WASHINGTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

WASHINGTON COMMUNITY SCHOOL DISTRICT
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WASHINGTON COMMUNITY SCHOOL DISTRICT
OFFICIALS
June 30, 2006

Board of Education

(Before September, 2005 Election)

Julie Peshkin	Board President	2006
Greg Giardino	Board Member	2005
Tim Orris	Board Member	2005
Darice Keating	Board Member	2005
Steve Butler	Board Member	2005
Cathy Rich	Board Member	2007
Jim Gorham	Board Member	2007

(After September, 2005 Election)

Tim Orris	Board President	2008
Julie Peshkin	Board Member	2006
Cathy Rich	Board Member	2007
Jim Gorham	Board Member	2007
Vicki Reighard	Board Member	2008
Eric Turner	Board Member	2008
Ron Goodwin	Board Member	2008

School Officials

Dave Schmitt	Superintendent	2006
Kevin Posekany	District Secretary	2006
Kevin Caldwell	District Treasurer	2006
Brian Gruhn	Attorney	2006

KAY L. CHAPMAN, CPA PC
210 Cedar Street
Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report

To the Board of Education
Washington Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Washington Community School District, Washington, Iowa, 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. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Washington Community School District as of 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, I have also issued my report dated September 26, 2006 on my consideration of Washington Community School District's internal control over financial reporting and my 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 my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 40 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Washington Community School District's basic financial statements. I 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 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
September 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $14,154,167 in fiscal 2005 to $14,444,898 in fiscal 2006, and General Fund expenditures increased from $14,193,291 in fiscal 2005 to $15,136,760 in fiscal 2006. The District's General Fund balance decreased from $1,040,127 in fiscal 2005 to $348,347 in fiscal 2006, a 66% decrease.

- The main reason for the increase in revenue was increased state aid and grant funding. Property taxes decreased due to the reduction of assessed valuation of $5,724,722 or 1.7%. State aid increased 2.3% primarily through the funding formula. Federal aid increased 9.1% due to additional grants.

- The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

Figure A-1
Washington Community School District Annual Financial Report

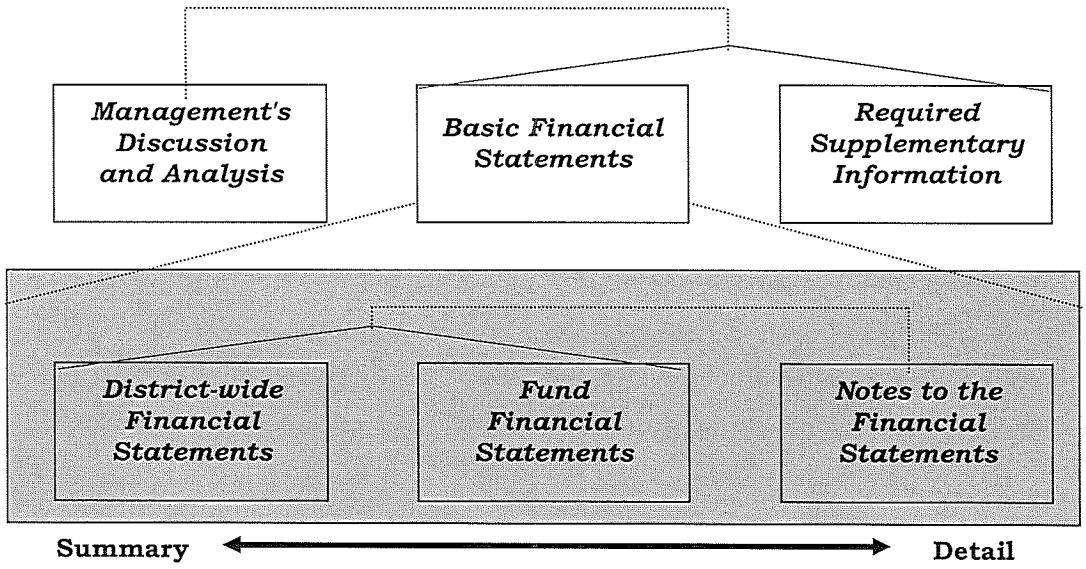

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures and changes in fund balances	• Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows	• Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust Funds.

- Private-Purpose Trust Funds – The District accounts for outside donations for scholarships for individual students in these funds.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3

Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	$ 11,787,737	$ 10,454,991	$ 66,810	$ 78,795	$ 11,854,547	$ 10,533,786	12.54%
Capital assets	3,974,276	3,977,455	47,197	41,335	4,021,473	4,018,790	0.07%
Total assets	15,762,013	14,432,446	114,007	120,130	15,876,020	14,552,576	9.09%
Long-term obligations	1,135,769	1,156,469	-	-	1,135,769	1,156,469	-1.79%
Other liabilities	8,826,394	7,954,925	32,191	35,328	8,858,585	7,990,253	10.87%
Total liabilities	9,962,163	9,111,394	32,191	35,328	9,994,354	9,146,722	9.27%
Net assets							
Invested in capital assets, net of related debt	2,974,276	2,977,455	47,197	41,335	3,021,473	3,018,790	0.09%
Restricted	2,839,035	1,354,182	-	-	2,839,035	1,354,182	109.65%
Unrestricted	(13,461)	989,415	34,619	43,467	21,158	1,032,882	-97.95%
Total net assets	$ 5,799,850	$ 5,321,052	$ 81,816	$ 84,802	$ 5,881,666	$ 5,405,854	8.80%

The District's combined net assets increased by approximately 9%, or $475,812, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

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 by $1,484,853, or approximately 110% over the prior year. The increase was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

