine Arts Program in the new facility on March 2, 2006.

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 Roland-Story 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 Roland-Story Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

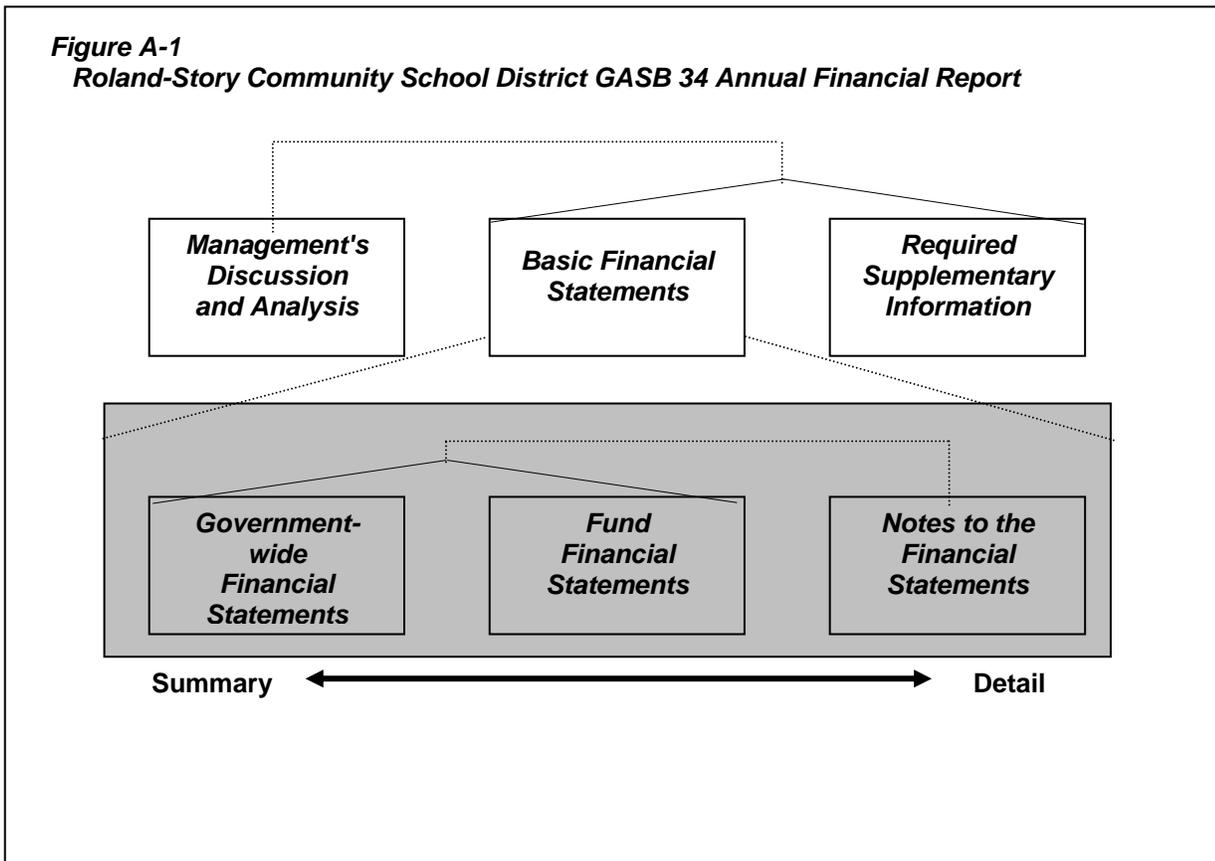


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

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:

- 1) *Governmental funds*: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a statement of 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 (in thousands of dollars)						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Current and other assets	6,269	8,833	8	7	6,277	8,840	(28.99%)
Capital assets	10,418	7,553	12	12	10,430	7,565	37.87%
Total assets	16,687	16,386	20	19	16,707	16,405	1.84%
Long-term liabilities	5,468	6,157	-	-	5,468	6,157	(11.19%)
Other liabilities	3,350	3,479	8	8	3,358	3,487	(3.71%)
Total liabilities	8,818	9,636	8	8	8,826	9,644	(8.48%)
Net Assets:							
Invested in capital assets, net of related debt	4,983	5,024	12	12	4,995	5,036	(0.81%)
Restricted	2,376	1,183	-	-	2,376	1,183	100.83%
Unrestricted	510	543	-	(1)	510	542	(5.9%)
TOTAL NET ASSETS	7,869	6,750	12	11	7,881	6,761	16.57%

The District's combined net assets increased by nearly 16.5% or approximately \$1,120,000, over the prior year. The main reason for this increase can be contributed to the increase in capital assets with the completion of the High School Athletic Addition.

The decrease in long-term liabilities of 11.19% is due to the fact that no new issues were obtained this fiscal year. The district was able to complete the High School Athletic Addition with the funds borrowed previously from the Local Option Sales and Service Tax Revenue Bonds and had approximately \$400,000 remaining and available for an anticipated renovation of the middle school locker rooms.

