

**SOUTH WINNESHIEK
COMMUNITY SCHOOL DISTRICT
CALMAR, IOWA**

FINANCIAL REPORT

JUNE 30, 2006

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SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BOARD OF EDUCATION AND SCHOOL OFFICIALS

Name	Title	Address	Term Expires
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Board of Education

(Before September 2005 Election)

Roger Koenig	President	Castalia, Iowa	September 2007
Marty Tieskoetter	Member	Ossian, Iowa	September 2007
John Berger	Member	Calmar, Iowa	September 2005
Pat Tekippe	Member	Fort Atkinson, Iowa	September 2006
Alan Schmitt	Member	Ossian, Iowa	September 2005

Board of Education

(After September 2005 Election)

Roger Koenig	President	Castalia, Iowa	September 2007
Marty Tieskoetter	Member	Ossian, Iowa	September 2007
John Berger	Member	Calmar, Iowa	September 2008
Pat Tekippe	Member	Fort Atkinson, Iowa	September 2006
Alan Schmitt	Member	Ossian, Iowa	September 2008

School Officials

Richard Wede – Superintendent
Kay Donlan – District Secretary/Treasurer

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

INDEPENDENT AUDITOR'S REPORT ON THE THE FINANCIAL STATEMENTS

**To the Board of Education
South Winneshiek Community School District
Calmar, Iowa**

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 South Winneshiek Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of South Winneshiek Community School District's management. Our responsibility is to express opinions on these 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The District has not taken a physical inventory of capital assets nor gathered the appropriate information needed for determining historical costs of capital assets that are reported on the accompanying financial statements in the amount of \$6,354,935. The District also has not calculated the depreciation on the capital assets that are in service. Since there is not depreciation calculated or the appropriate information needed for determining historical costs of capital assets, we were unable to audit the capital assets and depreciation expense. We were unable to apply alternative auditing procedures to satisfy ourselves as to the historical cost of capital assets and depreciation, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the governmental activities of South Winneshiek Community School District as of June 30, 2006, or the changes in financial position thereof for the year then ended.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2006, on our consideration of South Winneshiek Community School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on page 4 and pages 27 through 29, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Sacher, Nelson & Co., P.C.

Decorah, Iowa
August 25, 2006

**SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
CALMAR, IOWA**

**Management's Discussion and Analysis
For the Fiscal Year Ending June 30, 2006**

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

FINANCIAL HIGHLIGHTS

In total, net assets increased by \$533,795. Net assets of governmental activities increased by \$535,552, which represented 8.47% increase from fiscal year 2005. Property taxes increased approximately \$96,500 and local option sales tax decreased approximately by \$38,800. District program expenses were 1.7% or approximately \$100,000 more in 2006 than in 2005.

General fund revenues accounted for \$5,095,446 in revenue or 81.9% of all revenues. General fund expenditures accounted for \$5,440,431 in expenditures or 82.8% of all expenditures.

USING THE BASIC FINANCIAL STATEMENTS

The annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand South Winneshiek Community School District as a financial whole, or as an entire operating entity.

The statement of net assets and statement of activities provide information about the activities of South Winneshiek Community School District as a whole and present an overall view of the District's finances and a longer-term view of those 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 South Winneshiek Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds with all other non-major funds presented in total in a single column. For South Winneshiek Community School District, the general fund, physical plant and equipment levy-special revenue fund and capital projects fund are the more 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.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The government-wide financial statements report information about the District as a whole using accounting methods similar to the accounting used by most 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 statement of net assets presents all of the District's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether the financial position of the District 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.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the event or change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

In the statement of net assets and statement of activities, the District is divided into two distinct kinds of activities:

Governmental Activities: Most of the District's programs and services are reported here, including instruction, co-curricular activities, support services, (nursing, guidance, media, administration), building and grounds operation and maintenance, and pupil transportation. Property tax and state aid finance most of these activities.

Business-Type Activities: These services are provided on a charge for goods or services basis to recover all of the expenses for the goods or services provided. The District's school nutrition program is included here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide more detailed information about the District's major funds. The District uses different funds in accordance with the Uniform Financial Accounting for Iowa LEA's, as required by the Iowa Department of Education, to record its financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund, physical plant and equipment levy-special revenue fund and capital projects fund.

Governmental Funds

Governmental funds account for most of the District's basic services. The fund's focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed, short-term view of the District's general governmental operations and the basic services it provides. Governmental fund information helps one 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 governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

Proprietary Funds

Services for which the District charges a fee are generally reported in the proprietary funds. Proprietary funds are reported in the same way as the governmental-wide financial statements.

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

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following is a summary perspective of the statement of net assets of the District as a whole. The South Winneshiek Community School District's net assets at the end of fiscal year 2006 totaled \$6,835,566.

	Condensed Statement of Net Assets (Expressed in Thousands)						
	Governmental Activities		Business-type Activities		Total		Percent Change
	2005	2006	2005	2006	2005	2006	
Current and other assets	\$ 4,465	\$ 4,140	\$ 20	\$ 8	\$ 4,485	\$ 4,148	-7.51%
Capital assets	5,865	6,575	30	27	5,895	6,602	11.99%
Total assets	10,330	10,715	50	35	10,380	10,750	3.56%
Long-term debt outstanding	1,051	880	-	-	1,051	880	-16.27%
Other liabilities	3,008	3,028	19	7	3,027	3,035	0.26%
Total liabilities	4,059	3,908	19	7	4,078	3,915	-4.00%
Net assets							
Invested in capital assets, net of related debt	4,855	5,745	30	27	4,885	5,772	18.16%
Restricted	13	14	-	-	13	14	7.69%
Unrestricted	1,403	1,048	1	1	1,404	1,049	-25.28%
Total net assets	\$ 6,271	\$ 6,807	\$ 31	\$ 28	\$ 6,302	\$ 6,835	8.46%

The following analysis shows the change in net assets for the year ending June 30, 2006:

	Changes in Net Assets of Governmental Activities (Expressed in Thousands)							
	Governmental Activities		Business-type Activities		Total		Percent Change	
	2005	2006	2005	2006	2005	2006		
Revenues:								
Program revenue								
Charges for service	\$ 352	\$ 361	\$ 166	\$ 143	\$ 518	\$ 504		-2.70%
Operating grants	772	750	94	104	866	854		-1.39%
General revenue								
Property taxes	2,165	2,262	-	-	2,165	2,262		4.48%
Sales tax and surtax	625	542	-	-	625	542		-13.28%
Unrestricted state grants	2,467	2,257	-	-	2,467	2,257		-8.51%
Unrestricted investment earnings	30	35	-	-	30	35		16.67%
Gain (loss) on the sale of capital assets	2	1	-	-	2	1		-50.00%
Other revenue	2	16	-	-	2	16		700.00%
Total revenues	6,415	6,224	260	247	6,675	6,471		-3.06%
Program expenses:								
Instruction	3,779	3,875	-	-	3,779	3,875		2.54%
Student support	1,367	1,513	-	-	1,367	1,513		10.68%
Non-instructional programs	4	1	-	-	4	1		-75.00%
Other expenses	431	299	258	250	689	549		-20.32%
Total expenses	5,581	5,688	258	250	5,839	5,938		1.70%
Increase in net assets	834	536	2	(3)	836	533		-36.24%
Net assets Beginning of Year	5,437	6,271	29	31	5,466	6,302		15.29%
Net assets End of Year	\$ 6,271	\$ 6,807	\$ 31	\$ 28	\$ 6,302	\$ 6,835		8.46%

INDIVIDUAL FUND ANALYSIS

As the District completed the year, its governmental funds reported a combined fund balance of \$1,109,859, a \$346,309 decrease of the 2005 fiscal year end balance of \$1,456,168.