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 $1,011,724, or approximately 98%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
Revenues	2006	2005	2006	2005	2006	2005	2005-2006
Program revenues							
Charges for service and sales	$ 958,190	$ 973,034	$ 295,861	$ 274,887	$ 1,254,051	$ 1,247,921	0.49%
Operating grants and contributions	2,276,479	2,519,013	305,777	289,903	2,582,256	2,808,916	-8.07%
Capital grants	97,951	69,103	-	-	97,951	69,103	41.75%
General revenues							
Property tax	4,911,839	4,763,795	-	-	4,911,839	4,763,795	3.11%
Sales and services tax	938,967	282,628	-	-	938,967	282,628	232.23%
Unrestricted state grants	7,266,835	6,828,563	-	-	7,266,835	6,828,563	6.42%
Contributions and donations	5,990	687	-	-	5,990	687	771.91%
Unrestricted investment earnings	110,128	82,581	1,283	930	111,411	83,511	33.41%
Other	11,088	1,695	-	-	11,088	1,695	554.16%
Total revenues	16,577,467	15,521,099	602,921	565,720	17,180,388	16,086,819	6.80%
Program expenses							
Governmental activities							
Instruction	9,898,887	9,114,333	-	-	9,898,887	9,114,333	8.61%
Support services	5,575,971	5,381,189	-	-	5,575,971	5,381,189	3.62%
Non-instructional programs	-	-	605,907	550,409	605,907	550,409	10.08%
Other expenses	640,902	642,510	-	-	640,902	642,510	-0.25%
Loss on disposal of capital assets	13,128	9,391	-	-	13,128	9,391	39.79%
Total expenses	16,128,888	15,147,423	605,907	550,409	16,734,795	15,697,832	6.61%
Change in net assets	$ 448,579	$ 373,676	$ (2,986)	$ 15,311	$ 445,593	$ 388,987	14.55%

In fiscal 2006, property tax and unrestricted state grants account for 73% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.8% of the revenue from business type activities.

The District's total revenues were $17,180,388 of which $16,577,467 was for governmental activities and $602,921 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.8% increase in revenues and a 6.6% increase in expenses. Property tax increased $148,044 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were $16,577,467 and expenses were $16,128,888. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	$ 9,898,887	$ 9,114,333	8.6%	$ 7,244,088	$ 6,161,356	17.6%
Support services	5,575,971	5,381,189	3.6%	5,541,130	5,358,389	3.4%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	654,030	642,510	1.8%	11,050	57,137	-80.7%
Total expenses	$ 16,128,888	$ 15,138,032	6.5%	$ 12,796,268	$ 11,576,882	10.5%

- The cost financed by users of the District's programs was $958,190.
- Federal and state governments subsidized certain programs with grants and contributions totaling $2,374,430.
- The net cost of governmental activities was financed with $5,850,806 in property and other taxes and $7,266,835 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were $602,921 representing a 6.6% increase over the prior year while expenses totaled $605,907, a 10% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the District did increase meal prices. The District considers meal increases only when deemed necessary to meet the obligations of the School Nutrition Fund.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of $2,961,343, well above last year's ending fund balances of $2,500,066. This increase was due in part to maintaining revenues through an increased cash reserve levy and instructional support levy which were above the negotiated salary and benefits settlement and the prior year reduction in state aid and existing expenditure commitments of the District.

Governmental Fund Highlights

- The District's decrease of the General Fund financial position is the product of several factors. Growth during the year in revenues, as a whole, more than offset the District's increase in General Fund expenditures allowing the District to grow carryover fund balances to meet its financial obligations during the coming years.

- The General Fund balance decreased from $1,040,127 to $348,347, due in part to the negotiated salary and benefits settlement and existing expenditure commitments of the District.

- The Capital Projects Fund balance increased due to collection of Local Option Sales and Service Taxes and no expenditures being made for capital projects during fiscal 2006. The Capital Projects Fund balance increased from $283,200 in 2005 to $1,245,778 in 2006.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from $84,802 at June 30, 2005 to $81,816 at June 30, 2006, representing a decrease of approximately 3.5%. The district reviews this fund annually and makes adjustments to the lunch fees as necessary.

BUDGETARY HIGHLIGHTS

Over the course of the year, Washington Community School District amended its annual budget one time to reflect additional expenditures for teaching salaries, grant expenditures and food costs and to reflect a decrease in expenditures for capital improvements since an anticipated building project was not started during fiscal 2006.

The District's receipts were $124,823 more than budgeted receipts, a variance of .7%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

Total expenditures were $1,920,074 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested $4,021,472, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately .7% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was $419,490.

The original cost of the District's capital assets was $7,615,043. Governmental funds account for $7,510,878, with the remainder of $104,165 accounted for in the Proprietary, School Nutrition Fund.

The biggest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled $897,635 at June 30, 2005, compared to $827,142 at June 30, 2006. This decrease was a result of depreciation expense exceeding the cost of new vehicles and equipment purchased during the fiscal year.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	$ 544,857	$ 544,857	$ -	$ -	$ 544,857	$ 544,857	0.00%
Land improvements	825,839	825,839	-	-	825,839	825,839	0.00%
Buildings and improvements	1,776,438	1,739,343	-	-	1,776,438	1,739,343	2.13%
Furniture and equipment	827,142	897,635	47,196	41,335	874,338	938,970	-6.88%
Totals	$3,974,276	$4,007,674	$47,196	$41,335	$4,021,472	$4,049,009	-0.68%

Long-Term Debt

At June 30, 2006, the District had $1,135,769 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 2% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District has a Qualified Zone Academy Bond (QZAB) for $1,000,000 which assists in cash flows for PPEL expenditures. This bond is a no interest bond with $86,130 per year going into an escrow account for 10 years to repay the bond.

The District annually employs an early retirement policy which must be re-authorized by the Board. Currently, the District has $135,769 in early retirement obligations.

Figure A-7
Outstanding Long-term Obligations

	Total School District		Total Change
	2006	2005	2005-2006
QZAB bonds	$ 1,000,000	$ 1,000,000	0.00%
Early retirement	135,769	156,469	-13.23%
Total	$ 1,135,769	$ 1,156,469	-1.79%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced stable enrollment for the past several years, the District expects a slight increase in enrollment due to smaller graduating classes and then a decline with several larger graduating classes.

- The District has evaluated the condition and use of its facilities and has determined to use a blended financing approach to make major additions and improvements. The management team will be recommending use of the sales tax revenue, some PPEL revenue with added income surtax and additional property tax pending a referendum. Estimated costs are not available at this time.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Sheets, District Secretary and Business Manager, Washington Community School District, PO Box 926, Washington, Iowa, 52353.