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	723,372	734,904	296,304	276,657	1,019,676	1,011,561	.80%
Operating grants & contributions	789,068	708,407	103,689	99,800	892,757	808,207	10.46%
Capital grants & contributions	104,847	87,655	-	-	104,847	87,655	19.61%
General Revenues:							
Property taxes	2,949,823	2,762,495	-	-	2,949,823	2,762,495	6.78%
Income Surtax	173,760	-	-	-	173,760	-	N/A
Local option sales tax	912,532	1,032,289	-	-	912,532	1,032,289	(11.6%)
Unrestricted state grants	3,838,466	3,835,021	-	-	3,838,466	3,835,021	.09%
Unrestricted investment earnings	24,683	21,382	190	148	24,873	21,530	15.53%
Other revenue	3,315	4,000	-	-	3,315	4,000	(17.13%)
Total Revenues	9,519,866	9,186,153	400,183	376,605	9,920,049	9,562,758	3.74%

Expenses:							
Instruction	5,683,198	5,603,112	-	-	5,683,198	5,603,112	1.43%
Support services	2,061,990	2,013,511	-	-	2,061,990	2,013,511	2.41%
Non-instructional programs	235	-	400,633	397,719	400,868	397,719	0.79%
Other expenditures	811,034	730,095	-	-	811,034	730,095	11.09%
Total expenses	8,556,457	8,346,718	400,633	397,719	8,957,090	8,744,437	2.43%
Change in net assets before transfers	963,409	839,435	(450)	(21,114)	962,959	818,321	0.00%
Transfers	(722)	(33,074)	722	33,074	-	-	0.00%
CHANGE IN NET ASSETS	962,687	806,361	272	11,960	962,959	818,321	17.67%
Net assets beginning of year	6,906,890	5,943,592	11,158	(802)	6,918,048	5,942,790	16.41%
Net assets end of year	<u>7,869,577</u>	<u>6,749,953</u>	<u>11,430</u>	<u>11,158</u>	<u>7,881,007</u>	<u>6,761,111</u>	<u>16.56%</u>

This was the first year that the District has collected the Income Surtax portion of the Instructional Support Levy. This increase plus an increase in property valuations of approximately 5.4 million, which resulted in more property tax dollars collected helped to offset the affects of declining enrollment in the General Fund. Although Local Option Sales and Service dollars decreased this year the district did stay with its commitment to use a portion of those dollars collected for debt reduction.

Governmental Activities

Revenues for governmental activities were \$9,519,866 and expenses were \$8,556,457. Although revenues are higher than expenses it is important to remember that the District is still in a pattern of declining enrollment. The higher revenues are due mainly to the increase in property tax dollars, which funds the general fund, PPEL fund, and debt service fund. The increase in property tax dollars was mainly to the debt service fund, which can only be used for payment of debt, not for instruction. Although Income Surtax dollars collected due go the general fund the District is still very watchful of the general fund revenues and expenses which are those that are used for instruction of students.

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.

Total and Net Cost of Governmental Activities (in thousands of dollars)

Figure A-5

	Total Cost of Services 2006 \$	Total Cost Of Services 2005 \$	Net Cost of Services 2006 \$	Net Cost of Services 2005 \$
Instruction	5,683	5,603	4,508	4,456
Support Services	2,062	2,014	2,056	2,010
Non-instructional Programs	-0-	-0-	-0-	-0-
Other Expenses	811	730	375	350
TOTAL	8,556	8,347	6,939	6,816

- The cost financed by users of the District's programs was \$723,372.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$893,915.
- The net cost of governmental activities was financed with \$3,123,583 in property and income surtax taxes and \$3,838,466 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$400,183 and expenses were \$400,633. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The District has been monitoring the School Nutrition Fund and trying to improve the revenue capabilities. Cost of student and adult meals were increased a dime at the end of the year to begin with the 2006-2007 school year. The ala-carte program the District implemented has helped to increase the revenues and keep the necessary increase in meal prices to a minimal amount.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,786,738, well below last year's ending fund balances of \$5,378,289. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the completion of the High School Athletic Addition which totaled \$3,772,488 expended from local option sales and service revenue bond proceeds received in fiscal 2005.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of declining enrollment and increase in special education costs. The General Fund balance decreased from \$559,867 in Fiscal Year 2005 to \$341,734.
- The Capital Projects Fund balance decreased from \$4,240,683 to \$1,780,096 in 2006 due to the completion of the High School Athletic Addition and the majority of the funds that had been borrowed being expended on this project. Approximately \$400,000 of the amount borrowed remains to help finance the renovation of the middle school locker rooms.
- The Debt Service Fund ended the year with a fund balance of \$169,810. The Debt Service Fund is the area that payments are made for general obligation bonds, capital loan notes, and revenue bonds. The District appropriated \$150,000 in local option sales tax funds to the Debt Service Fund to help in with property tax reduction.
- Non-major governmental funds include the Student Activity Fund, Management Fund and the Physical Plant and Equipment Levy (PPEL) Fund. The major expenses in the Management Fund this year were for District property insurance. The PPEL Fund can be used to purchase vehicles and building improvements. A new Excursion was purchased in November 2005 totaling \$20,800. The Elementary School playground was resurfaced during the late summer of 2005 for approximately \$19,000. The District also has capital loan notes issued that are paid from the PPEL Fund through June of 2007.

- The Student Activity Fund balance and the Management Fund balances showed little change between the two years. The PPEL Fund balance did show approximately a \$83,000 increase from 2005 to 2006. This is mainly due to the planning of the District to use a portion of these funds for the projected middle school locker room renovation project.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$11,158 at June 30, 2005 to \$11,430 at June 30, 2006. For fiscal 2006, the District increased meal prices, resulting in the increase in net assets. The District also continued the ala-carte program, which was implemented in January of 2001. Although the ala-carte program has been a good revenue source for the Nutrition Fund, the Board still felt the need to increase the cost of meals by a dime at the beginning of the 2006-2007 School Year.

