

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Schaller-Crestland 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 8, 2006, on our consideration of Schaller-Crestland 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 14 and 36 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Schaller-Crestland Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary 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 8, 2006

# Schaller-Crestland Community School District

## Management Discussion & Analysis

This section of the Schaller-Crestland 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.

### Financial Highlights

- The Schaller-Crestland CSD Board of Directors approved a Property Tax decrease from \$14.49838 to \$14.32395 per \$1,000 taxable valuation, creating a tax rate decrease of \$.17 per \$1000 taxable valuation. The change in rate was reciprocal to the increase in valuations from approximately 100,000,000 up to 107,000,000 due to increase in property values.
- The Local Option Sales Tax was beneficial to the district in that it generated about \$218,339 for capital improvement projects. (The amount is from Exhibit B.)

### Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

Figure A-1

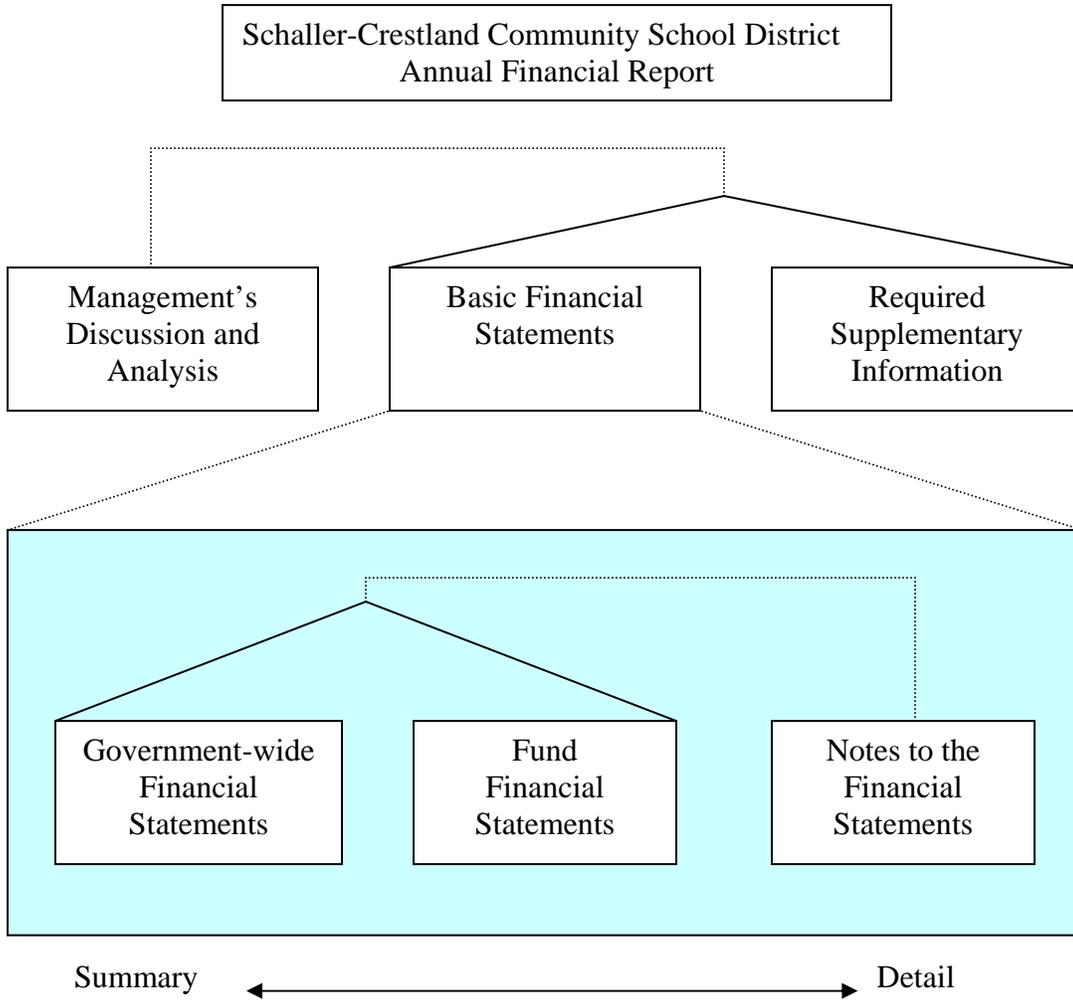


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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

## **Government-wide Statements**

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

The two Government-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

## **Fund Financial Statements**

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

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

The District has two kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund and Special Revenue Funds that consist of Activity, Management, and Physical Plant and Equipment Levy funds.
- *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 statements. The District's enterprise fund, one type of a proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

### **Government-wide Financial Analysis**

Figure A-3 below provides a summary of the District's net assets ended June 30, 2006, 2005 and 2004.

**Net assets.** The District's combined net assets were slightly smaller on June 30, 2006, than they were the year before, increasing by \$157,207 or 4.54%. The year previous we saw a \$192,916 increase.