Basic Financial Statements

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents			
ISCAP	$ 2,210,923	-	$ 2,210,923
Cash held by fiscal agent	361,808	-	361,808
Other	3,513,561	$ 60,242	3,573,803
Receivables			
Property tax			
Delinquent	82,907	-	82,907
Succeeding year	4,950,921	-	4,950,921
Accounts receivable	715	-	715
Accrued interest			
ISCAP	687	-	687
Due from other governments	666,215	-	666,215
Inventories	-	6,568	6,568
Capital assets, net of accumulated depreciation	3,974,276	47,197	4,021,473
Total assets	15,762,013	114,007	15,876,020
LIABILITIES			
Accounts payable	3,288	-	3,288
Salaries and benefits payable	1,479,717	32,191	1,511,908
Due to other governments	107,713	-	107,713
ISCAP warrants payable	2,214,000	-	2,214,000
ISCAP accrued interest payable	546	-	546
ISCAP unamortized premium	16,848	-	16,848
Deferred revenue			
Succeeding year property tax	4,950,921	-	4,950,921
Other	53,361	-	53,361
Long-term liabilities			
Portion due within one year			
Early retirement	79,873	-	79,873
Portion due after one year			
Early retirement	55,896	-	55,896
Bonds payable	1,000,000	-	1,000,000
Total liabilities	9,962,163	32,191	9,994,354

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
NET ASSETS			
Invested in capital assets, net of related debt	$ 2,974,276	$ 47,197	$ 3,021,473
Restricted for			
Management levy	68,017	-	68,017
Physical plant and equipment levy	983,899	-	983,899
Other special revenue purposes	179,533	-	179,533
Capital assets	1,245,778	-	1,245,778
Debt services - QZAB escrow	361,808	-	361,808
Unrestricted	(13,461)	34,619	21,158
Total net assets	$ 5,799,850	$ 81,816	$ 5,881,666

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest	Program Revenues: Capital Grants, Contributions and Restricted Interest	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business Type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Governmental activities							
Instruction							
Regular instruction	$ 6,354,533	$ 807,021	$ 987,747	$ -	$ (4,559,765)	$ -	$ (4,559,765)
Special instruction	1,937,624	128,037	693,028	-	(1,116,559)	-	(1,116,559)
Other instruction	1,606,730	559	38,407	-	(1,567,764)	-	(1,567,764)
	9,898,887	935,617	1,719,182	-	(7,244,088)	-	(7,244,088)
Support services							
Student services	1,075,081	-	-	-	(1,075,081)	-	(1,075,081)
Instructional staff services	1,068,320	-	-	-	(1,068,320)	-	(1,068,320)
Administration services	1,390,546	-	-	-	(1,390,546)	-	(1,390,546)
Operation and maintenance of plant services	1,460,202	3,272	10,868	-	(1,446,062)	-	(1,446,062)
Transportation services	581,822	19,301	1,400	-	(561,121)	-	(561,121)
	5,575,971	22,573	12,268	-	(5,541,130)	-	(5,541,130)
Non-instructional programs	-	-	-	-	-	-	-
Other expenditures							
Facilities acquisition	51,479	-	-	97,951	46,472	-	46,472
AEA flowthrough	545,029	-	545,029	-	-	-	-
Loss on disposal of capital assets	13,128	-	-	-	(13,128)	-	(13,128)
Depreciation (unallocated)*	44,394	-	-	-	(44,394)	-	(44,394)
	654,030	-	545,029	97,951	(11,050)	-	(11,050)
Total governmental activities	16,128,888	958,190	2,276,479	97,951	(12,796,268)	-	(12,796,268)

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2006

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities							
Non-instructional programs							
Food service operations	$ 605,907	$ 295,861	$ 305,777	$ -	$ -	$ (4,269)	$ (4,269)
Total	$16,734,795	$1,254,051	$2,582,256	$ 97,951	(12,796,268)	(4,269)	(12,800,537)
General Revenues							
Property tax levied for							
General purposes					4,485,521	-	4,485,521
Capital outlay					426,318	-	426,318
Local sales and services tax					938,967	-	938,967
Unrestricted state grants					7,266,835	-	7,266,835
Contributions and donations					5,990	-	5,990
Unrestricted investment earnings					110,128	1,283	111,411
Other					11,088	-	11,088
Total general revenues					13,244,847	1,283	13,246,130
Change in net assets					448,579	(2,986)	445,593
Net assets, beginning of year, as adjusted					5,351,271	84,802	5,436,073
Net assets, end of year					$ 5,799,850	$ 81,816	$ 5,881,666

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

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2006

ASSETS	General	Capital Projects	Nonmajor Governmental	Total
Cash and pooled investments				
ISCAP	$ 2,210,923	$ -	$ -	$ 2,210,923
Cash in bank	1,523,262	997,246	993,053	3,513,561
Cash held by fiscal agent	-	-	361,808	361,808
Receivables				
Property tax				
Delinquent	71,170	-	11,737	82,907
Succeeding year	3,735,856	-	1,215,065	4,950,921
Accounts receivable	715	-	-	715
Accrued interest				
ISCAP	687	-	-	687
Due from other governments	417,063	248,532	620	666,215
Total assets	$ 7,959,676	$ 1,245,778	$ 2,582,283	$ 11,787,737
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	$ 3,288	$ -	$ -	$ 3,288
Salaries and benefits payable	1,479,717	-	-	1,479,717
Due to other governments	107,713	-	-	107,713
ISCAP warrants payable	2,214,000	-	-	2,214,000
ISCAP accrued interest payable	546	-	-	546
ISCAP unamortized premium	16,848	-	-	16,848
Deferred revenue				
Succeeding year property tax	3,735,856	-	1,215,065	4,950,921
Other	53,361	-	-	53,361
Total liabilities	7,611,329	-	1,215,065	8,826,394
Fund balances				
Unreserved, undesignated				
Special revenue funds	-	-	1,367,218	1,367,218
Other governmental funds	348,347	1,245,778	-	1,594,125
Total fund balances	348,347	1,245,778	1,367,218	2,961,343
Total liabilities and fund balances	$ 7,959,676	$ 1,245,778	$ 2,582,283	$ 11,787,737