- The general fund received more revenue during fiscal year 2006 through property taxes and state revenue. The general fund expenditures increased considerable for support services. The ending fund balance showed a decrease from the prior year of \$380,198 to \$36,718.
- The management levy fund balance increased for fiscal year 2006, due to reduce spending.
- The physical plant and equipment levy (PPEL) fund balance increased \$38,905 during fiscal year 2006. While revenues decreased from prior year, the District also decreased spending from the PPEL Fund.
- The capital projects fund balance decreased due to capital projects that took place during the fiscal year.

BUDGETARY HIGHLIGHTS

The District's Board of Education annually adopts a budget as required by Iowa law. Proper public notice and a required public hearing are held before final approval of the budget. State statute required approval of the budget on or before April 15th of each year. The budget document presents functional disbursements by fund and the legal level of control is at the expense level by total instruction, total support services, total non-instructional programs, total other expenditures and total expenditures. The District amends the budget, as allowed by Iowa law, generally once per year to reflect the additional revenues and expenditures that may occur during the school year.

The amendment made during the 2006 fiscal year should have no impact on the 2006 fiscal year's budget.

The following chart shows the original and amended budget for fiscal 2006 as well as the actual revenue and expenditures for the year:

	Budgetary Comparison Schedule (Expressed in Thousands)			
	Actual Basis	Budget Amounts		Variance
		Original	Final	
Receipts				
Local sources	\$ 3,360	\$ 3,267	\$ 3,267	\$ 93
Intermediate sources	-	7	7	(7)
State sources	2,874	2,877	2,877	(3)
Federal sources	268	263	263	5
Total receipts	\$ 6,502	\$ 6,414	\$ 6,414	\$ 88
Disbursements				
Instruction	\$ 3,895	\$ 3,844	\$ 4,200	\$ 305
Student support	1,699	1,696	1,795	96
Non-instructional programs	242	309	309	67
Other expenses	944	1,227	1,227	283
Total disbursements	\$ 6,780	\$ 7,076	\$ 7,531	\$ 751

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2006, South Winneshiek Community School District had \$6,575,178 invested in a broad range of capital assets, including buildings, land and equipment for the governmental activities. For the enterprise funds, the District had \$29,272 invested in equipment in the school nutrition fund. The District is still in process of recording all capital assets.

The District is still working on setting up the policy to calculate depreciation expense for the governmental activities. The District had depreciation expense of \$3,186 for fiscal year 2006 and total accumulated depreciation of \$83,272 as of June 30, 2006 for the business-type activities. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt

At year-end, the District had approximately \$879,730 in bonds and other debt compared to approximately \$1,051,142 last year. More detail is presented in Note 5 to the financial statements.

The Constitution of the State of Iowa limits the amount of general obligation debt that districts can issue to 5 percent of the assessed value of all taxable property within the District's corporate limits. The District's outstanding general obligation debt is significantly below this \$8,294,434 limit.

Other obligations include accrued vacation pay. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

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:

- Revenue projection from the Department of Revenue and Finance projects that revenue from the local option sales tax shall continue to increase due to increased sales at the Super Wal-Mart in Decorah, Iowa.
- At the State level, the Iowa Legislature has approved a 4% allowable growth increase in state aid to school districts for fiscal 2007 and 2008. The District has experienced a slight increase in enrollment for fiscal year 2006 which will bring allowable growth in fiscal year 2007. However, for fiscal years 2007 and beyond due to decline in enrollment the District expects no allowable growth. The District is currently using reserves to handle the current short-term dip in the fund balances. The decline in fund balance has forced the Administration and Board of Education to face the challenge of reducing staff and/or programs in order to maintain a positive solvent position. Additionally, a cash reserve levy is being considered for fiscal year 2008.
- The District is planning some major capital projects throughout the District. These projects are going to be paid with the local option sales tax that the District is reporting in the capital projects fund and money received in the physical plant and equipment levy fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of South Winneshiek Community School District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Office, South Winneshiek Community School District, 304 S Webster St, Calmar, IA 52132.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
Other	\$ 1,842,688	\$ 3,692	\$ 1,846,380
Receivables			
Property tax			
Delinquent	30,546		30,546
Succeeding year	2,118,473		2,118,473
Accounts	1,216		1,216
Due from other governments	146,875		146,875
Inventories		4,419	4,419
Capital assets, non-depreciable	220,243		220,243
Capital assets, net of accumulated depreciation	6,354,935	27,272	6,382,207
Total assets	\$ 10,714,976	\$ 35,383	\$ 10,750,359
LIABILITIES			
Accounts payable	\$ 369,886		\$ 369,886
Salaries and benefits payable	524,242	\$ 6,640	530,882
Payroll deductions and withholdings	-		-
Accrued interest payable	3,621		3,621
Interfund payable (receivable)	-		-
Deferred revenue			
Succeeding year property tax	2,118,473		2,118,473
Other	12,201		12,201
ISCAP warrants payable	-		-
Long-term liabilities			
Portion due within one year			
Bonds payable	195,000		195,000
Early retirement	22,707		22,707
Portion due after one year			
Bonds payable	635,000		635,000
Early retirement	27,023		27,023
Total liabilities	3,908,153	6,640	3,914,793
NET ASSETS			
Invested in capital assets, net of related debt	5,745,178	27,272	5,772,450
Restricted for			
Debt service	13,978		13,978
Other purposes	-		-
Unrestricted	1,047,667	1,471	1,049,138
Total net assets	6,806,823	28,743	6,835,566
Total liabilities and net assets	\$ 10,714,976	\$ 35,383	\$ 10,750,359

See Notes to Financial Statements.