Figure A-3	Condensed Statement of Net Assets									
	Governmental Activities			Business Type Activities			Total School District			Total % Change 2005-2006
	2004	2005	2006	2004	2005	2006	2004	2005	2006	
Current and other assets	\$2,600,089	\$3,124,763	\$3,703,906	\$64,015	\$52,075	\$34,861	\$2,664,104	\$3,176,838	\$3,738,767	17.69%
Capital assets	2,715,428	2,753,070	2,683,703	34,541	34,005	28,398	2,749,969	2,787,075	2,712,101	(2.69%)
<b>Total Assets</b>	<b>5,315,517</b>	<b>5,877,833</b>	<b>6,387,609</b>	<b>98,556</b>	<b>86,080</b>	<b>63,259</b>	<b>5,414,073</b>	<b>\$5,963,913</b>	<b>\$6,450,868</b>	<b>8.17%</b>
Long-term liabilities	0	15,663	0	0	0	0	0	15,663	0	(100.00%)
Other liabilities	2,140,174	2,480,477	2,827,227	1,296	2,254	915	2,141,470	2,482,731	2,828,142	13.91%
<b>Total liabilities</b>	<b>2,140,174</b>	<b>2,496,140</b>	<b>2,827,227</b>	<b>1,296</b>	<b>2,254</b>	<b>915</b>	<b>2,141,470</b>	<b>2,498,394</b>	<b>2,828,142</b>	<b>13.2%</b>
Net Assets:										
Invested in capital assets, net of related debt	2,715,428	2,753,070	2,683,703	34,541	34,005	28,398	2,749,969	2,787,075	2,712,101	(2.69%)
Restricted	63,500	157,840	411,832	0	0	0	63,500	157,840	411,832	160.92%
Unrestricted	396,415	470,783	464,847	62,719	49,821	33,946	459,134	520,604	498,793	(4.19%)
<b>TOTAL NET ASSETS</b>	<b>\$3,175,343</b>	<b>\$3,381,693</b>	<b>\$3,560,382</b>	<b>\$97,260</b>	<b>\$83,826</b>	<b>\$62,344</b>	<b>\$3,272,603</b>	<b>\$3,465,519</b>	<b>\$3,622,726</b>	<b>4.54%</b>

The District issues anticipatory warrants through the Iowa Schools Cash Anticipation Program, to ease cash flow problems that may occur periodically throughout the year. The District's participation in the program was higher at June 30, 2006 than it was at June 30, 2005. This had the affect of increasing the District's current assets and other liabilities.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased approximately \$253,992 or 161% over the prior year. The increase was primarily a result of sales tax revenues collected, but not spent during the year. These monies will be used for future capital projects.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased by approximately \$21,811, or 4%.

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

<b>Changes in Net Assets</b>						
Figure A-4	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>	
	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>
<b>Revenues</b>						
Program Revenues						
Charges for services	\$226,703	\$228,491	\$80,859	82,503	\$307,562	\$310,994
Operating Grants & Contributions	483,383	491,396	79,643	95,185	563,026	\$586,581
Capital Grants & Contributions	13,762	0	0	0	13,762	0
General Revenues						
Property taxes & other taxes	1,924,927	1,952,537	0	0	1,924,927	1,952,537
Unrestricted State Grants	1,549,924	1,637,074	0	0	1,549,924	1,637,074
Unrestricted Investment Earnings	14,896	51,142	482	419	15,378	51,561
Other Revenue	3,699	233	0	5,393	3,699	5,626
<b>Total Revenues</b>	<b>\$4,217,294</b>	<b>\$4,360,873</b>	<b>\$160,984</b>	<b>\$183,500</b>	<b>\$4,378,278</b>	<b>\$4,544,373</b>
<b>Expenses</b>						
Instruction	2,516,007	2,533,370	0	0	2,516,007	2,533,370
Support Services	1,158,806	1,229,598	0	0	1,158,806	1,229,598
Non-Instructional Programs	0	0	174,418	204,982	174,418	204,982
Other Expenses	336,131	419,216	0	0	336,131	419,216
<b>Total Expenses</b>	<b>\$4,010,944</b>	<b>\$4,182,184</b>	<b>\$174,418</b>	<b>\$204,982</b>	<b>\$4,185,362</b>	<b>\$4,387,166</b>
Transfers	0	0	0	0	0	0
Change in Net Assets	<b>\$206,350</b>	<b>\$178,689</b>	<b>(13,494)</b>	<b>(\$21,482)</b>	<b>\$192,916</b>	<b>\$157,207</b>

Total District revenues increased approximately \$166,000 between 2005 and 2006 while total expenses increased in 2006 by approx. \$201,000. This created a \$157,000 increase in net assets. Total property tax revenues decreased approximately \$4,000 while state foundation aid increased about \$97,000 and sales tax revenues increased approximately \$2,000.

*Governmental Activities -*

Referring to *Figure A-4*, revenues for the District's governmental activities were \$4,360,873 for fiscal year 2006. Total governmental expenditures were \$4,182,184. This is a difference of \$178,689.

In a semi-difficult budget year, the District had to trim expenses to match available revenue, however the board of directors was able to lower the overall district rate from \$14.49838 to \$14.3295 per thousand dollars of taxable valuation.