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2006

Exhibit D

Total fund balances of governmental funds	$ 2,961,343
Amounts reported for governmental activites 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.	3,974,276
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(1,135,769)
Net assets of governmental activities	$ 5,799,850

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	General	Capital Projects	Nonmajor Special Revenue	Total
Revenues				
Local sources				
Local tax	$ 4,294,766	$ 938,967	$ 626,861	$ 5,860,594
Tuition	463,363	-	-	463,363
Other	150,548	23,611	448,529	622,688
State sources	8,379,490	-	585	8,380,075
Federal sources	1,156,731	-	94,016	1,250,747
Total revenues	14,444,898	962,578	1,169,991	16,577,467
Expenditures				
Current				
Instruction				
Regular instruction	6,098,776	-	147,751	6,246,527
Special instruction	1,927,512	-	-	1,927,512
Other instruction	1,193,222	-	392,572	1,585,794
	9,219,510	-	540,323	9,759,833
Support services				
Student services	1,067,968	-	-	1,067,968
Instructional staff services	1,061,102	-	-	1,061,102
Administration services	1,364,880	-	35,287	1,400,167
Operation and maintenance of plant services	1,302,573	-	46,772	1,349,345
Transportation services	575,698	-	117,984	693,682
	5,372,221	-	200,043	5,572,264
Other expenditures				
Facilities acquisition	-	-	239,146	239,146
AEA flowthrough	545,029	-	-	545,029
	545,029	-	239,146	784,175
Total expenditures	15,136,760	-	979,512	16,116,272
Excess (deficiency) of revenues over (under) expenditures	(691,862)	962,578	190,479	461,195
Other financing sources				
Sale of equipment and materials	82	-	-	82
Net change in fund balances	(691,780)	962,578	190,479	461,277
Fund balance, beginning of year	1,040,127	283,200	1,176,739	2,500,066
Fund balance, end of year	$ 348,347	$ 1,245,778	$ 1,367,218	$ 2,961,343

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit F

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

For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds		$ 461,277
Amounts reported for governmental activites 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 reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	$ 393,984	
Loss on disposal of capital assets	(13,210)	
Depreciation expense	(414,172)	(33,398)
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.		
Early retirement		20,700
Change in net assets of governmental activities		$ 448,579

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit G

Statement of Net Assets
Proprietary Fund
June 30, 2006

	Nonmajor School Nutrition
ASSETS	
Cash and pooled investments	$ 60,242
Inventories	6,568
Capital assets, net of accumulated depreciation	47,197
Total assets	114,007
LIABILITIES	
Salaries and benefits payable	32,191
NET ASSETS	
Invested in capital assets, net of related debt	47,197
Unreserved retained earnings	34,619
Total net assets	$ 81,816

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit H

Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2006

	Nonmajor School Nutrition
Operating revenue	
Local sources	
Charges for service	$ 295,861
Operating expenses	
Non-instructional programs	
Salaries	214,945
Benefits	42,957
Purchased services	199
Supplies	342,488
Depreciation	5,318
Total operating expenses	605,907
Operating loss	(310,046)
Non-operating revenue	
Interest income	1,283
State sources	9,012
Federal sources	296,765
Total non-operating revenue	307,060
Net loss	(2,986)
Net assets, beginning of year	84,802
Net assets, end of year	$ 81,816

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2006

	Nonmajor School Nutrition
Cash flows from operating activities	
Cash received from sale of meals	$ 295,861
Cash payments to employees for services	(261,039)
Cash payments to suppliers for goods and services	(319,091)
Net cash used in operating activities	(284,269)
Cash flows from non-capital financing activities	
State grants received	9,012
Federal grants received	275,153
Net cash provided by non-capital financing activities	284,165
Cash flows from capital and related financing activities	
Acquisition of capital assets	(11,180)
Cash flows from investing activities	
Interest on investments	1,283
Net decrease in cash and cash equivalents	(10,001)
Cash and cash equivalents, beginning of year	70,243
Cash and cash equivalents, end of year	$ 60,242

Reconciliation of operating loss to net cash used in operating activities

Operating loss	$ (310,046)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,318
Commodities used	21,612
Decrease in inventories	1,984
(Decrease) in salaries and benefits payable	(3,137)
Net cash used in operating activities	$ (284,269)

Non-cash investing, capital and financing activities

During the year ended June 30, 2006, the District received $21,612 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	Private Purpose Trust Scholarships
Assets	
Cash and pooled investments	$959,147
Liabilities	-
Net assets	
Reserved for scholarships	$959,147

See notes to financial statements and Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006

	Private Purpose Trust Scholarships
Additions	
Local sources	
Interest	$ 6,381
Deductions	
Instruction - other	
Scholarships awarded	2,543
Change in net assets	3,838
Net assets, beginning of year	955,309
Net assets, end of year	$ 959,147

See notes to financial statements and Independent Auditor's Report.

Note 1. Summary of Significant Accounting Policies

The Washington Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of Washington, Iowa, and the agricultural territory in Washington and Jefferson 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, Washington 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 Washington Community School 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 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 imposed by management which 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 other nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

The District reports no major proprietary funds.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and early retirement 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 non-operating 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 non-operating 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, they 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 that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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 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 the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$1,500
Buildings	$1,500
Improvements other than buildings	$1,500
Furniture and equipment:	
School Nutrition Fund equipment	$ 500
Other furniture and equipment	$1,500

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

Asset Class	Useful Life
Buildings	40 years
Improvements to buildings	15 years
Furniture and equipment	4-12 years

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

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2006. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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

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 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any of the four functional areas nor did General Fund disbursements exceed the District's unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

The District had no investments at June 30, 2006.