BUDGETARY HIGHLIGHTS

Over the course of the year, Roland-Story Community School District amended its annual budget one time to reflect additional expenditures associated with the changes in account classification per GASB 34 and increase costs in food and supplies in the Nutrition Fund.

The District's receipts were \$81,107 less than budgeted receipts, a variance of (.81%). The District had not anticipated a decrease in Local Option Sales and Revenue tax collections, which is reflective due to two factors declining enrollment and the spending in the four counties. The amount of Local Option Sales and Revenue tax collections from the counties is determined in part based on the number of resident students that reside in the county, and the districts enrollment declined for the sixth year in a row.

Total expenditures were less than budgeted, due to the District's efforts to contain spending due to declining enrollment. The district did not fill some of the positions that were left open when people resigned at the end of the school year, but yet were able to keep classroom sizes at an appropriate level for each grade.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$10.4 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 37.88% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$312,915.

The original cost of the District's capital assets was \$13.6 million. Governmental funds account for \$13.57 million, with the remainder of \$0.03 million accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's building totaled \$12,227,420 at June 30, 2006, compared to \$8,454,932 building reported at June 30, 2005. This significant increase resulted from construction of a new High School Athletic Addition.

Figure A-6

Capital Assets (net of depreciation)

	Governmental		Business type		Total		Percentage Change 2005-2006
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	
	\$	\$	\$	\$	\$	\$	
Land	243,212	243,212	-0-	-0-	243,212	243,212	0.00%
Construction in progress	-0-	645,582	-0-	-0-	-0-	645,582	(100.00%)
Buildings	9,869,813	6,353,042	-0-	-0-	9,869,813	6,353,042	55.36%
Improvements	161,674	176,057	-0-	-0-	161,674	176,057	(8.17%)
Equipment & Furniture	143,986	134,843	11,524	12,231	155,510	147,074	5.74%
TOTAL	10,418,685	7,552,736	11,524	12,231	10,430,209	7,564,967	37.88%

Long-Term Debt

The district did not incur any new long-term debt during this fiscal year.

At June 30, 2006, the District had \$5,435,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 11.19% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The district made the first payment towards principal on the Local Option Sales and Services Tax Revenue Bonds which were issued in September 2004. The district has \$4,000,000 in remaining principal to pay on this issue and the last payment is scheduled for July 1, 2013.

The District has \$1,325,000 in general obligation bonds remaining on the refinancing of the bonds for the high school addition in 1990. These bonds will be paid off during fiscal 2009.

The District also has total outstanding Capital Loan Notes payable from the Physical Plant and Equipment Levy Fund of \$110,000 at June 30, 2006. There is one more year remaining on these notes.

Figure A-7

Outstanding Long-Term Obligations

	Total School District		Percentage Change 2005-2006
	2006	2005	
	\$	\$	
General Obligation Bonds	1,325,000	1,780,000	(25.56%)
Local Option Sales and Services Tax Revenue Bonds	4,000,000	4,100,000	(2.44%)
Capital Loan Notes	110,000	215,000	(48.84%)
Early Retirement	-0-	24,683	(100.00%)
Total	5,435,000	6,119,683	(11.19%)

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:

- District enrollment declined for the sixth year in a row in October 2006 21.8 students, or 2.1% of the enrollment of 1,035.4 in 2005-2006. School financing is highly dependent upon student enrollment. This drop in enrollment will decrease the District's funding for fiscal year 2008. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Although the legislature did pass for fiscal year 2007 an allowable growth rate of 4% with the decrease in enrollment Roland-Story only received \$122,612 for fiscal year 2007.
- District facilities have been well maintained over the last several years with the various additions at the three buildings. Since the district has completed the High School athletic addition they District will again look at its funding sources and see if it is feasible to begin locker room renovations at the Middle School.
- The District has a one-year contract with the Roland-Story Education Association (RSEA) which included an overall increase in salary and benefits for certified teaching staff of 3.68% or \$160,799 for fiscal year 2007. Staff represented by RSEA makeup in wages and benefits 56% of all General Fund expenditures. Settlements with the RSEA have typically set the standard for agreements with other employees in the District. Settlements with employee groups that exceed the rate of growth in state funding will have an adverse impact upon the District's General Fund budget.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Candi Holm, District Secretary/Treasurer and Business Manager, Roland-Story Community School District, 1009 Story Street, Story City, Iowa, 50248.

BASIC FINANCIAL STATEMENTS

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit Roland-Story Community School District Foundation
	\$	\$	\$	\$
Assets				
Cash and investments	2,665,614	4,541	2,670,155	740,392
Receivables:				
Property tax:				
Delinquent	34,901	-	34,901	-
Succeeding year	3,160,288	-	3,160,288	-
Accounts	10,662	169	10,831	-
Due from other governments	352,753	-	352,753	-
Inventories	-	3,599	3,599	-
Bond issue costs	44,890	-	44,890	-
Capital assets, net of accumulated depreciation	10,418,385	11,524	10,429,909	-
Total assets	16,687,493	19,833	16,707,326	740,392
Liabilities				
Accounts payable	98,066	649	98,715	-
Salaries and benefits payable	22,189	-	22,189	-
Accrued interest payable	69,023	-	69,023	-
Deferred revenue:				
Succeeding year property tax	3,160,288	-	3,160,288	-
Other	-	7,754	7,754	-
Long-term liabilities:				
Portion due within one year:				
Bond premium	4,063	-	4,063	-
General obligation bonds payable	475,000	-	475,000	-
Revenue bonds payable	390,000	-	390,000	-
Capital loan notes	110,000	-	110,000	-
Portion due after one year:				
Bond premium	29,287	-	29,287	-
General obligation bonds payable	850,000	-	850,000	-
Revenue bonds payable	3,610,000	-	3,610,000	-
Total liabilities	8,817,916	8,403	8,826,319	-