Net Cost of Governmental Activities				
Figure A-5				
	Total Cost of Services 2005	Total Cost of Services 2006	Net Cost Of Services 2005	Net Cost Of Services 2006
Instruction	\$2,516,007	\$2,533,370	(\$1,969,301)	(\$1,961,383)
Support Services	1,158,806	1,229,598	(1,136,368)	(1,224,439)
Non-Instructional Programs	0	0	0	0
Other Expenses	336,131	419,216	(181,427)	(276,475)
<b>TOTAL</b>	<b>\$4,010,944</b>	<b>\$4,182,184</b>	<b>(\$3,287,096)</b>	<b>(\$3,462,297)</b>

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

- The cost of all governmental activities this year was \$4,182,184.
- Most of the District's costs (\$3,462,297) were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$1,952,537 in property and other local taxes, and \$1,637,074 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

#### *Business-Type Activities -*

The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District's business-type activities show a decrease in net assets with expenses exceeding revenues of (\$13,434) in '05, (\$21,482) in '06 for a two year total of decreased revenue of \$34,916 (refer to *Figure A-4*). Total revenues increased during the year, but there were increased costs for salaries, employee benefits and food. The Board of Education did not increase school meal prices for fiscal year 2005, but has increased meal prices for fiscal year 2006.

### **Financial Analysis of the District's Funds**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$722,982.

#### Governmental Fund Highlights

The General Fund balance decreased from \$482,754 in '03 to \$404,987 in '04 to \$378,251 in '05, to \$370,264 in 2006. This is due in part to the reduction in student enrollment, negotiated salary and benefit settlement. There was a slight increase in

staffing in 2005-2006 from the previous year. The Board chose to use carryover fund balance to maintain obligations and student programming. Expenditures over revenues were held close to the previous year.

The Non-major governmental funds include Management, Student Activity, Physical Plant and Equipment Levy and Capital Projects. The Management fund balance increased \$70,310 during the year. The increase was due to a large part of increase in tax asking in the Management Fund in anticipation of a possible early retirement.

The capital projects fund balance increased \$158,357 because sales tax revenues exceeded expenditures. These unspent funds will be used for future capital projects.

The Physical Plant and Equipment Fund has a deficit fund balance because, in prior years, PPEL borrowed money from the General Fund to finance capital improvements. The PPEL Fund deficit is being reduced as the loan from the General Fund is repaid. The district anticipates only one more payment of \$75,000 to the General Fund during the 07-08 fiscal year.

#### Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$97,704 on June 30, 2003 to \$97,260 on June 30, 2004, on June 30, 2005 \$83,826 and is currently at \$62,344 at the end of June 30, 2006, representing a decrease of 26% from the previous year. Ala carte sales were dropped in both buildings. The higher cost of food and an increase in salaries along with extra hours put in by the head cook to comply with more federal and state regulations and mandates added to our overall costs.

#### Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

During FY06, total revenues stabilized comparatively to the year before when the FY06 budget was assembled in February, 2005. Ultimately, budgeted amounts exceeded actual revenue by \$290,603. This was due to a variety of factors that could not have been anticipated when a budget estimate was assembled. On the expense side, the District began adjusting to all of these factors, and succeeded in keeping total disbursements lower than total receipts. When a preliminary budget is set, the District always requests the ability to expend its full budget if necessary, but has the goal of keeping disbursements in line with revenues as actual revenue accumulates. As a result, the

District's certified budget would hopefully exceed the actual expenditures during the coming year. It is apparent that even in such a difficult fiscal year in which to accurately predict revenues, the District was succeeded in meeting its goal in keeping total disbursements \$4,333,462 below total receipts \$4,534,502.

In spite of the District's budgeting practice, the certified budget was exceeded in the support services functional area due the timing of expenditures at year-end without sufficient time to amend the certified budget and due to year-end chart of account changes required by the Iowa Department of Education.

### Capital Asset and Debt Administration

#### Capital Assets

By the end of 2006, the District had invested \$2,712,101 net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net increase of \$74,974 or a 2.69% decrease from last year. The District was able to stay within its means and not accumulate any debt in FY06.

The 2005-2006 school year was one of the districts most productive in the way of capital improvements to the district. Through the Physical Plant and Equipment fund and Capital Projects fund better known as the one cent local option sales tax, we were able to make many repairs and improvements. The list includes, but not limited to, painting of classrooms and hallways, the purchase of a 2005 sixty-five passenger bus, major heating repairs to individual heat pump units at the high school, ceramic tile and stall installations in our locker rooms, major boiler repairs to a Schaller building unit for (\$15,300) and the replacement of a bus motor (\$12,000). The list continues with the purchase of a large capacity washer and dryer, a one man 24' lift for ceiling work in gymnasiums, chain link fences for different field areas, a reconstructed long jump pit at the high school complex, and new carpeting in the high school.

Capital Assets (net of depreciation)										
Figure A-6	Governmental Activities			Business-type Activities			Total School District			Total % Change 2005-2006
	2004	2005	2006	2004	2005	2006	2004	2005	2006	
Land	18,889	18,889	18,889	0	0	0	18,889	18,889	18,889	0.00%
Construction In progress	0	62,525	0	0	0	0	0	62,525	0	(100.00%)
Buildings & Improvements	2,579,024	2,567,956	2,517,039	0	0	0	2,579,024	2,567,956	2,517,039	(1.98%)
Equip. & Furniture	117,515	103,700	147,775	34,541	34,005	28,398	152,056	137,705	176,173	27.94%
<b>TOTAL</b>	<b>2,715,428</b>	<b>2,753,070</b>	<b>2,683,703</b>	<b>34,541</b>	<b>34,005</b>	<b>28,398</b>	<b>2,749,969</b>	<b>2,787,075</b>	<b>2,712,101</b>	<b>(2.69%)</b>

Construction was completed in August 2006 of a gym floor that the District had started replacing in fiscal year 2005. Approximately \$18,625 was spent to complete this project. At June 30, 2006 the District had a \$47,966 commitment for asphalt.