Note 3. Iowa Schools Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools 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. NA 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	Unamortized Premium
2006-07A	6/28/06	6/28/07	$ 2,210,923	$ 687	$ 2,214,000	$ 546	$16,848

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 additions, 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:

Series	Balance, Beginning of Year	Advances Received	Advances Repaid	Balance, End of Year
2005-06A	$ -	$ 450,000	$ 450,000	$ -

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.9030%
2005-06B	4.500%	4.7720%
2006-07A	4.500%	5.6760%

Note 4. Capital Assets

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

Governmental activities	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	$ 544,857	$ -	$ -	$ 544,857
Land improvements	825,839	-	-	825,839
Total capital assets not being depreciated	1,370,696	-	-	1,370,696
Capital assets being depreciated:				
Buildings and improvements	3,651,393	187,667	-	3,839,060
Furniture and equipment	2,117,997	206,317	(23,192)	2,301,122
Total capital assets being depreciated	5,769,390	393,984	(23,192)	6,140,182
Less accumulated depreciation for:				
Buildings and improvements	1,912,050	150,572	-	2,062,622
Furniture and equipment	1,220,362	263,600	(9,982)	1,473,980
Total accumulated depreciation	3,132,412	414,172	(9,982)	3,536,602
Total capital assets being depreciated, net	2,636,978	(20,188)	(13,210)	2,603,580
Governmental activities capital assets, net	$ 4,007,674	$(20,188)	$(13,210)	$ 3,974,276
Business type activities				
Furniture and equipment	$ 94,523	$ 20,457	$(10,815)	$ 104,165
Less accumulated depreciation	53,188	5,318	(1,537)	56,969
Business type activities capital assets, net	$ 41,335	$ 15,139	$ (9,278)	$ 47,196

Depreciation expense was charged to the following functions:

Governmental activities	
Instruction	
Regular	$ 112,889
Special	10,112
Other	20,936
Support services	
Student	7,113
Instructional staff	18,303
Administration	12,191
Operation and maintenance	106,188
Transportation	82,046
Unallocated	44,394
Total governmental activities depreciation expense	$ 414,172
Business type activities	
Food services	$ 5,318

During the year ended June 30, 2006 the District discovered errors in the cost amounts reported and that some assets had been reported as furniture and equipment, but should be reported as buildings and improvements in fiscal 2005. The District corrected these errors in fiscal 2006. Therefore, the beginning balances have been adjusted as follows:

Buildings and improvements cost increased	$344,025
Furniture and equipment cost decreased	$313,806
Buildings and improvements A/D increased	$321,155
Furniture and equipment A/D decreased	$321,155

Note 5. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
QZAB bonds	$ 1,000,000	$ -	$ -	$ 1,000,000	$ -
Early retirement	156,469	84,491	(105,191)	135,769	79,873
Totals	$ 1,156,469	$ 84,491	$(105,191)	$ 1,135,769	$ 79,873

Early retirement

District employees who have 15 years of continuous service to the District and are over age 55 are eligible for early retirement benefits. The amount of early retirement pay for certified employees is equal to sixty-five percent of the employee's base salary. The amount of early retirement pay for non-certified employees is equal to sixty-five percent of the difference between the employee's salary and the amount of the annual pay if the federal minimum wage was used instead of the employee's current hourly rate.

The employee must notify the Board by March first to receive the early retirement benefit. For both certified and non-certified employees, the cash payout amount cannot exceed $28,000 per employee. At June 30, 2006, the maximum accumulated retirement pay was $1135, 769 and 15 individuals were receiving the benefit.

Qualified Zone and Academy Bonds (QZAB)

The Qualified Zone and Academy Bonds (QZAB) were received by the District on January 24, 2002. These bonds were issued as capital loan notes and will mature on January 24, 2012. The District received $1,000,000 to remodel school facilities. The District deposits $86,130 annually into an escrow account, which is held by Bankers Trust on behalf of the District. Funds in the escrow account will be used to repay the bonds when they mature. The escrow account earns interest at 3.25 percent.

Note 6. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 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 contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were $541,600, $523,704 and $504,067 respectively, equal to the required contributions for each year.

Note 7. Risk Management

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

Note 8. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled $545,029 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.

Note 9. Deficit Balances

The District's Student Activity Fund had several accounts that had negative fund balances at June 30, 2006.

Note 10. Correction of Beginning Balance

During the year ended June 30, 2006, the District discovered errors in a few of the cost amounts reported for capital assets, as described in Note 4. This also resulted in a correction to the beginning net assets of governmental activities on Exhibit B, Statement of Activities. Accordingly, the beginning, net assets for governmental activities has been increased by $30,219.

Note 11. Special Investigation

Washington Community School District requested the office of the Auditor of State to perform a special investigation of the District as a result of concerns identified with expenditures approved by a District employee.

The Auditor of State's special investigation report is not available as of the date of this audit report. However, when the special investigation report is complete, copies will be available at the District's business office, the Washington County Attorney's Office and the Attorney General's Office.

Required Supplementary Information

WASHINGTON COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Fund
Required Supplementary Information
For the Year Ended June 30, 2006

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance Positive (Negative)
Receipts						
Local sources	$ 6,749,599	$ 297,143	$ 7,046,742	$ 6,985,910	$ 6,985,910	$ 60,832
Intermediate sources	-	-	-	8,000	8,000	(8,000)
State sources	8,390,958	9,013	8,399,971	8,413,258	8,413,258	(13,287)
Federal sources	1,355,125	275,153	1,630,278	1,545,000	1,545,000	85,278
Total receipts	16,495,682	581,309	17,076,991	16,952,168	16,952,168	124,823
Disbursements						
Instruction	9,435,656	-	9,435,656	9,488,894	9,750,000	314,344
Support services	5,657,916	-	5,657,916	6,284,779	7,250,000	1,592,084
Non-instructional programs	-	591,310	591,310	589,879	600,000	8,690
Other expenditures	795,044	-	795,044	2,848,312	800,000	4,956
Total disbursements	15,888,616	591,310	16,479,926	19,211,864	18,400,000	1,920,074
Excees (deficiency) of receipts over (under) disbursements	607,066	(10,001)	597,065	(2,259,696)	(1,447,832)	2,044,897
Other financing sources, net	82	-	82	2,002,000	2,000	(1,918)
Excess (deficiency) of receipts and other financing sources over (under) disbursements	607,148	(10,001)	597,147	(257,696)	(1,445,832)	2,042,979
Balance, beginning of year	3,257,354	70,243	3,327,597	4,355,559	4,355,559	(1,027,962)
Balance, end of year	$ 3,864,502	$ 60,242	$ 3,924,744	$ 4,097,863	$ 2,909,727	$ 1,015,017