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total	Component Unit Roland-Story Community School District Foundation
	\$	\$	\$	\$
Net assets				
Invested in capital assets, net of related debt	4,983,385	11,524	4,994,909	-
Restricted for:				
Scholarships and projects by donors	-	-	-	650,242
Management levy	151,238	-	151,238	-
Physical plant and equipment levy	174,051	-	174,051	-
Other special revenue purposes	169,809	-	169,809	-
Local option sales and services tax	902,818	-	902,818	-
Debt service	978,065	-	978,065	-
Unrestricted	510,211	(94)	510,117	90,150
Total net assets	7,869,577	11,430	7,881,007	740,392

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	3,769,271	427,701	345,310	-
Special instruction	980,878	31,860	50,197	-
Other instruction	933,049	258,199	62,468	-
	<u>5,683,198</u>	<u>717,760</u>	<u>457,975</u>	<u>-</u>
Support services:				
Student services	156,012	-	-	-
Instructional staff services	309,591	-	-	-
Administration services	743,116	-	-	-
Operation and maintenance of plant services	618,905	2,000	-	-
Transportation services	234,366	3,612	-	-
	<u>2,061,990</u>	<u>5,612</u>	<u>-</u>	<u>-</u>
Non-instructional programs	235	-	-	-
Other expenditures:				
Facilities acquisition	35,025	-	-	104,847
Long-term debt interest	216,910	-	42,394	-
AEA flowthrough	288,699	-	288,699	-
Depreciation (unallocated)*	270,400	-	-	-
	<u>811,034</u>	<u>-</u>	<u>331,093</u>	<u>104,847</u>
Total governmental activities	8,556,457	723,372	789,068	104,847
Business type activities:				
Non-instructional programs:				
Food service operations	400,633	296,304	103,689	-
Total primary government	8,957,090	1,019,676	892,757	104,847
Component Unit:				
Roland Story Community School District Foundation	26,361	-	35,570	-
Total	<u>8,983,451</u>	<u>1,019,676</u>	<u>928,327</u>	<u>104,847</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Transfers				
Total general revenues and transfers				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business Type Activities	Total	Component Unit
(2,996,260)	-	(2,996,260)	-
(898,821)	-	(898,821)	-
(612,382)	-	(612,382)	-
<u>(4,507,463)</u>	<u>-</u>	<u>(4,507,463)</u>	<u>-</u>
(156,012)	-	(156,012)	-
(309,591)	-	(309,591)	-
(743,116)	-	(743,116)	-
(616,905)	-	(616,905)	-
(230,754)	-	(230,754)	-
<u>(2,056,378)</u>	<u>-</u>	<u>(2,056,378)</u>	<u>-</u>
(235)	-	(235)	-
69,822	-	69,822	-
(174,516)	-	(174,516)	-
-	-	-	-
(270,400)	-	(270,400)	-
<u>(375,094)</u>	<u>-</u>	<u>(375,094)</u>	<u>-</u>
<u>(6,939,170)</u>	<u>-</u>	<u>(6,939,170)</u>	<u>-</u>
-	(640)	(640)	-
(6,939,170)	(640)	(6,939,810)	-
-	-	-	9,209
<u>(6,939,170)</u>	<u>(640)</u>	<u>(6,939,810)</u>	<u>9,209</u>
2,301,533	-	2,301,533	-
383,560	-	383,560	-
264,730	-	264,730	-
173,760	-	173,760	-
912,532	-	912,532	-
3,838,466	-	3,838,466	-
24,683	190	24,873	-
3,315	-	3,315	-
7,902,579	190	7,902,769	-
(722)	722	-	-
<u>7,901,857</u>	<u>912</u>	<u>7,902,769</u>	<u>-</u>
962,687	272	962,959	9,209
<u>6,906,890</u>	<u>11,158</u>	<u>6,918,048</u>	<u>731,183</u>
<u>7,869,577</u>	<u>11,430</u>	<u>7,881,007</u>	<u>740,392</u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund	Capital Projects - Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	355,165	1,633,526	165,612	511,311	2,665,614
Receivables:					
Property tax:					
Delinquent	27,017	-	4,198	3,686	34,901
Succeeding year	2,389,020	-	384,328	386,940	3,160,288
Accounts	4,153	1,587	750	4,172	10,662
Due from other governments	205,356	147,397	-	-	352,753
Total assets	2,980,711	1,782,510	554,888	906,109	6,224,218
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	70,831	2,414	750	24,071	98,066
Salaries and benefits payable	22,189	-	-	-	22,189
Deferred revenue:					
Succeeding year property tax	2,389,020	-	384,328	386,940	3,160,288
Other	156,937	-	-	-	156,937
Total liabilities	2,638,977	2,414	385,078	411,011	3,437,480
Fund balances:					
Reserved for:					
Debt service	-	877,278	169,810	-	1,047,088
Unreserved reported in:					
General fund	341,734	-	-	-	341,734
Special revenue funds	-	-	-	495,098	495,098
Capital projects funds	-	902,818	-	-	902,818
Total fund balances	341,734	1,780,096	169,810	495,098	2,786,738
Total liabilities and fund balances	2,980,711	1,782,510	554,888	906,109	6,224,218