SOUTH WINNEBIEK COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
June 30, 2006

Functions and Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	Total
Governmental activities						
Instruction						
Regular instruction	\$ 2,326,688	\$ 110,460	\$ 302,620	\$ (1,913,208)	\$ (1,913,208)	
Special instruction	857,911	29,109	131,685	(697,117)	(697,117)	
Other instruction	650,308	10,045	4,610	(675,653)	(675,653)	
	<u>3,874,907</u>	<u>150,014</u>	<u>438,915</u>	<u>(3,285,978)</u>	<u>(3,285,978)</u>	
Support services						
Student services	159,134	199,551		40,417	40,417	
Instructional staff services	139,611			(139,611)	(139,611)	
Administration services	537,257			(537,257)	(537,257)	
Operation and maintenance plant services	410,732			(410,732)	(410,732)	
Transportation services	265,925	1,250	82,741	(181,934)	(181,934)	
	<u>1,512,659</u>	<u>200,801</u>	<u>82,741</u>	<u>(1,229,117)</u>	<u>(1,229,117)</u>	
Non-instructional						
	<u>1,326</u>	<u>9,959</u>		<u>8,633</u>	<u>8,633</u>	
Other						
Long-term debt interest	50,217			(50,217)	(50,217)	
Facilities acquisition	20,862			(20,862)	(20,862)	
AEA flowthrough	228,195		228,195	-	-	
Depreciation (unallocated)						
	<u>299,274</u>		<u>228,195</u>	<u>(71,079)</u>	<u>(71,079)</u>	
Total governmental activities	<u>5,688,166</u>	<u>360,774</u>	<u>749,851</u>	<u>(4,577,541)</u>	<u>(4,577,541)</u>	
Business-type activities						
Non-instructional programs	250,197	143,784	104,457			
Nutrition services				\$ (1,956)	(1,956)	
	<u>250,197</u>	<u>143,784</u>	<u>104,457</u>	<u>(1,956)</u>	<u>(1,956)</u>	
Total	<u>5,938,363</u>	<u>504,558</u>	<u>854,308</u>	<u>(4,577,541)</u>	<u>(4,579,497)</u>	
General revenues						
Property taxes levied for						
General purposes	1,838,957			1,838,957	1,838,957	
Management	189,893			189,893	189,893	
PPEL	151,947			151,947	151,947	
Debt service	80,900			80,900	80,900	
Local option sales tax and surtax	542,507			542,507	542,507	
Unrestricted state grants	2,256,657			2,256,657	2,256,657	
Unrestricted investment earnings	34,798		199	34,997	34,997	
Gain on the sale of capital assets	1,505			1,505	1,505	
Other	15,929			15,929	15,929	
	<u>5,113,093</u>		<u>199</u>	<u>5,113,292</u>	<u>5,113,292</u>	
Total general revenues						
				535,552	535,552	
Change in net assets						
				30,500	30,500	
Net assets, beginning of year						
Net assets, end of year						
	<u>\$ 6,806,823</u>		<u>28,743</u>	<u>\$ 6,835,566</u>	<u>\$ 6,835,566</u>	

See Notes to Financial Statements.

SOUTH WINNEBIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and pooled investments	\$ 676,804	\$ 396,708	\$ 371,365	\$ 344,987	\$ 52,824	\$ 1,842,688
Other Receivables						
Property tax	25,420		1,404	-	1,098	27,922
Delinquent	1,759,329	175,059	101,970	-	82,115	2,118,473
Succeeding year	1,046	2,624	170	-	3,840	5,680
Accounts	-	-	-	-	-	-
Due from other funds	73,239	-	-	73,636	-	146,875
Due from other governments	-	-	-	-	-	-
Total assets	\$ 2,535,838	\$ 574,391	\$ 474,909	\$ 418,623	\$ 136,037	\$ 4,139,798
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 203,348	\$ -	\$ 20,632	\$ 145,906	\$ -	\$ 369,886
Salaries and benefits payable	524,242	-	-	-	-	524,242
Payroll deductions and withholdings	-	-	-	-	137	137
Interest payable	-	-	-	-	-	-
Deferred revenue	-	-	-	-	-	-
Succeeding year property tax	1,759,329	175,059	101,970	-	82,115	2,118,473
Other	12,201	-	-	-	-	12,201
Bonds payable	-	-	-	-	5,000	5,000
Total liabilities	\$ 2,499,120	\$ 175,059	\$ 122,602	\$ 145,906	\$ 87,252	\$ 3,029,939
Fund balances						
Reserved for						
Debt service	-	-	-	-	12,462	12,462
Unreserved, reported in	36,718	399,332	352,307	272,717	36,323	1,060,679
General fund	-	-	-	-	-	-
Special revenue funds	-	-	-	-	-	-
Total fund balances	\$ 36,718	\$ 399,332	\$ 352,307	\$ 272,717	\$ 48,785	\$ 1,109,859
Total liabilities and fund balances	\$ 2,535,838	\$ 574,391	\$ 474,909	\$ 418,623	\$ 136,037	\$ 4,139,798

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO NET ASSETS

Total governmental fund balances	\$ 1,109,859
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds, net of accumulated depreciation of	
\$ None	6,575,178
Other liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds	
Bonds payable	(825,000)
Accrued interest	(3,484)
Early retirement	(49,730)
	<hr/>
Net assets of governmental activities per Exhibit A	<u>\$ 6,806,823</u>

See Notes to Financial Statements.

EXHIBIT D

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 June 30, 2006

	General	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES						
Local sources						
Local property tax	\$ 1,838,957	\$ 189,893	\$ 151,947		\$ 80,900	\$ 2,261,697
Tuition	85,371					85,371
Other	158,216	12,831	29,636	\$ 461,236	200,324	862,243
Intermediate sources						
State sources	2,819,316					2,819,316
Federal sources	193,575					193,575
Total revenues	5,095,446	202,724	181,583	461,236	281,224	6,222,213
EXPENDITURES						
Current						
Instruction						
Regular instruction	2,276,371	41,724				2,318,095
Special instruction	857,911					857,911
Other instruction	483,848				206,460	690,308
Support services						
Student services	3,618,130	41,724			206,460	3,866,314
Instructional staff services	157,918	1,216				159,134
Administrative services	214,856		58,749			273,605
Operation and maintenance plant services	535,321	1,874	62			537,257
Transportation services	366,398	44,338				410,736
	319,613	17,757	56,610			393,980
Non-instructional	1,594,106	65,185	115,421			1,774,712
Other						
Long-term debt		1,316				1,316
Interest and fiscal charges						
Facilities acquisition					180,000	180,000
AEA flowthrough				441,278	50,945	492,223
	228,195		27,257			255,452
	228,195		27,257	441,278	230,945	927,675
Total expenditures	5,440,431	108,235	142,678	441,278	437,405	6,570,027
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(344,985)	94,489	38,905	19,958	(156,181)	(347,814)
OTHER FINANCING SOURCES (USES)						
Transfers in						
Transfers (out)	1,505			(150,000)		(148,495)
Gain on sale of capital assets	1,505			(150,000)		(146,990)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND FINANCING USES	(343,480)	94,489	38,905	(130,042)	(6,181)	(346,309)
FUND BALANCE, beginning of year	380,198	304,843	313,402	402,759	54,966	1,456,168
FUND BALANCE, end of year	\$ 36,718	\$ 399,332	\$ 352,307	\$ 272,717	\$ 48,785	\$ 1,109,859