### **Long-Term Debt**

The District had no long term debt at June 30, 2006.

### **Factors Bearing on the District's Future**

The District is projected to remain in reasonable financial health into the immediate future. Budgeting practices such as making sure disbursements do not exceed receipts, even during challenging years like FY05 and FY06 when the budget guarantee increases, combined with a stable foundation of cash balance and moderate unspent balances, allows the District to provide the resources needed for excellent student achievement while still keeping the tax burden reasonable. In FY '07, the District will have received two years of allowable growth money, and FY '08 looks a little brighter for additional new money with the projected 4% allowable growth. We still experience declining enrollment and therefore it can offset the 4% allowable growth money. As stated last year in the MD&A, in FY '09, the District will receive its second year of added property value as the Wind Farm matures. Increased property value is projected to generate over \$65,000.00 the first year compounded each year for 6 years to about \$400,000. There are now 76 wind turbines located in the Sac County portion of the school district and 2 in the Buena Vista portion of the district for a total of 78. They are valued at about 1.5 million dollars each. However, costs outside of the Board's control such as continual increases in health insurance and higher than normal utility costs are worrisome, and employee contract settlements will also have an effect on the District's financial viability. Funds from PPEL and the SILO tax will help when making large capital improvements to the district.

For the upcoming fiscal year, more pavement for the high school is being discussed.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact Dave Kwikkel, Superintendent, Schaller-Crestland Community School District, 300 S. Berwick Street, Schaller, Iowa 51053.

## BASIC FINANCIAL STATEMENTS

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP	856,276	-	856,276
Other	927,718	29,606	957,324
Receivables:			
Property tax:			
Delinquent	32,797	-	32,797
Succeeding year	1,601,842	-	1,601,842
Accounts	1,777	37	1,814
Accrued interest:			
ISCAP	10,379	-	10,379
Other	98	-	98
Due from other governments	273,019	-	273,019
Inventories	-	5,218	5,218
Capital assets, net of accumulated depreciation	2,683,703	28,398	2,712,101
<b>Total assets</b>	<b>6,387,609</b>	<b>63,259</b>	<b>6,450,868</b>
<b>Liabilities</b>			
Accounts payable	59,375	171	59,546
Salaries and benefits payable	295,456	-	295,456
Deferred revenue:			
Succeeding year property tax	1,601,842	-	1,601,842
Other	-	744	744
ISCAP warrants payable	855,000	-	855,000
ISCAP accrued interest payable	9,737	-	9,737
ISCAP premium	5,817	-	5,817
<b>Total liabilities</b>	<b>2,827,227</b>	<b>915</b>	<b>2,828,142</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,683,703	28,398	2,712,101
Restricted for:			
Management levy	73,870	-	73,870
Physical plant and equipment levy	32,225	-	32,225
Other special revenue purposes	45,096	-	45,096
Local option sales tax capital projects	260,641	-	260,641
Unrestricted	464,847	33,946	498,793
<b>Total net assets</b>	<b>3,560,382</b>	<b>62,344</b>	<b>3,622,726</b>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

<b>Functions/Programs</b>	Expenses	Program Revenues	
		Charges for Services	Operating Grants, Contributions and Restricted Interest
	\$	\$	\$
Governmental activities:			
Instruction:			
Regular instruction	1,760,318	107,348	237,536
Special instruction	346,354	-	35,901
Other instruction	426,698	120,517	70,685
	<u>2,533,370</u>	<u>227,865</u>	<u>344,122</u>
Support services:			
Student services	92,231	-	-
Instructional staff services	114,593	-	-
Administration services	429,347	-	-
Operation and maintenance of plant services	331,748	305	-
Transportation services	261,679	321	4,533
	<u>1,229,598</u>	<u>626</u>	<u>4,533</u>
Other expenditures:			
Facilities acquisition	149,537	-	395
Long-term debt interest	-	-	-
AEA flowthrough	142,346	-	142,346
Depreciation (unallocated)*	127,333	-	-
	<u>419,216</u>	<u>-</u>	<u>142,741</u>
Total governmental activities	4,182,184	228,491	491,396
Business type activities:			
Non-instructional programs:			
Food service operations	204,982	82,503	95,185
Total	<u>4,387,166</u>	<u>310,994</u>	<u>586,581</u>
<b>General Revenues:</b>			
Property taxes levied for:			
General purposes			
Capital outlay			
Income surtax			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Total general revenues			

**Change in net assets**

Net assets beginning of year

Net assets end of year

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

See notes to financial statements.