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	2,786,738
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	10,418,385
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	156,937
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	(69,023)
Bond issue costs are reported as an asset in the statement of net assets and are amortized over the life of the bonds.	44,890
Long-term liabilities, including bond premiums, bonds payable, revenue bonds and capital loan notes are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(5,468,350)</u>
Net assets of governmental activities (Exhibit A)	<u><u>7,869,577</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects - Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	2,377,034	912,532	383,560	362,989	4,036,115
Tuition	364,822	-	-	-	364,822
Other	115,772	138,591	8,650	267,461	530,474
State sources	4,454,045	-	-	-	4,454,045
Federal sources	131,095	-	-	-	131,095
Total revenues	<u>7,442,768</u>	<u>1,051,123</u>	<u>392,210</u>	<u>630,450</u>	<u>9,516,551</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	3,773,882	-	-	28,628	3,802,510
Special instruction	980,878	-	-	-	980,878
Other instruction	688,649	-	-	251,482	940,131
	<u>5,443,409</u>	<u>-</u>	<u>-</u>	<u>280,110</u>	<u>5,723,519</u>
Support services:					
Student services	156,012	-	-	-	156,012
Instructional staff services	309,591	-	-	-	309,591
Administration services	737,648	-	-	-	737,648
Operation and maintenance of plant services	529,136	-	-	88,519	617,655
Transportation services	199,721	-	-	29,400	229,121
	<u>1,932,108</u>	<u>-</u>	<u>-</u>	<u>117,919</u>	<u>2,050,027</u>
Non-instructional programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>235</u>	<u>235</u>
Other expenditures:					
Facilities acquisition	-	3,126,905	-	35,748	3,162,653
Long-term debt:					
Principal	-	-	660,000	-	660,000
Interest and fiscal charges	-	-	226,284	-	226,284
AEA flowthrough	288,699	-	-	-	288,699
	<u>288,699</u>	<u>3,126,905</u>	<u>886,284</u>	<u>35,748</u>	<u>4,337,636</u>
Total expenditures	<u>7,664,216</u>	<u>3,126,905</u>	<u>886,284</u>	<u>434,012</u>	<u>12,111,417</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(221,448)</u>	<u>(2,075,782)</u>	<u>(494,074)</u>	<u>196,438</u>	<u>(2,594,866)</u>

See notes to financial statements.

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Capital Projects - Local Option Sales Tax	Debt Service	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Sales of materials and equipment	3,315	-	-	-	3,315
Operating transfers in	-	-	501,763	-	501,763
Operating transfers out	-	(384,805)		(116,958)	(501,763)
Total other financing sources (uses)	<u>3,315</u>	<u>(384,805)</u>	<u>501,763</u>	<u>(116,958)</u>	<u>3,315</u>
Net change in fund balances	(218,133)	(2,460,587)	7,689	79,480	(2,591,551)
Fund balances beginning of year	<u>559,867</u>	<u>4,240,683</u>	<u>162,121</u>	<u>415,618</u>	<u>5,378,289</u>
Fund balances end of year	<u><u>341,734</u></u>	<u><u>1,780,096</u></u>	<u><u>169,810</u></u>	<u><u>495,098</u></u>	<u><u>2,786,738</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		(2,591,551)
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the year as follows:		
Expenditures for capital assets	3,177,134	
Depreciation expense	<u>(311,485)</u>	2,865,649
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		660,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		5,311
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		24,683
Bond issue costs are reported as an expense in the governmental fund financial statements, but are capitalized and amortized over the life of the bonds in the government-wide financial statements.		(5,468)
Bond premiums are reported as income in the governmental funds, but are amortized over the life of the bonds in the government-wide financial statements		<u>4,063</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>962,687</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u> </u> \$
Assets	
Cash and cash equivalents	4,541
Accounts receivable	169
Inventories	3,599
Capital assets, net of accumulated depreciation	<u>11,524</u>
Total assets	<u>19,833</u>
Liabilities	
Accounts payable	649
Deferred revenue	<u>7,754</u>
Total liabilities	<u>8,403</u>
Net assets	
Invested in capital assets, net of related debt	11,524
Unrestricted	<u>(94)</u>
Total net assets	<u><u>11,430</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>296,304</u>
Operating expenses:	
Non-instructional programs:	
Salaries	148,020
Benefits	17,302
Purchased services	3,401
Supplies	230,480
Depreciation	<u>1,430</u>
	<u>400,633</u>
Operating gain (loss)	<u>(104,329)</u>
Non-operating revenue:	
State sources	5,381
Federal sources	98,308
Interest income	190
Total non-operating revenue	<u>103,879</u>
Gain (loss) before capital contributions	(450)
Capital contributions	<u>722</u>
Change in net assets	272
Net assets beginning of year	<u>11,158</u>
Net assets end of year	<u><u>11,430</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	297,256
Cash payments to employees for services	(165,610)
Cash payments to suppliers for goods or services	(218,814)
Net cash used by operating activities	<u>(87,168)</u>
Cash flows from non-capital financing activities:	
State grants received	5,381
Federal grants received	84,122
Net cash provided by non-capital financing activities	<u>89,503</u>
Cash flows from investing activities:	
Interest on investments	<u>190</u>
Net increase (decrease) in cash and cash equivalents	2,525
Cash and cash equivalents at beginning of year	<u>2,016</u>
Cash and cash equivalents at end of year	<u><u>4,541</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(104,329)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	15,628
Depreciation	1,430
Decrease (increase) in inventories	(407)
Decrease (increase) in accounts receivable	(115)
(Decrease) increase in accounts payable	76
(Decrease) increase in salaries and benefits payable	(288)
(Decrease) increase in deferred revenue	837
Net cash used in operating activities	<u><u>(87,168)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$15,628 of federal commodities.