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

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

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Net change in fund balances - total governmental funds	\$	(346,309)
 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, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation	\$	-
Capital outlays		709,721
		<hr/>
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.		180,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		728
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 governmental funds.		
Early retirement		<hr/> (8,588)
Change in net assets of governmental activities per Exhibit B	\$	<hr/> <u>\$35,552</u>

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

EXHIBIT E

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2006

	School Nutrition Fund
	<u> </u>
ASSETS	
CURRENT ASSETS	
Cash	\$ 3,692
Inventories	4,419
	<u> </u>
Total current assets	8,111
NONCURRENT ASSETS	
Furniture and equipment	110,544
Less accumulated depreciation	<u>(83,272)</u>
	<u> </u>
Total noncurrent assets	27,272
	<u> </u>
Total assets	<u>\$ 35,383</u>
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Due to other funds	\$ -
Salaries and benefits payable	6,640
	<u> </u>
Total liabilities	6,640
NET ASSETS	
Invested in capital assets, net of related debt	27,272
Unrestricted	<u>1,471</u>
	<u> </u>
Total net assets	28,743
	<u> </u>
Total liabilities and net assets	<u>\$ 35,383</u>

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2006

	<u>School Nutrition Fund</u>
OPERATING REVENUES	
Local sources	
Charges for services	\$ 143,784
OPERATING EXPENSES	
Non-instructional programs	
Food service operations	
Salaries and benefits	130,766
Purchased services	106,959
Supplies	6,806
Depreciation	5,666
Total operating expenses	<u>250,197</u>
Operating loss	<u>(106,413)</u>
NONOPERATING REVENUES	
Interest on investments	199
State sources	3,481
Federal sources	100,976
Total nonoperating revenues	<u>104,656</u>
Change in net assets	(1,757)
Net assets, beginning of year	<u>30,500</u>
Net assets, end of year	<u>\$ 28,743</u>

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2006

	School Nutrition Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sale of lunches and breakfasts	\$ 143,784
Cash payments to employees for services	(130,778)
Cash payments to suppliers for goods and services	(127,414)
	<u>(114,408)</u>
Net cash used in operating activities	<u>(114,408)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from short-term borrowing from other funds	-
Payment on short-term borrowing from other funds	-
State and federal grants received	104,457
	<u>104,457</u>
Net cash provided by noncapital financing activities	<u>104,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of equipment	(3,186)
Loss on disposal of capital assets	-
	<u>(3,186)</u>
Net cash used in capital and related financing activities	<u>(3,186)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	199
	<u>199</u>
Net decrease in cash	(12,938)
CASH, beginning of year	<u>16,630</u>
CASH, end of year	<u>\$ 3,692</u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (106,413)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,666
Increase in inventories	(651)
Decrease in accounts payable	(13,000)
Decrease in salaries and benefits payable	(10)
	<u>(10)</u>
Net cash used in operating activities	<u>\$ (114,408)</u>
Non-cash, noncapital financing activities:	
During the year ended June 30, 2006, the District received commodities valued at \$20,383.	

See Notes to Financial Statements.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

a. Nature of Operations

The South Winneshiek Community School District is a political subdivision of the State of Iowa. The District's primary purpose is to provide education from grades kindergarten through twelve, including special education and pre-kindergarten. The geographic area served includes the Cities of Calmar, Ossian, and Spillville, Iowa, and the predominately agricultural territory in the area. It is supported financially by local property taxes, state aid and state and federal grants for special projects. The District is governed by a five-member Board of Education whose members are elected on a non-partisan basis. The District has taxing authority and fund raising capabilities of its own. Final approval of the District's annual program and budget plans rests with the local Board of Education.

b. Significant Accounting Policies

Scope of Reporting Entity

For financial reporting purposes, South Winneshiek Community School District has included all funds, organizations, account groups, 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; or the organization is fiscally dependent on the primary government. Also, any other organizations that due to the nature or significance of their relationship with the District should be included in the financial statements as component units. The District has no component units which 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 Winneshiek County Assessor's Conference Board.

District-wide Financial Statements

The statement of net assets and the statement of activities report information on all non-fiduciary activities of the District. 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 support. For the most part, the effect of interfund activity has been removed from these statements.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

District-wide Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are 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 and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The general fund, physical, plant and equipment levy-special revenue fund, and the capital projects fund are the major governmental funds for the District. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The funds of the financial reporting entity are described below:

Governmental

General 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.

Management Levy- Special Revenue Fund

The management levy-special revenue fund is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Physical Plant and Equipment Levy-Special Revenue Fund

The physical plant and equipment levy-special revenue fund is utilized to account for acquisition of equipment, with the exception of those that are financed through enterprise fund.

Capital Projects Fund

The capital projects fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Proprietary Fund

Enterprise Fund

The District's proprietary fund is the school nutrition fund. This fund is used to account for the food service operations of the District.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements.

On the District-wide statement of net assets and the statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus as defined below in item b.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental fund financial statements are accounted for on current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance is considered a measure of "available spendable resources." Governmental fund operating statements present increases, revenues and other financing sources, and decreases, expenditures and other financing uses in fund balances. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.
- b. The proprietary funds are accounted for on economic resources measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their statement of net assets. In reporting the financial activity on the proprietary fund statements, the District applies all applicable GASB pronouncements. As allowed in Section P80 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, the District has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Basis of Accounting (Continued)

The District-wide financial statements and proprietary fund are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned and the expenses are recognized when they are incurred. Property tax is recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the District-wide statements and the statements for governmental funds.

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 school nutrition fund are charges to customers for sales and services. Operating expenses for the enterprise fund 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.

All governmental funds are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used 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. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due. Disbursements for the purchase of assets providing future benefits are recorded as expenditures at the time of purchase.

Revenues susceptible to accrual under the modified accrual basis of accounting are property tax, intergovernmental revenue (shared revenues, grants and reimbursements from other governments) and interest revenue. Revenues from miscellaneous sources are generally recognized when they are received in cash as they are generally not measurable until actually received (tuition, fees and sale of services).

The District maintains its financial records on the modified cash basis (also referred to as cash basis or cash transactions). The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity

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

Cash and Investments

The District maintains one primary demand deposit account for each fund through which the cash resources are processed. All investment activity is carried on by the District in each individual fund. Investments are stated at fair value, except for non-negotiable certificates of deposits, which are stated at cost.