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,415,434)	-	(1,415,434)
(310,453)	-	(310,453)
(235,496)	-	(235,496)
<u>(1,961,383)</u>	<u>-</u>	<u>(1,961,383)</u>
(92,231)	-	(92,231)
(114,593)	-	(114,593)
(429,347)	-	(429,347)
(331,443)	-	(331,443)
(256,825)	-	(256,825)
<u>(1,224,439)</u>	<u>-</u>	<u>(1,224,439)</u>
(149,142)	-	(149,142)
-	-	-
-	-	-
(127,333)	-	(127,333)
<u>(276,475)</u>	<u>-</u>	<u>(276,475)</u>
(3,462,297)	-	(3,462,297)
-	(27,294)	(27,294)
<u>(3,462,297)</u>	<u>(27,294)</u>	<u>(3,489,591)</u>
1,423,417	-	1,423,417
120,884	-	120,884
189,897	-	189,897
218,339	-	218,339
1,637,074	-	1,637,074
51,142	419	51,561
233	5,393	5,626
<u>3,640,986</u>	<u>5,812</u>	<u>3,646,798</u>
178,689	(21,482)	157,207
<u>3,381,693</u>	<u>83,826</u>	<u>3,465,519</u>
<u>3,560,382</u>	<u>62,344</u>	<u>3,622,726</u>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments:			
ISCAP	856,276	-	856,276
Other	568,269	359,449	927,718
Receivables:			
Property tax:			
Delinquent	27,361	5,436	32,797
Succeeding year	1,384,718	217,124	1,601,842
Accounts	1,582	195	1,777
Accrued interest - ISCAP	10,379	-	10,379
Accrued interest - other	-	98	98
Interfund receivable	81,922	-	81,922
Due from other governments	126,539	146,480	273,019
<b>Total assets</b>	<u>3,057,046</u>	<u>728,782</u>	<u>3,785,828</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	41,471	17,904	59,375
Salaries and benefits payable	295,456	-	295,456
Interfund payable	-	81,922	81,922
ISCAP warrants payable	855,000	-	855,000
ISCAP accrued interest payable	9,737	-	9,737
ISCAP premium	5,817	-	5,817
Deferred revenue:			
Succeeding year property tax	1,384,718	217,124	1,601,842
Other	94,583	59,114	153,697
<b>Total liabilities</b>	<u>2,686,782</u>	<u>376,064</u>	<u>3,062,846</u>
Fund balances:			
Unreserved reported in:			
General fund	370,264	-	370,264
Special revenue funds	-	92,077	92,077
Capital projects funds	-	260,641	260,641
<b>Total fund balance</b>	<u>370,264</u>	<u>352,718</u>	<u>722,982</u>
<b>Total liabilities and fund balances</b>	<u>3,057,046</u>	<u>728,782</u>	<u>3,785,828</u>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
<b>Total fund balances of governmental funds (Exhibit C)</b>	722,982
<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.	2,683,703
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	<u>153,697</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u><u>3,560,382</u></u>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	1,408,475	486,196	1,894,671
Tuition	76,040	-	76,040
Other	74,938	130,111	205,049
State sources	1,965,130	48,227	2,013,357
Federal sources	161,885	-	161,885
Total revenues	<u>3,686,468</u>	<u>664,534</u>	<u>4,351,002</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,755,783	20,198	1,775,981
Special instruction	346,354	-	346,354
Other instruction	304,282	120,321	424,603
	<u>2,406,419</u>	<u>140,519</u>	<u>2,546,938</u>
Support services:			
Student services	88,731	3,500	92,231
Instructional staff services	114,593	-	114,593
Administration services	428,151	1,196	429,347
Operation and maintenance of plant services	284,447	44,144	328,591
Transportation services	230,001	69,099	299,100
	<u>1,145,923</u>	<u>117,939</u>	<u>1,263,862</u>
Other expenditures:			
Facilities acquisition	-	175,334	175,334
AEA flowthrough	142,346	-	142,346
	<u>142,346</u>	<u>175,334</u>	<u>317,680</u>
Total expenditures	<u>3,694,688</u>	<u>433,792</u>	<u>4,128,480</u>
Excess (deficiency) of revenues over (under) expenditures	(8,220)	230,742	222,522
Other financing sources (uses):			
Sales of materials and equipment	233	-	233
Net change in fund balances	(7,987)	230,742	222,755
Fund balances beginning of year	<u>378,251</u>	<u>121,976</u>	<u>500,227</u>
Fund balances end of year	<u><u>370,264</u></u>	<u><u>352,718</u></u>	<u><u>722,982</u></u>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
<b>Net change in fund balances - total governmental funds (Exhibit E)</b>		222,755

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

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

Expenditures for capital assets	94,896	
Depreciation expense	<u>(164,263)</u>	(69,367)

Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.

9,638

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

Early retirement		<u>15,663</u>
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**Changes in net assets of governmental activities (Exhibit B)**

	<u><u>178,689</u></u>
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## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

Statement of Net Assets  
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
<b>Assets</b>	
Cash and cash equivalents	29,606
Accounts receivable	37
Inventories	5,218
Capital assets, net of accumulated depreciation	<u>28,398</u>
<b>Total assets</b>	<u>63,259</u>
<b>Liabilities</b>	
Accounts payable	171
Deferred revenue	<u>744</u>
<b>Total liabilities</b>	<u>915</u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	28,398
Unrestricted	<u>33,946</u>
<b>Total net assets</b>	<u><u>62,344</u></u>

SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses, and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	\$
Operating revenue:	
Local sources:	
Charges for service	82,503
Operating expenses:	
Non-instructional programs:	
Salaries	78,620
Benefits	12,835
Purchased services	1,662
Supplies	106,258
Depreciation	5,607
	204,982
Operating gain (loss)	(122,479)
Non-operating revenue:	
State sources	2,584
Federal sources	92,601
Compensation for loss of assets	5,393
Interest income	419
Total non-operating revenue	100,997
Change in net assets	(21,482)
Net assets beginning of year	83,826
Net assets end of year	62,344