During the year ended June 30, 2006 the School Nutrition Fund received \$722 of equipment that was purchased by other funds.

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

Roland-Story 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 Roland and Story City, Iowa and the predominately agricultural territory in a portion of Boone, Hamilton, Hardin and Story 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, Roland-Story 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 Roland-Story Community School District Foundation has been included in the financial statements as a component unit.

The Roland-Story Community School District Foundation was established to maintain, develop, increase and extend the facilities and services of the Roland-Story Community School District, and to provide broader education service opportunities to its students, staff, faculty and the residents of the Roland-Story Community School District. The Foundation has a December 31, year-end. Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Opinion, the Foundation financial statements have not been audited.

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

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

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.

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	25,000
Improvements other than buildings	25,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives (in Years)</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 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 in the other expenditures functional area exceeded the amount 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.

At June 30, 2006, the District had the following investments:

	<u>Fair Value</u>
	\$
Goldman Sachs Financial Square Treasury Obligations Fund	<u>877,278</u>

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk: The investments in Goldman Sachs Financial Square Treasury Obligations Fund are rated Aaa by Moody's Investors Service.

3. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service Fund	Nonmajor Funds: Physical Plant and Equipment Levy Fund	116,958
Debt Service Fund	Capital Projects Fund	384,805

These transfers moved revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

4. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	645,582	-	645,582	-
Land	243,212	-	-	243,212
Total capital assets not depreciated	<u>888,794</u>	<u>-</u>	<u>645,582</u>	<u>243,212</u>
Capital assets being depreciated:				
Buildings	8,454,932	3,772,488	-	12,227,420
Improvements other than buildings	287,651	-	-	287,651
Furniture and equipment	767,471	50,228	5,000	812,699
Total capital assets being deprec.	<u>9,510,054</u>	<u>3,822,716</u>	<u>5,000</u>	<u>13,327,770</u>
Less accumulated depreciation for:				
Buildings	2,101,890	256,017	-	2,357,907
Improvements other than buildings	111,594	14,383	-	125,977
Furniture and equipment	632,628	41,085	5,000	668,713
Total accumulated depreciation	<u>2,846,112</u>	<u>311,485</u>	<u>5,000</u>	<u>3,152,597</u>

Total capital assets being depreciated, net	<u>6,663,942</u>	<u>3,511,231</u>	<u>-</u>	<u>10,175,173</u>
Governmental activities capital assets, net	<u>7,552,736</u>	<u>3,511,231</u>	<u>645,582</u>	<u>10,418,385</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	64,436	722	-	65,158
Less accumulated depreciation	<u>52,205</u>	<u>1,429</u>	<u>-</u>	<u>53,634</u>
Business type activities capital assets, net	<u>12,231</u>	<u>(707)</u>	<u>-</u>	<u>11,524</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	1,426
Other	3,764
Support Services:	
Operation and maintenance of plant services	1,250
Transportation	34,645
	<u>41,085</u>
Unallocated depreciation	<u>270,400</u>
Total depreciation expense – governmental activities	<u>311,485</u>
Business type activities:	
Food services	<u>1,430</u>

5. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,780,000	-	455,000	1,325,000	475,000
Local option sales and services tax revenue bonds	4,100,000	-	100,000	4,000,000	390,000
Capital loan notes	215,000	-	105,000	110,000	110,000
Termination benefits	24,683	-	24,683	-	-
Total	<u>6,119,683</u>	<u>-</u>	<u>684,683</u>	<u>5,435,000</u>	<u>975,000</u>

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of 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 45% of the employee's base salary in effect during the employee's last year of employment.

Early retirement benefits will be paid in one installment made during the July following the start of retirement.

At June 30, 2006, the District has no obligations for early retirement benefits. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$24,683.

General Obligation Bonds Payable

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

<u>Year Ending June 30,</u>	<u>Bond Issue of May, 1998</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007	4.40	475,000	59,328	534,328
2008	4.50	495,000	38,428	533,428
2009	4.55	355,000	16,153	371,153
		<u>1,325,000</u>	<u>113,909</u>	<u>1,438,909</u>

Revenue Bonds Payable

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

<u>Year Ending June 30,</u>	<u>Bond Issue of September 2004</u>			
	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>%</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
2007	2.25	390,000	127,168	517,168
2008	3.00	450,000	116,030	566,030
2009	3.20	470,000	101,760	571,760
2010	3.40	495,000	85,825	580,825
2011	3.50	515,000	68,398	583,398
2012-2014	3.50-3.60	1,680,000	91,412	1,771,412
		<u>4,000,000</u>	<u>590,593</u>	<u>4,590,593</u>

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

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

- The bonds will only be redeemed from the future earnings of the local option sales tax revenues received by the District and the bond holders hold a lien on the future revenues received.
- Bonds maturing after July 1, 2011, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter.
- \$410,000 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the District's Capital Projects Fund.
- Proceeds from the local option sales and services tax shall be placed in a sinking fund with a trustee. The required amount to be deposited in the sinking fund in any month shall be the equal monthly amount necessary to pay in full the installment of interest coming due on the next interest payment date and the amount necessary to pay in full the installment of principal coming due on the next succeeding principal payment date until the full amount of such installment is on hand. Money in the sinking account shall be used to pay the interest and principal on the bonds. Any surplus monies remaining after all required payments to the sinking fund may be used for any lawful purpose for which the local option sales tax may be used. The sinking fund is part of the Capital Projects Fund.