Property Tax Receivable

Property taxes in the governmental fund are accounted for using the modified accrual basis of accounting. Property tax receivable is recognized in these funds on the levy date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year delinquent property taxes receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 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 and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 1/2% 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 stated at cost using the first-in, first-out method for purchased items and contributed value for governmental commodities. The costs of inventory items are expenses in the proprietary fund type when used.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Capital Assets

Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide statement of net assets. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Capital assets in the proprietary fund are capitalized in the fund in which they are utilized. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of \$2,500 for governmental funds and \$500 for the school nutrition-proprietary fund. Management has not accumulated the information necessary to verify the historical cost of capital assets or determined the method or the estimated useful lives that the capital assets will be depreciated.

Salaries and Benefits Payable

Payroll and related expenditures or expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities. Also, wages for hourly employees earned in June and paid in July have been accrued as liabilities. The rate in effect at June 30, 2006 was used to calculate the salaries payable.

Deferred Revenue

In the fund financial statements certain revenues are measurable, but they are not available. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable and unearned grant revenue. Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Obligation

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets. Early retirement liability has been paid primarily by the non-major governmental management fund.

NOTES TO FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies (Continued)

b. Significant Accounting Policies (Continued)

Assets, Liabilities and Equity (Continued)

Compensated Absences

District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. In addition, employees are allowed to take early retirement if they meet certain qualifications set by the Board of Education. In accordance with Interpretation No. 6 of the GASB—Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, a liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities has been paid primarily by the general fund.

Fund Balance

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. Reserved fund balances are used first when an expenditure is incurred for purposes for both reserved and unreserved fund balances.

Net Assets

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by the outstanding balance of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consists of net assets with constraints placed on their use either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted net assets are used first when an expense is incurred for purposes for both restricted and unrestricted net assets.

Budgets and Budgetary Accounting

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

NOTES TO FINANCIAL STATEMENTS

2. Deposits and 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; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

3. Due from Other Governments

Due from other governments consist of the following at June 30, 2006:

Governmental	
General fund	
Transportation Aid, Non-public	\$ 46,310
Vocational Aid, State	4,610
"Title I- Even FY"	<u>22,319</u>
	<u>73,239</u>
Capital Projects	
Local Option Sales Tax	<u>73,636</u>
 Total Intergovernmental	 <u>\$ 146,875</u>

NOTES TO FINANCIAL STATEMENTS

4. Capital Assets

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Land	\$ 90,962			\$ 90,962
Construction in progress	<u>312,860</u>	<u>\$ 129,281</u>	<u>\$ (312,860)</u>	<u>129,281</u>
	<u>\$ 403,822</u>	<u>\$ 129,281</u>	<u>\$ (312,860)</u>	<u>\$ 220,243</u>
Capital assets being depreciated				
Land improvements	\$ 112,204	\$ 58,969		\$ 171,173
Buildings	3,966,553	535,668		4,502,221
Furniture and equipment	<u>1,382,878</u>	<u>298,663</u>		<u>1,681,541</u>
Governmental activities				
Capital assets	<u>\$ 5,461,635</u>	<u>\$ 893,300</u>	<u>\$ None</u>	<u>\$ 6,354,935</u>
Business-type activities				
Furniture and equipment	\$ 107,358	\$ 3,186		\$ 110,544
Less accumulated depreciation	<u>77,606</u>	<u>5,666</u>		<u>83,272</u>
Business-type activities				
Capital assets, net	<u>\$ 29,752</u>	<u>\$ (2,480)</u>	<u>\$ None</u>	<u>\$ 27,272</u>

Depreciation expense was charged to the governmental functions of the District as follows:

Business-type activities	
Food services	<u>\$ 5,666</u>

5. Long-term Debt Obligations

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Governmental activities					
Bonds					
General obligation	\$ 1,010,000		\$ 180,000	\$ 830,000	\$ 195,000
Other liabilities					
Early retirement	<u>41,142</u>	<u>\$ 40,533</u>	<u>31,945</u>	<u>49,730</u>	<u>22,707</u>
Governmental activities					
Long-term liabilities	<u>\$ 1,051,142</u>	<u>\$ 40,533</u>	<u>\$ 211,945</u>	<u>\$ 879,730</u>	<u>\$ 217,707</u>

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

a. Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must meet the rule of 88 (the sum of the person's age and the total number of years of public school employment must equal at least 88 years). Employees must send a letter requesting early retirement to the Superintendent, who takes it to the Board of Education. The early retirement incentive for each eligible employee is 80% of the employee's base salary. The District is obligated to pay \$100 per month of health insurance for three years. In addition, the District pays \$30 per day of accumulated sick leave towards health insurance. The maximum number of days of sick leave that can be accumulated is 120. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$31,945.

b. Bonded Indebtedness

\$5,000 1959 General Obligation Serial Bonds, due November 1, 1966. The bonds and interest are included in the debt service fund liabilities since the bonds have matured.

\$825,000 1997A General Obligation Crossover Refunding Serial Bonds, due annually in varying installments June 1, 2006 through June 1, 2010 plus interest annually with interest rates of the bonds varying from 4.85% to 5.2%. Bonds maturing after June 1, 2007 are callable June 1, 2008 or at any interest payment date thereafter at par.

Interest costs incurred and charged to expenses was \$50,217 for the year ended June 30, 2006.

A summary of the bond principal and interest maturities is as follows:

Year ending June 30,	Principal	Interest
2007	\$ 195,000	\$ 41,814
2008	200,000	32,410
2009	210,000	22,410
2010	<u>225,000</u>	<u>11,700</u>
	<u>\$ 830,000</u>	<u>\$ 108,334</u>

NOTES TO FINANCIAL STATEMENTS

5. Long-term Debt Obligations (Continued)

b. Bonded Indebtedness (Continued)

At June 30, 2006, the debt issued by the District did not exceed its legal debt margin compiled as follows:

Total assessed valuation	<u>\$ 165,888,671</u>
Debt limit – 5% of total assessed valuation	\$ 8,294,434
Debt applicable to debt limit	
General obligation bonded debt outstanding	<u>(830,000)</u>
 Legal debt margin	 <u>\$ 7,464,434</u>

6. Interfund Transfers

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

	Transfers In	Transfers Out
Capital projects fund		\$ 150,000
Nonmajor governmental	<u>\$ 150,000</u>	<u>0</u>
	<u>\$ 150,000</u>	<u>\$ 150,000</u>

Transfers are to move resources from the capital projects fund to the debt service fund to help pay bond obligations. Due to the referendum voted by the public, the proceeds from the local option sales tax will help pay bond obligations.

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 \$187,712, \$180,969 and \$172,980, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

8. Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education and no more than five employees per year will be granted benefits under the policy (see Note 5a).

Early retirement benefits are equal to 80% of the employee's last year of employment, without a maximum retirement benefit.