## SCHALLER-CRESTLAND 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	81,904
Cash payments to employees for services	(91,455)
Cash payments to suppliers for goods or services	(88,138)
Net cash used by operating activities	<u>(97,689)</u>
Cash flows from non-capital financing activities:	
State grants received	2,584
Federal grants received	75,729
Net cash provided by non-capital financing activities	<u>78,313</u>
Cash flows from capital and related financing activities:	
Insurance claim	<u>5,393</u>
Cash flows from investing activities:	
Interest on investments	<u>419</u>
Net increase (decrease) in cash and cash equivalents	(13,564)
Cash and cash equivalents at beginning of year	<u>43,170</u>
Cash and cash equivalents at end of year	<u><u>29,606</u></u>
<b>Reconciliation of operating gain (loss) to net cash used by operating activities:</b>	
Operating gain (loss)	(122,479)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	16,872
Depreciation	5,607
Decrease (increase) in inventories	3,599
Decrease (increase) in accounts receivable	51
(Decrease) increase in accounts payable	(689)
(Decrease) increase in deferred revenue	<u>(650)</u>
Net cash used in operating activities	<u><u>(97,689)</u></u>

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

During the year ended June 30, 2006, the District received \$16,872 of federal commodities.

# SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

June 30, 2006

### 1. Summary of Significant Accounting Policies

Schaller-Crestland 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 City of Schaller, Iowa and the predominately agricultural territory in a portion of Sac and Ida 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, Schaller-Crestland 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 Schaller-Crestland Community School District has no component units that meet the Governmental Accounting Standards Board criteria.

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

#### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

The 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>	Amount \$
Land	-
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</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.

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

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, disbursements in the support services 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.

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

**3. Interfund Receivables and Payables**

The detail of interfund receivables and payables at June 30, 2006 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
General Fund	Nonmajor – Physical Plant and Equipment Levy Fund	81,922

In a previous year the General Fund loaned the Physical Plant and Equipment Levy Fund money to finance a construction project. The loan will be repaid during the next year.

**4. Iowa School Cash Anticipation Program (ISCAP)**

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2005-06B	1/26/06	1/26/07	506,762	10,269	505,000	3,154
2006-07A	6/28/06	6/28/07	349,514	110	350,000	2,663
Total			856,276	10,379	855,000	5,817

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006, is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2005-06B	4.500	4.772
2006-07A	4.500	5.676

## 5. Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Construction in progress	62,525	-	62,525	-
Land	18,889	-	-	18,889
	<u>81,414</u>	<u>-</u>	<u>62,525</u>	<u>18,889</u>
Capital assets being depreciated:				
Buildings	5,040,140	71,150	-	5,111,290
Improvements other than buildings	381,982	5,266	-	387,248
Furniture and equipment	559,922	81,005	-	640,927
Total capital assets being deprec.	<u>5,982,044</u>	<u>157,421</u>	<u>-</u>	<u>6,139,465</u>
Less accumulated depreciation for:				
Buildings	2,621,886	118,040	-	2,739,926
Improvements other than buildings	232,280	9,293	-	241,573
Furniture and equipment	456,222	36,930	-	493,152
Total accumulated depreciation	<u>3,310,388</u>	<u>164,263</u>	<u>-</u>	<u>3,474,651</u>
Total capital assets being depreciated, net	<u>2,671,656</u>	<u>(6,842)</u>	<u>-</u>	<u>2,664,814</u>
Governmental activities capital assets, net	<u>2,753,070</u>	<u>(6,842)</u>	<u>(62,525)</u>	<u>2,683,703</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Business type activities:</b>				
Furniture and equipment	90,988	-	-	90,988
Less accumulated depreciation	56,983	5,607	-	62,590
Business type activities capital assets, net	<u>34,005</u>	<u>(5,607)</u>	<u>-</u>	<u>28,398</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Other instruction				2,095
Support Services:				
Operation and maintenance of plant services				3,157
Transportation				31,678
				<u>36,930</u>
Unallocated depreciation				<u>127,333</u>
Total depreciation expense – governmental activities				<u>164,263</u>
Business type activities:				
Food services				<u>5,607</u>

## 6. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
Termination Benefits	15,663	-	15,663	-	-

### Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least **fifteen years of full-time** service to the District and must be between the ages of 55 and 62 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 **the difference between the employee's current salary and the base salary**.

At June 30, 2006, the District has no obligations to participants. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$**15,663**.

## 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll 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 \$110,273, \$118,171, and \$116,195 respectively, equal to the required contributions for each year.

## 8. Risk Management

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

## 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$142,346 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.

## 10. Construction Commitment

The District has entered into a contract of \$47,966 for asphalt. Work on the project had not started at June 30, 2006.

**11. Fund Deficit**

The Physical Plant and Equipment Levy Fund has a \$26,889 deficit fund balance at June 30, 2006.