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
For the Year Ended June 30, 2006

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$ 16,495,682	$ 81,785	$ 16,577,467
Expenditures	15,888,616	227,656	16,116,272
Net	607,066	(145,871)	461,195
Other financing sources	82	-	82
Beginning fund balances	3,257,354	(757,288)	2,500,066
Ending fund balances	$ 3,864,502	$ (903,159)	$ 2,961,343

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	$ 581,309	$ 21,612	$ 602,921
Expenditures	591,310	14,597	605,907
Net	(10,001)	7,015	(2,986)
Beginning fund balances	70,243	14,559	84,802
Ending fund balances	$ 60,242	$ 21,574	$ 81,816

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards 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 Governmental 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 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 decreasing disbursements by $811,864.

During the year ended June 30, 2006, District disbursements did not exceed the amount budgeted in any of the four functions nor did General Fund disbursements exceed the unspent authorized budget.

Other Supplementary Information

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
ASSETS					
Cash and pooled investments					
Cash in bank	$ 200,024	$ 179,533	$ 613,496	$ -	$ 993,053
Cash held by fiscal agent	-	-	361,808	-	361,808
Receivables					
Property tax					
Current year delinquent	3,762	-	7,975	-	11,737
Succeeding year	220,000	-	425,915	569,150	1,215,065
Due from other governments	-	-	620	-	620
Total assets	$ 423,786	$ 179,533	$ 1,409,814	$ 569,150	$ 2,582,283
LIABILITIES AND FUND BALANCES					
Liabilities					
Deferred revenue					
Succeeding year property tax	$ 220,000	$ -	$ 425,915	$ 569,150	$ 1,215,065
Fund Balances					
Unreserved fund balances	203,786	179,533	983,899	-	1,367,218
Total liabilities and fund balances	$ 423,786	$ 179,533	$ 1,409,814	$ 569,150	$ 2,582,283

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Special Revenue Funds
For the Year Ended June 30, 2006

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
Revenues				
Local sources				
Local taxes	$ 199,682	$ -	$ 427,179	$ 626,861
Other	9,129	411,465	27,935	448,529
State sources	187	-	398	585
Federal sources	-	-	94,016	94,016
Total revenues	208,998	411,465	549,528	1,169,991
Expenditures				
Current				
Instruction				
Regular instruction	147,751	-	-	147,751
Other instruction	-	392,572	-	392,572
Support services				
Administration services	35,287	-	-	35,287
Operation and maintenance of plant	46,772	-	-	46,772
Transportation services	32,040	-	85,944	117,984
Other expenditures				
Facilities acquisition	-	-	239,146	239,146
Total expenditures	261,850	392,572	325,090	979,512
Excess (deficiency) of revenues over (under) expenditures	(52,852)	18,893	224,438	190,479
Fund balances, beginning of year	256,638	160,640	759,461	1,176,739
Fund balances, end of year	$ 203,786	$ 179,533	$ 983,899	$ 1,367,218

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

For the Year Ended June 30, 2006

Account	Balance, End of Year	Revenues	Expenditures	Balance, End of Year
Student activities	$ 50,924	$ 5,432	$ -	$ 56,356
Student wellness	5,754	9,216	8,989	5,981
Assure Center fundraiser	1,042	97	592	547
CO pop fund	675	716	643	748
Special ed registration fees	1,655	-	-	1,655
Special Olympics	309	-	34	275
Stewart library	3,218	635	2,434	1,419
Stewart playground fund	3,214	-	100	3,114
Adults Caring for Children	21,773	2,952	2,371	22,354
Stewart book fair	1,012	2,087	-	3,099
Stewart landscape	1,175	-	100	1,075
Stewart pop fund	1,925	2,567	2,015	2,477
HS general concessions	(994)	15,483	15,105	(616)
HS popcorn	2,864	1,146	-	4,010
HS fund raiser	771	3,170	3,152	789
HS candy sales	2,238	-	-	2,238
HS TATU	447	75	475	47
Renaissance	399	4,143	4,170	372
HS drama	2,398	4,334	4,127	2,605
HS La Onda	1,535	155	7	1,683
HS SADD	1,142	4,518	5,563	97
HS speech activities	224	1,580	458	1,346
HS trip fundraiser	220	150	386	(16)
HS vocal music	2,011	20,262	20,648	1,625
HS band uniforms	332	915	1,746	(499)
HS instrumental music	(271)	3,681	3,579	(169)
HS annual	(3,450)	22,514	17,548	1,516
HS newspaper	6,475	9,546	7,671	8,350
HS art serv club	993	5,484	5,937	540
HS cheerleaders	7,900	1,085	4,804	4,181
HS drill team	1,420	375	349	1,446
HS FFA	2,404	25,751	24,917	3,238
HS FHA	77	63	64	76