Early retirement benefits will be paid in three equal installments beginning in January following the start of retirement. The second payment will be paid the following July, and the third and final payment shall be paid during July of the next year.

At June 30, 2006, the District has obligations to two participants with a total liability of \$41,142. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$31,945.

9. Cafeteria Plan

The District sponsors a Section 125 cafeteria plan as a part of its contractual obligation with its employees. The benefits available under the plan are health insurance and annuities. Each participating employee must carry single health coverage and the balance of the contractual allotment is allocated to annuity payments. Additionally, participants may elect salary reduction to cover family health insurance, non-covered medical and dental expenses and day care. There were 62 participants in the plan for the plan year ended December 31, 2006.

10. Risk Management

South Winneshiek 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.

11. 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 \$228,195 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.

12. Contingencies

The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government.

NOTES TO FINANCIAL STATEMENTS

12. Contingencies (Continued)

If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2006 significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

13. Commitments

The District has entered into contracts totaling \$254,049 for media centers, playgrounds and various minor repairs to various school facilities. Of these commitments, \$None will be funded by state and federal grants.

SOUTH WINNEBUEK COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND
 For the Year Ended June 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budget Amounts		Final to Actual Variance- Positive (Negative)
				Original	Final	
RECEIPTS						
Local sources	\$ 3,220,340	\$ 140,280	\$ 3,360,620	\$ 3,267,434	\$ 3,267,434	\$ 93,186
Intermediate sources	-	-	-	6,500	6,500	(6,500)
State sources	2,870,122	3,704	2,873,826	2,877,317	2,877,317	(3,491)
Federal sources	183,448	84,074	267,522	262,500	262,500	5,022
Total receipts	6,273,910	228,058	6,501,968	6,413,751	6,413,751	88,217
DISBURSEMENTS						
Instruction	3,895,135	3,895,135	3,895,135	3,844,000	4,200,000	304,865
Support services	1,698,533	1,698,533	1,698,533	1,695,950	1,795,000	96,467
Non-instructional	1,326	240,996	242,322	308,500	308,500	66,178
Other	943,821	943,821	943,821	1,227,231	1,227,231	283,410
Total disbursements	6,538,815	240,996	6,779,811	7,075,681	7,530,731	750,920
EXCESS OF RECEIPTS OVER (UNDER) DISBURSEMENTS	(264,905)	(12,938)	(277,843)	(661,930)	(1,116,980)	839,137
OTHER FINANCING SOURCES, NET	1,505		1,505	(454,711)	(454,711)	(456,216)
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS AND FINANCING USES	(263,400)	(12,938)	(276,338)	(1,116,641)	(1,571,691)	1,295,353
FUND BALANCE, beginning of year	2,106,088	16,630	2,122,718	377,884	377,884	1,744,834
FUND BALANCE, end of year	\$ 1,842,688	\$ 3,692	\$ 1,846,380	\$ (738,757)	\$ (1,193,807)	\$ 3,040,187

See Notes to Required Supplementary Information.

SOUTH WINNESHEIK COMMUNITY SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
For the Year Ended June 30, 2006

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
REVENUES	\$ 6,273,910	\$ (51,697)	\$ 6,222,213
EXPENDITURES	6,538,815	31,212	6,570,027
OTHER FINANCING SOURCES, NET	<u>1,505</u>	<u>-</u>	<u>1,505</u>
Net	(263,400)	(82,909)	(346,309)
FUND BALANCE, beginning of year	<u>2,106,088</u>	<u>(649,920)</u>	<u>1,456,168</u>
FUND BALANCE, end of year	<u>\$ 1,842,688</u>	<u>\$ (732,829)</u>	<u>\$ 1,109,859</u>

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual Adjustments	Accrual Basis
REVENUES	\$ 228,058	\$ 20,382	\$ 248,440
EXPENSES	<u>240,996</u>	<u>9,201</u>	<u>250,197</u>
Net	(12,938)	11,181	(1,757)
NET ASSETS, beginning of year	<u>16,630</u>	<u>13,870</u>	<u>30,500</u>
NET ASSETS, end of year	<u>\$ 3,692</u>	<u>\$ 25,051</u>	<u>\$ 28,743</u>

See Notes to Required Supplementary Information.

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

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

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting 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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the general fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$455,050.

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

To the Board of Education
South Winneshiek Community School District
Calmar, Iowa

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Winneshiek Community School District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is also not a required part of the basic financial statements of South Winneshiek Community School District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We have previously audited, in accordance with U.S. generally accepted auditing standards, the basic financial statements of South Winneshiek Community School District as of and for the years ending June 30, 2005, and 2004, (none of which is presented herein). We did not express an opinion on the governmental activities because we were unable to audit the historical cost of capital assets and depreciation expense for the years ending June 30, 2005 and 2004. We expressed unqualified opinions on the business-type activities, each major fund, and the aggregate remaining fund information for the years ending June 30, 2005 and 2004. We have previously audited, in accordance with U.S. generally accepted auditing standards, the general purpose financial statements of South Winneshiek Community School District as of and for the years ending June 30, 2003 and 2002 (none of which is presented herein). We expressed qualified opinions on the 2003 and 2002 general purpose financial statements due to the omission of the general fixed asset account group. In our opinion, the information set forth in the required supplementary information for each of the five years in the period ended June 30, 2006, appearing on page 35, is fairly stated, in all material respects in relation to the basic and general purpose financial statements from which it has been derived.

Hacker, Nelson & Co., P.C.

Decorah, Iowa
August 25, 2006

SCHEDULE 1

SOUTH WINNEBIEK COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2006

	Special Revenue Student Activity	Debt Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 36,323	\$ 16,501	\$ 52,824
Receivables			
Property tax		1,098	1,098
Delinquent		82,115	82,115
Succeeding year			
Total assets	\$ 36,323	\$ 99,714	\$ 136,037
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Interest payable		137	137
Deferred revenue		82,115	82,115
Succeeding year property tax		5,000	5,000
Bonds payable			
Total liabilities	-	87,252	87,252
Fund balances			
Reserved for		12,462	12,462
Debt service	36,323		36,323
Unreserved			
Total fund balances	36,323	12,462	48,785
Total liabilities and fund balances	\$ 36,323	\$ 99,714	\$ 136,037

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 2

SOUTH WINNESHEK COMMUNITY SCHOOL DISTRICT

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

	Special Revenue Student Activity	Debt Service	Total Nonmajor Governmental Funds
REVENUES			
Local sources			
Local property tax		\$ 80,900	\$ 80,900
Other	\$ 199,551	773	200,324
State sources	-	-	-
Total revenues	199,551	81,673	281,224
EXPENDITURES			
Current			
Instruction			
Regular instruction			-
Other instruction	206,460		206,460
Support services			
Student services			-
Instructional staff services			-
Administration services			-
Operation and maintenance plant services			-
Transportation services			-
Non-instructional			-
Other			
Facilities acquisition			-
Long-term debt		180,000	180,000
Principal		50,945	50,945
Interest and fiscal charges			
Total expenditures	206,460	230,945	437,405
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,909)	(149,272)	(156,181)
OTHER FINANCING SOURCES			
Transfers in		150,000	150,000
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(6,909)	728	(6,181)
FUND BALANCE, beginning of year	43,232	11,734	54,966
FUND BALANCE, end of year	\$ 36,323	\$ 12,462	\$ 48,785