**12. Lease Commitments**

The District has leased copy machines and an auto using operating leases. The following minimum lease payments will be made over the lives of the leases:

Year Ending June 30,	Lease Payments
	\$
2007	14,412
2008	9,816
2009	5,508
	<u>29,736</u>

REQUIRED SUPPLEMENTARY INFORMATION

SCHALLER-CRESTLAND 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	2,175,760	88,315	2,264,075	2,329,758	2,329,758	(65,683)
State sources	2,013,357	2,584	2,015,941	2,190,347	2,190,347	(174,406)
Federal sources	161,885	92,601	254,486	305,000	305,000	(50,514)
Total revenues	<u>4,351,002</u>	<u>183,500</u>	<u>4,534,502</u>	<u>4,825,105</u>	<u>4,825,105</u>	<u>(290,603)</u>
Expenditures:						
Instruction	2,546,938	-	2,546,938	3,739,427	3,739,427	1,192,489
Support services	1,263,862	-	1,263,862	1,142,000	1,142,000	(121,862)
Non-instructional programs	-	204,982	204,982	217,279	217,279	12,297
Other expenditures	317,680	-	317,680	554,632	554,632	236,952
Total expenditures	<u>4,128,480</u>	<u>204,982</u>	<u>4,333,462</u>	<u>5,653,338</u>	<u>5,653,338</u>	<u>1,319,876</u>
Excess (deficiency) of revenues over (under) expenditures	222,522	(21,482)	201,040	(828,233)	(828,233)	1,029,273
Other financing sources (uses) net	<u>233</u>	<u>-</u>	<u>233</u>	<u>3,000</u>	<u>3,000</u>	<u>(2,767)</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	222,755	(21,482)	201,273	(825,233)	(825,233)	1,026,506
Balance beginning of year	<u>500,227</u>	<u>83,826</u>	<u>584,053</u>	<u>825,233</u>	<u>825,233</u>	<u>(241,180)</u>
Balance end of year	<u><u>722,982</u></u>	<u><u>62,344</u></u>	<u><u>785,326</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>785,326</u></u>

SCHALLER-CRESTLAND 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. The District did not amend its budget during the year.

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

OTHER SUPPLEMENTARY INFORMATION

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Sales Tax	
	\$	\$	\$	\$	
Cash and pooled investments	71,001	46,175	66,482	175,791	359,449
Receivables:					
Property tax:					
Delinquent	2,869	-	2,567	-	5,436
Succeeding year	100,000	-	117,124	-	217,124
Accounts	-	195	-	-	195
Accrued interest	-	22	76	-	98
Due from other governments	-	-	59,114	87,366	146,480
<b>Total assets</b>	<b>173,870</b>	<b>46,392</b>	<b>245,363</b>	<b>263,157</b>	<b>728,782</b>
<b>Liabilities &amp; Fund Balances</b>					
Liabilities:					
Accounts payable	-	1,296	14,092	2,516	17,904
Interfund payables	-	-	81,922	-	81,922
Deferred revenue:					
Succeeding year property tax	100,000	-	117,124	-	217,124
Other	-	-	59,114	-	59,114
Total liabilities	100,000	1,296	272,252	2,516	376,064
Fund balances:					
Unreserved reported in:					
Special revenue funds	73,870	45,096	(26,889)	-	92,077
Capital projects funds	-	-	-	260,641	260,641
Total fund balances	73,870	45,096	(26,889)	260,641	352,718
<b>Total liabilities and fund balances</b>	<b>173,870</b>	<b>46,392</b>	<b>245,363</b>	<b>263,157</b>	<b>728,782</b>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Capital Projects Fund	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Sales Tax	
	\$	\$	\$	\$	
Revenues:					
Local sources:					
Local tax	135,114	-	180,970	170,112	486,196
Other	4,234	121,773	2,292	1,812	130,111
State sources	-	-	-	48,227	48,227
Total revenues	<u>139,348</u>	<u>121,773</u>	<u>183,262</u>	<u>220,151</u>	<u>664,534</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	20,198	-	-	-	20,198
Other instruction	-	120,321	-	-	120,321
Support services:					
Student services	3,500	-	-	-	3,500
Administration services	1,196	-	-	-	1,196
Operation and maintenance of plant services	44,144	-	-	-	44,144
Transportation services	-	-	69,099	-	69,099
Other expenditures:					
Facilities acquisition	-	-	113,540	61,794	175,334
Total expenditures	<u>69,038</u>	<u>120,321</u>	<u>182,639</u>	<u>61,794</u>	<u>433,792</u>
Excess (deficiency) of revenues over (under) expenditures	70,310	1,452	623	158,357	230,742
Fund balances beginning of year	<u>3,560</u>	<u>43,644</u>	<u>(27,512)</u>	<u>102,284</u>	<u>121,976</u>
Fund balances end of year	<u><u>73,870</u></u>	<u><u>45,096</u></u>	<u><u>(26,889)</u></u>	<u><u>260,641</u></u>	<u><u>352,718</u></u>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