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2006

Account	Balance, End of Year	Revenues	Expenditures	Balance, End of Year
HS FOFES	$ 127	$ -	$ -	$ 127
VOW	943	355	641	657
HS NHS	279	138	207	210
HS office ed-BPA	1,699	6,731	7,787	643
HS science club	632	-	95	537
HS student congress	1,937	12,152	13,000	1,089
HS Earth book	475	1,360	1,143	692
HS student recognition	299	213	511	1
Class of				
2007	3,444	1,030	-	4,474
2005	348	-	348	-
2008	-	1,260	276	984
2006	1,645	1,084	2,681	48
HS athletic director	17,756	19,312	14,449	22,619
HS activity tickets	6,676	10,674	5,983	11,367
Cross country	(221)	1,012	5,235	(4,444)
Case Field Fundraising	-	13,447	9,680	3,767
Football Fundraising	-	5,120	319	4,801
HS boys' basketball	2,770	27,661	21,280	9,151
HS football	4,666	24,175	16,204	12,637
HS baseball	(4,381)	5,214	9,630	(8,797)
HS boys' track	(2,984)	7,529	9,433	(4,888)
HS boys' golf	(555)	612	651	(594)
HS soccer	(3,803)	741	1,974	(5,036)
HS wrestling	(1,983)	6,901	7,846	(2,928)
HS girls' basketball	4,072	11,470	10,528	5,014
HS volleyball	(3,592)	9,180	9,149	(3,561)
HS softball	864	6,695	10,520	(2,961)
HS girls' track	(3,128)	2,550	5,834	(6,412)
HS girls' golf	(325)	127	2,955	(3,153)
JH activity	926	1,025	930	1,021
JH concessions	896	18,538	19,068	366
JH fund raising	12,646	45,507	39,347	18,806

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 3

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

For the Year Ended June 30, 2006

Account	Balance, End of Year	Revenues	Expenditures	Balance, End of Year
JH special travel	$ 208	$ -	$ -	$ 208
JH speech	179	91	282	(12)
JH student congress	3,255	1,504	1,120	3,639
JH vocal music	147	1,406	158	1,395
JH instrumental music	175	1,495	1,194	476
JH outdoor classroom	(74)	-	-	(74)
JH Odyssey	(453)	-	104	(557)
JH one-act plays	(1,164)	577	1,262	(1,849)
JH student awards	(1,251)	-	605	(1,856)
JH cheerleaders	673	4,102	3,138	1,637
JH dance team	250	1,820	1,136	934
9th boys' basketball	(1,099)	1,242	1,464	(1,321)
8th boys' basketball	(1,030)	534	1,523	(2,019)
7th boys' basketball	291	508	877	(78)
JH cross country	143	20	135	28
9th football	517	1,734	3,093	(842)
8th football	(1,960)	1,038	2,041	(2,963)
7th football	(1,082)	1,114	1,650	(1,618)
7th & 8th boys' track	40	931	782	189
7th & 8th wrestling	-	652	1,753	(1,101)
9th girls' basketball	(1,035)	446	1,269	(1,858)
8th girls' basketball	(952)	568	546	(930)
7th girls' basketball	-	519	519	-
7th & 8th volleyball	-	827	1,384	(557)
7th & 8th girls' track	(928)	392	849	(1,385)
JH bio tech conf	1,645	-	-	1,645
JH drug-free/Quest	206	-	-	206
	$ 160,640	$ 411,465	$ 392,572	$ 179,533

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT

Schedule 4

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	$ 5,860,594	$ 5,042,238	$ 4,878,498	$ 4,808,079
Tuition	463,363	481,870	422,320	360,432
Other	622,688	574,431	470,914	577,838
State sources	8,380,075	7,863,313	7,394,727	7,329,734
Federal sources	1,250,747	1,557,552	1,333,779	1,123,747
Total revenues	$ 16,577,467	$ 15,519,404	$ 14,500,238	$ 14,199,830
Expenditures				
Instruction				
Regular instruction	6,246,527	5,706,369	5,633,256	5,345,880
Special instruction	1,927,512	1,781,379	1,661,340	1,595,268
Other instruction	1,585,794	1,539,347	1,103,684	1,113,135
Support services				
Student services	1,067,968	1,225,400	1,356,971	1,329,296
Instructional staff services	1,061,102	1,102,230	1,054,190	904,162
Administration services	1,400,167	1,317,264	1,209,895	1,150,167
Operation and maintenance of plant services	1,349,345	1,184,544	1,039,827	919,922
Transportation services	693,682	450,799	719,057	389,525
Other expenditures				
Facilities acquisition	239,146	197,846	563,676	572,112
Long-term debt				
Principal	-	102,500	102,500	102,500
Interest and other charges	-	3,663	8,343	12,920
AEA flowthrough	545,029	516,270	509,219	528,308
Total expenditures	$ 16,116,272	$ 15,127,611	$ 14,961,958	$ 13,963,195

See accompanying Independent Auditor's Report.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

Schedule 5

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Direct			
U.S. Department of Education			
Grants to Reduce Alcohol Abuse	84.184	FY06	$ 286,067
21st Century Communities	84.287	FY06	314
Teaching American History Grant	84.215	FY06	364,194
Total direct			650,575
Indirect			
U.S. Department of Agriculture			
Iowa Department of Education			
Food distribution (non-cash)	10.550	FY06	21,612
School Nutrition Cluster Programs			
National School Breakfast Program	10.553	FY06	55,414
National School Lunch Program	10.555	FY06	219,738
Total Department of Agriculture			296,764
U.S. Department of Health and Human Services			
Iowa Department of Education			
Consolidated Knowledge Development and Application	93.230	FY06	39,647
U.S. Department of Justice			
Washington County			
Safe and Drug-free Schools and Communities	16.729	FY06	24,939
Total U.S. Department of Justice			24,939
U.S. Department of Education			
Iowa Department of Education			
Title I Grants to Local Educational Agencies	84.010	FY06	254,251
Grants for State Assessments and Related Activities	84.369	FY06	11,860
Emergency Immigrantion Education Act	84.162	FY06	176,207
Safe and Drug-free Schools and Communities	84.186	FY06	9,918
Improving Teacher Quality State Grants	84.367	FY06	48,149
Fund for the Improvement of Education-Construction	84.215	FY05	74,632
Total Iowa Department of Education			575,017
Grant Wood Area Education Agency			
Vocational Education Basic Grants to States	84.048	FY06	22,963
Special Education Grants to States - Success 4	84.027	FY06	1,673
Special Education-Grants to States-Part B	84.027	FY06	94,645
Total Grant Wood Area Education Agency			119,281
Total U.S. Department of Education			694,298
Total indirect			1,055,648
Total federal awards			$1,706,223

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Washington Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC
210 Cedar Street
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563-264-1385

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
Washington Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Washington 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 my report thereon dated September 26, 2006. I conducted my 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 my audit, I considered Washington Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my 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 II of the accompanying Schedule of Findings and Questioned Costs.