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 3

SOUTH WRNNEBIEK COMMUNITY SCHOOL DISTRICT

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

	Balance June 30, 2005	Revenues and Transfer In	Expenditures	Balance June 30, 2006
Spanish Club	\$ 112	\$ -	\$ -	\$ 112
May Term	1,389	72,096	74,690	(1,205)
German Club	282	-	-	282
Music, EI/MS	219	253	-	472
Music, Sr. High	(5,809)	-	1,932	(7,741)
Other Fine Arts	(1,033)	-	155	(1,188)
National Honor Society	(27)	237	543	(333)
All Athletic	(15,646)	9,497	987	(7,136)
All Athletic II	21,435	-	-	21,435
Football	11,304	7,123	6,362	12,065
Cross Country	(1,801)	2,852	2,745	(1,694)
Volleyball	4,997	1,078	5,048	1,027
Boys' Basketball	4,924	1,198	622	5,500
Girls' Basketball	2,891	814	4,108	(403)
Wrestling	3,168	1,340	7,795	(3,287)
Boys' Track	(5,845)	2,233	4,759	(8,371)
Girls' Track	(11,279)	2,520	4,740	(13,499)
Boys' Golf	(593)	68	551	(1,076)
Girls' Golf	(1,384)	30	640	(1,994)
Baseball	(14,129)	645	3,006	(16,490)
Sofball	(14,676)	565	3,587	(17,698)
Cheerleaders, Sr. High	(642)	-	-	(642)
All Fine Arts	1,311	866	254	1,923
Art Sr. High	543	447	276	714
Student Council, MS	3,119	1,763	1,352	3,530
Student Council, Sr. High	1,925	2,056	393	3,588
Yearbook	1,324	7,148	7,204	1,268
Band, Sr. High	(1,843)	728	841	(1,956)
Flag Corp.	379	817	2,807	(1,611)
Choir, Sr. High	(4,332)	13	17	(4,336)
Drama/Musical	6,053	5,142	2,192	9,003
Speech Activity and Debate	(9,172)	-	132	(9,304)
Drama Club	1,979	-	123	1,856
Activity Fee	15,939	5,040	-	20,979
Interest	1,661	828	522	1,967
Playground	8,655	-	1,671	6,984
Sub-totals	5,398	127,397	140,054	(7,259)

SCHEDULE 3
(Continued)

SOUTH WINNEBIEK COMMUNITY SCHOOL DISTRICT

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

	Balance June 30, 2005	Revenues and Transfers In	Expenditures	Balance June 30, 2006
Sub-totals	\$ 5,398	\$ 127,397	\$ 140,054	\$ (7,259)
Athletic Fee	3,735	-	-	3,735
National Honor Society - Certificate of Deposit	4,107	144	-	4,251
Elementary	10,919	9,403	6,482	13,840
Classroom Computers, Elem.	644	-	-	644
ECSP	(225)	-	-	(225)
Class of 2002	(33)	-	-	(33)
Class of 2003	356	-	-	356
Class of 2004	21	-	-	21
Class of 2005	(104)	-	-	(104)
Class of 2006	(68)	2,128	2,862	(802)
Class of 2007	1,763	8,238	8,699	1,302
Class of 2008		2,734	1,580	1,154
Class of 2009			61	(61)
Pictures, Sr. High	777	288	-	1,065
Resale	573	3,712	3,967	318
MLS, Activity	1,438	7,645	9,739	(656)
FFA	9,954	37,147	32,262	14,839
Industrial Arts	2,086	715	754	2,047
AAC Cab	1,891			1,891
	\$ 43,232	\$ 199,551	\$ 206,460	\$ 36,323

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT
 COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
 GOVERNMENTAL FUNDS
 For the Years Ended June 30,

	Modified Accrual				
	2006	2005	2004	2003	2002
REVENUES					
Local sources					
Local tax	\$ 2,261,697	\$ 2,165,155	\$ 2,197,966	\$ 2,176,614	\$ 2,078,143
Tuition	85,372	86,313	72,205	78,294	65,279
Other	862,243	935,610	842,354	854,473	753,690
Intermediate sources	-	-	635	479	-
State sources	2,819,326	3,018,187	2,895,426	2,857,239	3,046,438
Federal sources	193,575	207,209	211,816	245,345	211,067
Total revenues	\$ 6,222,213	\$ 6,412,474	\$ 6,220,401	\$ 6,212,444	\$ 6,154,617
EXPENDITURES					
Current					
Instruction					
Regular instruction	\$ 2,318,095	\$ 2,380,779	\$ 2,387,045	\$ 2,364,247	\$ 2,208,737
Special instruction	857,911	925,177	986,675	939,739	946,891
Other instruction	690,308	624,249	563,172	496,111	511,122
Support services					
Student services	159,134	193,362	185,279	175,818	156,603
Instructional staff services	273,605	128,768	56,296	72,804	87,847
Administration services	537,257	478,798	453,030	470,238	471,726
Operation and maintenance plant services	410,736	333,633	321,882	309,575	320,701
Transportation services	393,980	295,955	259,046	349,731	269,225
Non-instructional	1,326	4,179	5,360	2,494	2,367
Other					
Long-term debt					
Principal	180,000	175,400	165,000	155,000	150,000
Interest and fiscal charges	50,945	59,032	67,332	74,856	82,128
Facilities acquisition	468,535	620,297	240,365	407,827	152,253
AEA flowthrough	228,195	227,868	230,029	246,688	247,603
Total expenditures	\$ 6,570,027	\$ 6,447,497	\$ 5,920,511	\$ 6,065,128	\$ 5,607,203

See Independent Auditor's Report on the Supplementary Information.

SCHEDULE 5

SOUTH WINNESHIEK COMMUNITY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Grantor/Program Title	Federal CFDA Number	Grant Number	Expenditures
Indirect			
Department of Agriculture			
Passed Through Iowa Department of Education			
School Breakfast Program	10.553	FY06	\$ 13,562
National School Lunch Program	10.555	FY06	66,808
Food Distribution Program (non-cash)	10.550	FY06	20,383
Total Department of Agriculture			<u>100,753</u>
Department of Education			
Passed Through Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY06	89,276
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY06	3,095
State Grants for Innovative Programs	84.298	FY06	1,526
State Grants for Innovative Programs	84.298	FY06	3,510
Improving Teacher Quality State Grants	84.367	FY06	33,780
Rural Education Achievement Program	84.358	FY06	16,222
Special Education - Grants to States	84.027	FY06	42,421
Total Department of Education			<u>189,830</u>
			<u>\$ 290,583</u>

See Independent Auditor's Report on the Supplementary Information.