Capital Loan Notes

The District issued \$665,000 of capital loan notes during the year ended June 30, 2000. These notes and the interest will be paid from the Special Revenue, Physical Plant and Equipment Levy Fund. Details of the capital loan notes are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	5.40	<u>110,000</u>	<u>5,940</u>	<u>115,940</u>

During the year ended June 30, 2006 the District made principal and interest payments totaling \$116,557 under the note agreements.

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 \$289,823, \$312,856 and \$308,612 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 \$288,699 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. Lease Commitment

The District has entered into an operating lease for copy machines. The minimum lease payments due over the term of lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
	\$
2007	13,212
2008	<u>13,212</u>
	<u>26,424</u>

10. Restatement of Beginning Net Assets

Beginning net assets, on the Statement of Activities, was increased because June 30, 2005 income surtax receivable was understated by \$156,937.

REQUIRED SUPPLEMENTARY INFORMATION

ROLAND-STORY 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	4,931,411	296,494	5,227,905	5,206,691	5,206,691	21,214
State sources	4,454,045	5,381	4,459,426	4,506,150	4,506,150	(46,724)
Federal sources	131,095	98,308	229,403	285,000	285,000	(55,597)
Total revenues	<u>9,516,551</u>	<u>400,183</u>	<u>9,916,734</u>	<u>9,997,841</u>	<u>9,997,841</u>	<u>(81,107)</u>
Expenditures:						
Instruction	5,723,519	-	5,723,519	6,285,000	6,285,000	561,481
Support services	2,050,027	-	2,050,027	2,016,000	2,221,000	170,973
Non-instructional programs	235	400,633	400,868	390,000	408,000	7,132
Other expenditures	4,337,636	-	4,337,636	4,039,273	4,039,273	(298,363)
Total expenditures	<u>12,111,417</u>	<u>400,633</u>	<u>12,512,050</u>	<u>12,730,273</u>	<u>12,953,273</u>	<u>441,223</u>
Excess (deficiency) of revenues over (under) expenditures	(2,594,866)	(450)	(2,595,316)	(2,732,432)	(2,955,432)	360,116
Other financing sources (uses) net	<u>3,315</u>	<u>722</u>	<u>4,037</u>	<u>(250)</u>	<u>(250)</u>	<u>4,287</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(2,591,551)	272	(2,591,279)	(2,732,682)	(2,955,682)	364,403
Balance beginning of year	<u>5,378,289</u>	<u>11,158</u>	<u>5,389,447</u>	<u>3,030,855</u>	<u>3,030,855</u>	<u>2,358,592</u>
Balance end of year	<u><u>2,786,738</u></u>	<u><u>11,430</u></u>	<u><u>2,798,168</u></u>	<u><u>298,173</u></u>	<u><u>75,173</u></u>	<u><u>2,722,995</u></u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$223,000.

During the year ended June 30, 2006, expenditures in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity Fund	Plant and Equipment Levy	
	\$	\$	\$	\$
Cash and pooled investments	153,823	177,298	180,190	511,311
Receivables:				
Property tax:				
Delinquent	1,225	-	2,461	3,686
Succeeding year	156,000	-	230,940	386,940
Accounts	-	4,172	-	4,172
Total assets	311,048	181,470	413,591	906,109
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	3,810	11,661	8,600	24,071
Deferred revenue:				
Succeeding year property tax	156,000	-	230,940	386,940
Total liabilities	159,810	11,661	239,540	411,011
Fund balances:				
Unreserved reported in:				
Special revenue funds	151,238	169,809	174,051	495,098
Total liabilities and fund balances	311,048	181,470	413,591	906,109

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	98,259	-	264,730	362,989
Other	5,064	261,672	725	267,461
Total revenues	<u>103,323</u>	<u>261,672</u>	<u>265,455</u>	<u>630,450</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	28,628	-	-	28,628
Other instruction	-	251,482	-	251,482
Support services:				
Operation and maintenance of				
plant services	88,519	-	-	88,519
Transportation services	-	-	29,400	29,400
Non-instructional programs	235	-	-	235
Other expenditures:				
Facilities acquisition	-	-	35,748	35,748
Total expenditures	<u>117,382</u>	<u>251,482</u>	<u>65,148</u>	<u>434,012</u>
Excess (deficiency) of revenues over (under) expenditures	(14,059)	10,190	200,307	196,438
Other financing sources (uses):				
Operating transfers out	-	-	(116,958)	(116,958)
Net change in fund balance	(14,059)	10,190	83,349	79,480
Fund balances beginning of year	165,297	159,619	90,702	415,618
Fund balances end of year	<u>151,238</u>	<u>169,809</u>	<u>174,051</u>	<u>495,098</u>