<u>Account</u>	Balance	Revenues	Expenditures	Balance End
	Beginning of			of Year
	Year			
	\$	\$	\$	\$
Cross country	50	-	137	(87)
SCCS students	4,319	1,256	2,979	2,596
Activity tickets	(6,500)	8,400	770	1,130
Tournaments	2,372	316	1,671	1,017
Activity resale	541	6,499	6,353	687
Concession stand	9	7,808	7,970	(153)
Speech	1,469	719	672	1,516
Band resale	(123)	827	1,058	(354)
Basketball boys	1,123	3,110	1,736	2,497
Football	999	5,626	9,599	(2,974)
Baseball	373	1,961	3,211	(877)
Boys track	147	3,519	3,415	251
Boys golf	243	7	298	(48)
Wrestling	189	2,506	3,252	(557)
Girls basketball	1,070	2,934	1,655	2,349
Volleyball	580	5,540	5,304	816
Softball	514	4,078	5,781	(1,189)
Girls track	824	4,493	4,719	598
Girls golf	84	-	278	(194)
Class of 2003	962	-	-	962
Class of 2004	338	-	-	338
Class of 2005	440	-	-	440
Class of 2006	1,414	2,619	3,863	170
Class of 2007	1,832	4,405	4,040	2,197
Class of 2008	1,365	2,064	50	3,379
Class of 2009	-	1,017	-	1,017
FFA club	7,039	18,640	18,322	7,357
Cheerleaders	2,355	670	1,033	1,992
Student council	1,637	6,857	6,078	2,416
Middle school student council	752	783	756	779
Peerhelpers	193	-	-	193
Teacher soda club school improvement	137	346	271	212
Industrial arts club	4	-	-	4
Annual	9,869	10,221	9,614	10,476
NHS	494	1,627	1,670	451
Tatu	29	-	-	29
Dance squad	2,063	3,452	3,747	1,768
K-8 activity	4,438	9,473	10,019	3,892
<b>Total</b>	<b>43,644</b>	<b>121,773</b>	<b>120,321</b>	<b>45,096</b>

## SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,894,671	1,909,613	1,846,569	1,615,993
Tuition	76,040	63,905	116,029	113,463
Other	205,049	185,614	158,845	184,421
Intermediate sources	-	7,243	-	-
State sources	2,013,357	1,853,769	1,687,932	1,667,902
Federal sources	161,885	172,295	177,364	179,688
Total revenues	<u>4,351,002</u>	<u>4,192,439</u>	<u>3,986,739</u>	<u>3,761,467</u>
Expenditures:				
Instruction:				
Regular instruction	1,775,981	1,712,439	1,754,881	1,821,672
Special instruction	346,354	342,119	446,301	401,904
Other instruction	424,603	443,700	341,820	412,199
Support services:				
Student services	92,231	89,577	77,294	118,083
Instructional staff services	114,593	84,785	36,097	61,041
Administration services	429,347	404,567	509,014	418,424
Operation and maintenance of plant services	328,591	343,063	350,241	525,344
Transportation services	299,100	203,743	145,031	258,980
Other expenditures:				
Facilities acquisition	175,334	262,146	194,971	22,957
AEA flowthrough	142,346	140,942	144,357	153,441
Total expenditures	<u>4,128,480</u>	<u>4,027,081</u>	<u>4,000,007</u>	<u>4,194,045</u>

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

To the Board of Education of  
Schaller-Crestland 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 Schaller-Crestland 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 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Schaller-Crestland 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 Schaller-Crestland 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 Schaller-Crestland Community School District and other parties to whom Schaller-Crestland 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 Schaller-Crestland 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 8, 2006

SCHALLER-CRETLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

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

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

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

Conclusion: Response accepted.

06-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The stamp is under the care, custody, and control of the Administrative office. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The Board may designate a person other than the Board President to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

SCHALLER-CRESTLAND 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 amount budgeted in the support services 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: Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

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>
		\$
Gary Ronfeldt, Board Member, owner of Ron's Carpet Laying	Carpet laying	4,536

The transaction appears to represent a conflict of interest since the dollar amount was more than \$2,500.

Recommendation: Business with district officials is not a conflict of interest if bids are taken or total amount is less than \$2,500. The District should consult legal council regarding this matter.

District Response: We will consult with our attorney.

Conclusion: Response accepted.

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

06-II-F Board Minutes: We noted no transactions requiring Board approval that had not been approved by the Board.

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

SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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

06-II-I Certified Annual Report: The Certified Annual Report was not due yet at the completion of the audit.

06-II-J Financial Condition: The District has a Physical Plant and Equipment Levy deficit fund balance of \$26,889 at June 30, 2006. The Student Activity Fund also had several accounts with deficit balances at the end of the year.

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

District Response: The PPEL Fund has a deficit fund balance because the District financed a previous year construction project with monies from the General Fund, rather than issuing long-term debt and paying interest. The interfund loan will be repaid from future PPEL property tax collections and the fund deficit is being reduced as the interfund loan is repaid. We will continue to work on eliminating account deficits in the Student Activity Fund.

Conclusion: Response accepted.

06-II-K Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a capital improvement for asphalt without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.

06-II-L Old Outstanding Checks: We noted that the District's bank reconciliations included approximately \$2,786 of old outstanding checks. Iowa Code Section 566 specifies that holders unclaimed property, which includes outstanding checks, must file a report with and send the unclaimed property to the Treasurer of Iowa.

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

SCHALLER-CRESTLAND COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

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

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

Conclusion: Response accepted.

06-II-M Physical Plant and Equipment Levy Fund and Sales Tax Expenditures: The PPEL Fund and the sales tax proceeds may be used to purchase or improve grounds, to repair or remodel buildings and to purchase or lease a single unit of equipment or technology system with a cost exceeding \$500. We noted that expenditures from these funds included \$10,969 for a bus motor and \$3,576 of equipment with a unit cost of less than \$500.

Recommendation: The District should review the types of expenditures allowable from these two funds and consult with its attorney regarding a bus motor qualifying as equipment.

District Response: We will review the requirements for allowable expenses and consult with our attorney.

Conclusion: Response accepted.