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
And Business Consultants

www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

**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
South Winneshiek Community School District
Calmar, Iowa**

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 South Winneshiek Community School District as of and for the year ended June 30, 2006, which collectively comprise South Winneshiek Community School District's basic financial statements and have issued our report thereon dated August 25, 2006. We did not express an opinion on the governmental activities because we were unable to audit the historical cost of capital assets and depreciation expense. Except as discussed in the preceding sentence, 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 South Winneshiek 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 South Winneshiek Community School District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below.

Overlapping Duties

The District's offices are not large enough to permit an adequate segregation of duties for effective internal controls. The concentration of closely related duties and responsibilities such as the recording and processing of cash receipts, preparing grant expenditure reports, preparing financial information for posting and analyzing financial information by a small staff makes it impossible to establish an adequate system of automatic internal checks on the accuracy and reliability of the accounting records. While we do recognize that the District is not large enough to permit a segregation of duties for effective internal controls, we believe that it is important that the Board be aware that this condition does exist.

Response

Management is cognizant of this limitation.

Conclusion

Response acknowledged.

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, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Winneshiek Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain additional matters that we have reported to management of South Winneshiek Community School District in a separate letter dated August 25, 2006.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hatch, Nelson & Co., P.C.

Decorah, Iowa
August 25, 2006

123 West Water Street
P.O. Box 507
Decorah, Iowa 52101
Telephone 563 382-3637
Fax 563 382-5797

HACKER, NELSON & CO., P.C.
Certified Public Accountants
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www.hackernelson.com

9 North Locust Avenue
P.O. Box 529
New Hampton, Iowa 50659
Telephone 641 394-2245
Fax 641 394-3138

MANAGEMENT LETTER

**To the Board of Education
South Winneshiek Community School District
Calmar, Iowa**

In planning and performing our audit of the financial statements of South Winneshiek Community School District for the year ended June 30, 2006, we considered the District's internal control to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on internal controls.

In accordance with Chapter 11 of the Code of Iowa, we are required to report on the District's compliance with certain sections of the Iowa Code, Attorney General's Opinions and other matters. Items 1 thru 9 below are compliance comments required by the Iowa Auditor of State. A separate report dated August 10, 2006 contains our report on reportable conditions in the District's internal control. This letter does not affect our report dated August 10, 2006, on the financial statements of the South Winneshiek Community School District. Comment numbers 10 and 11 are repeat comments from the prior year. All other prior year comments have been resolved. These comments are not intended to and do not constitute legal opinions.

1. **Certified Budget**

Disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.

2. **Questionable Disbursements**

We noted no disbursements that may not meet the requirements of public purpose as defined in the Attorney General's Opinion dated April 25, 1979.

3. **Travel Expense**

No expenditures of District money for travel expenses of spouses of District officials and/or employees were noted. No travel advances to District officials or employees were noted.

4. **Business Transactions**

We noted no business transactions between the District and District officials and/or employees for the year ended June 30, 2006.

5. **Bond Coverage**

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

6. **Board Minutes**

We noted during our audit there was one transfer between the capital projects and debt services fund that was not authorized in the Board minutes. We noted there were construction projects that were not noted in the Board minutes for approval. We noted no minutes and bills that had not been published as required.

Recommendation

We recommend that the Board approve all transfers between funds and document approval in the meeting minutes.

Response and Corrective Action Planned

We will have the Board approve transfers before the transfers are made.

Conclusion

Response accepted.

7. **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.

8. **Certified Annual Report**

The Certified Annual Report (CAR) was certified to the Iowa Department of Education timely.

9. **Certified Enrollment**

No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

10. **Student Activity Funds**

As of June 30, 2006, several individual student activity accounts have negative account balances. Some of these accounts historically have had operating deficits.

Recommendation

We recommend that a plan be established to eliminate the deficit accounts including but not limited to the reallocation of funds among the accounts.

Response and Corrective Action Planned

Our objective is to report what the activities true picture are at June 30 and make transfers if appropriate on July 1.

Conclusion

Response accepted.

11. Property and Equipment Records

A partial record of the District's fixed assets is maintained on individual property journals. Property journal totals have not been reconciled to balance additions and deletions to the general ledger. We recommend that this procedure be implemented. In addition, to facilitate the proper insurance, maintenance and safeguarding of these assets, an inventory of all property and equipment should be taken at least once each year and checked against the capital assets records. The District also needs to calculate depreciation expense on the appropriate capital assets.

Recommendation

We recommend that management summarize its property records and record the results in the governmental activities.

Response and Corrective Action Planned

We are in the process of compiling the information.

Conclusion

Response accepted.

12. Disbursements

During our audit, we noticed various items that were not in compliance with District procedures. There were six receiving slips that did not have the Superintendent's approval. There were six invoices that did not have the Board's approval. We also noticed that the Superintendent fills out reimbursement forms for mileage and approves the form, with no other approval signatures and several salaried employees are not filling out time sheets to track the use of vacation and sick times. We noticed that the District charged rent to the special education program. There was no documentation to verify the amount charged to the program as required by A122.

Recommendation

We recommend that the appropriate or designated person(s) review and authorize all invoices, supporting documents, as well as sign checks. The District personnel need to verify that the computer check numbers are the same as on the pre-printed check numbers.

Response and Corrective Action Planned

We are cognizant of our responsibilities to follow District procedures and consider these findings to be isolated events. We have reviewed your recommendation and will make every attempt to implement.

Conclusion

Response accepted.

13. Outstanding Bond Coupon

The District has a 1959 General Obligation Serial Bonds outstanding for \$5,000 plus accrued interest of \$137.

Recommendation

We recommend the Board contact legal counsel regarding its disposition.

Response and Corrective Action Planned

We will discuss it with the Board on what action should be taken.

Conclusion

Response accepted.

14. Financial Condition

The District is currently using reserves to handle the current short-term dip in general fund balance.

Recommendation

We recommend a close monitoring by the Board of Education and Administration in its budgeting and expenditure process.

Response and Corrective Action Planned

The Board of Education and Administration realize the challenges they're facing with the projected enrollment decline and related budgetary pressures that are associated with it. Additionally, a cash reserve levy is being considered for fiscal year 2008. A continued decline in fund balance would force the Board of Education and Administration to face the challenge of reducing programs to maintain a positive solvent position.

Conclusion

Response accepted.

We would like to acknowledge the many courtesies and assistance extended to us by the personnel of South Winneshiek 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.

Hatcher, Tulson & Co., P.C.

Decorah, Iowa
August 10, 2006