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
General athletics	(1,227)	16,530	18,614	(3,311)
Interest	8,616	4,777	2,647	10,746
Gifts/RIF	19,366	1,387	6,148	14,605
<u>ELEMENTARY</u>				
Student council	6,517	7,978	6,983	7,512
OCA	1,625	637	174	2,088
Helping hands	362	-	-	362
Pencil project	343	220	-	563
S.N. penny drive	230	580	228	582
<u>MIDDLE SCHOOL</u>				
Vocal music	15	1,936	1,833	118
Instrumental music	1,059	2,401	2,347	1,113
Student council	6,257	9,860	8,524	7,593
<u>HIGH SCHOOL</u>				
Speech/drama/musical	11,268	7,396	6,830	11,834
Vocal music	14,209	7,500	7,815	13,894
Instrumental music	3,326	3,851	3,666	3,511
Music uniforms	3,197	2,100	1,932	3,365
Cross country	(49)	1,643	1,800	(206)
Boys basketball	7,687	7,581	4,296	10,972
Boys football	4,208	22,367	20,123	6,452
Boys baseball	(942)	9,811	11,076	(2,207)
Boys track	3,776	2,328	1,672	4,432
Boys golf	-	811	1,438	(627)
Wrestling	660	8,720	6,557	2,823
Girls basketball	3,885	11,833	15,016	702
Girls volleyball	3,905	7,492	9,608	1,789
Girls softball	(2,171)	10,316	8,212	(67)
Girls track	-	5,796	5,286	510
Girls golf	(232)	215	600	(617)
FFA	8,825	29,106	29,763	8,168
FCCLA	1,381	2,733	2,550	1,564
Student council	6,176	6,142	5,606	6,712
Student senate	(716)	-	-	(716)
Honor Society	96	1,312	1,206	202
HOSA	1,060	4,534	4,737	857
Cheerleaders	175	3,444	3,338	281
Key club	2,119	689	696	2,112

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

<u>Account</u>	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Norse news	1,807	19	347	1,479
Student awards	19,919	5,373	4,222	21,070
Student resale	354	-	-	354
Pop fund	1,988	172	-	2,160
Concessions	16,478	36,297	31,637	21,138
Class of 2007	(67)	15,732	11,495	4,170
Class of 2006	3,921	53	2,460	1,514
Class of 2005	213	-	-	213
	<u>159,619</u>	<u>261,672</u>	<u>251,482</u>	<u>169,809</u>
Total	<u>159,619</u>	<u>261,672</u>	<u>251,482</u>	<u>169,809</u>

ROLAND-STORY 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	4,036,115	3,798,784	3,530,182	3,109,561
Tuition	364,822	383,429	399,886	391,073
Other	530,474	464,237	388,606	340,882
State sources	4,454,045	4,401,245	4,258,205	4,353,376
Federal sources	131,095	133,265	129,707	133,669
Total revenues	<u>9,516,551</u>	<u>9,180,960</u>	<u>8,706,586</u>	<u>8,328,561</u>
Expenditures:				
Instruction:				
Regular instruction	3,802,510	3,813,244	3,899,273	3,862,907
Special instruction	980,878	833,874	982,501	845,529
Other instruction	940,131	953,220	740,476	777,024
Support services:				
Student services	156,012	162,878	191,352	166,789
Instructional staff services	309,591	311,363	189,071	191,127
Administration services	737,648	773,446	684,819	640,429
Operation and maintenance of plant services	617,655	588,619	523,648	515,042
Transportation services	229,121	240,359	229,487	172,398
Non-instructional programs	235	-	6,583	231
Other expenditures:				
Facilities acquisition	3,162,653	729,417	456,497	20,409
Long-term debt:				
Principal	660,000	685,000	741,857	454,946
Interest and other charges	226,284	162,114	146,334	237,904
AEA flowthrough	288,699	283,677	287,754	306,623
Total expenditures	<u>12,111,417</u>	<u>9,537,211</u>	<u>9,079,652</u>	<u>8,191,358</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
Roland-Story 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 Roland-Story Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 12, 2006. We did not issue an opinion on the Roland-Story Community School District Foundation, which is included as a discretely presented component unit, because we were not engaged to, and did not audit the Foundation. 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 Roland-Story 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 Roland-Story 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 Roland-Story Community School District and other parties to whom Roland-Story 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 Roland-Story 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

September 12, 2006

ROLAND-STORY 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 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 Athletic Gate Admissions: The gate admissions and change box are not reconciled with pre-numbered tickets.

Recommendation: The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the change box and admissions to the number of tickets issued. This initial cash count should then be reconciled to the bank deposit and receipts journal.

District Response: We will review our current operating procedures to see how a ticket system could be implemented at our athletic facilities.

Conclusion: Response accepted.

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the other expenditures function.

Recommendation: The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: We did amend our budget but construction costs were more than anticipated.

Conclusion: Response accepted.

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>
		\$
Craig Anderson, school board member, is also owner of Anderson Meat and Grocery.	Food	1,878

The transactions with Anderson Meat and Grocery do not appear to be conflicts of interest because the amounts total less than \$2,500 as allowed by Iowa law.

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 which had not been approved by the Board were noted.

06-II-G Certified Enrollment: Line one, of the September 2005 certified enrollment form, was overstated by five students and the calculations for line 12 incorrectly included one open enrollment in student.

Recommendation: The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

ROLAND-STORY COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

District Response: We will contact these departments.

Conclusion: Response accepted.

06-II-H Deposits and Investments: No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

06-II-I Certified Annual Report (CAR): The Certified Annual Report due date was after the date of the completion of the audit.

06-II-J Deficit Balances: The Student Activity Fund has several accounts with deficit balances at June 30, 2006.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.