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. My 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, I believe item 06-II-A Segregation of Duties, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed an instance of non-compliance or other matters that is required to be reported under Government Auditing Standards and is described in Part II of the accompanying Schedule of Findings and Questioned costs. I also noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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 the Washington Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Washington Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
September 26, 2006

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Muscatine, Iowa 52761
563-264-1385

Independent Auditor's Report on Compliance with Requirements Applicable to Each major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Education
Washington Community School District
Washington, Iowa

Compliance

I have audited the compliance of Washington Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Washington Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Washington Community School District's management. My responsibility is to express an opinion on Washington Community School District's compliance based on my audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Washington Community School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Washington Community School District's compliance with those requirements.

In my opinion Washington Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Washington Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing my audit, I considered Washington Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect Washington Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance 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, I believe item 06-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Washington Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
September 26, 2006

WASHINGTON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Part I. Summary of the Independent Auditor's Results

1. An unqualified opinion was issued on the financial statements.

2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.

3. The audit disclosed noncompliance which is material to the financial statements.

4. Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including material weaknesses.

5. An unqualified opinion was issued on compliance with requirements applicable to each major program.

6. The audit disclosed an audit finding, which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

7. Major programs were as follows:

- CFDA Number 84.184A – Grants to Reduce Alcohol Abuse
- CFDA Number 84.215 – Teaching American History
- Clustered programs:
  - CFDA Number 10.553 – School Breakfast Program
  - CFDA Number 10.555 – National School Lunch Program

8. The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

9. Washington Community School District did not qualify as a low-risk auditee.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Part II. Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE

A special report identified improper expenditures authorized by a District employee.

REPORTABLE CONDITIONS

06-II-A Segregation of Duties - During my review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximized the accuracy of the District's financial statements. I noted that the work performed by the Business Manager was not reviewed by another employee.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

06-II-B Student Activity Fund Expenditures - I noted that there were several expenditures in the Student Activity Fund that should be General Fund expenditures. These include expenditures for flowers for staff members, meals for staff meetings and other staff-related expenditures. There were also some questionable expenditures for prizes for student fundraising efforts. These expenditures do not appear to meet the test of public purpose.

Recommendation - The District should review expenditures more closely to ensure that they are reported in the appropriate fund and that they are allowable expenditures.

Response - We will review expenditures more closely for proper coding and allowability.

Conclusion - Response accepted.

06-II-C Approval of Fundraisers - I noted that fundraisers are not approved by administration or the school board.

Recommendation - The District should have all fundraisers approved by the school board and/or the administration and adopt a board policy regarding fundraisers and procedures for approval.

Response - We will consider implementing this recommendation and take action as the board deems appropriate.

Conclusion - Response accepted.

06-II-D Approval of Purchase Orders - I noted that several purchase orders were initiated and approved by the same administrator.

Recommendation - Purchase orders initiated by administrators should be approved by another administrator. Independent approval should be required for all purchase orders.

Response - We will change our procedures to ensure that purchase orders are approved by independent authorized personnel.

Conclusion - Response accepted.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Part III. Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

CFDA Number 84.184A – Grants to Reduce Alcohol Abuse
CFDA Number 84.215 – Teaching American History
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

CFDA Number 10.553 – School Breakfast Program
CFDA Number 10.555 – National School Lunch Program
Federal Award Year: 2006
U.S. Department of Agriculture
Passed through the Iowa Department of Education

06-III-A Segregation of Duties - During my review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximized the accuracy of the District's financial statements. I noted that the work performed by the Business Manager was not reviewed by another employee.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - We have reviewed procedures and plan to make the necessary changes, as we deem necessary, to improve internal control.

Conclusion - Response accepted.

06-III-B Approval of Purchase Orders - I noted that several purchase orders were initiated and approved by the same administrator.

Recommendation - Purchase orders initiated by administrators should be approved by another administrator. Independent approval should be required for all purchase orders.

Response - We will change our procedures to ensure that purchase orders are approved by independent authorized personnel.

Conclusion - Response accepted.

Part IV. Other Findings Related to Statutory Reporting:

1. Certified Budget - Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.

2. Questionable Expenditures – Except as reported in comment 06-II-C, I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

4. Business Transactions - No business transactions between the District and District officials or employees were noted.

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 - I noted no transactions requiring Board approval which had not been approved by the Board. However, it was noted that the minutes were not always published timely in accordance with Chapter 279.35 of the Code of Iowa.

   Recommendation - Chapter 279.35 of the Code of Iowa requires that minutes be made available to the publisher within two weeks of the board meeting. The District should ensure that the minutes are submitted to the publisher within the stipulated time frame.

Response - The minutes are e-mailed to the publisher within two weeks of the board meeting. However, the e-mails supporting these submissions were not available at audit time due to a change in business managers after year-end. In the future we will keep evidence to support the timely submission of minutes to the publisher.

Conclusion - Response accepted.

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

8. Deposits and Investments - I 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.

9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

10. Deficit Balances - Several Student Activity Fund accounts had deficit balances at June 30, 2006.

    Recommendation - The District should continue to investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

    Response - The District is continuing to investigate alternatives to eliminate deficits in these Student Activity Fund accounts.

    Conclusion - Response accepted.

WASHINGTON COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2006

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant

WASHINGTON COMMUNITY SCHOOL DISTRICT
Corrective Action Plan for Federal Audit Findings
For the Year Ended June 30, 2006

Comment Number	Comment Title	Corrective Action Plan	Contact Person	Anticipated Date of Completion
06-III-A	Segregation of Duties	The corrective action plan was documented inour response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Kim Sheets Business Manager 319-653-6543	June 30, 2007
06-III-B	Approval of Purchase Orders	The corrective action plan was documented inour response to the auditor's comment. See the Schedule of Findings and Questioned Costs.	Kim Sheets Business Manager 319-653-6543	November 1, 2006

WASHINGTON COMMUNITY SCHOOL DISTRICT
Summary Schedule of Prior Federal Audit Findings
For the Year Ended June 30, 2006

Comment Number	Comment Title	Status	If not corrected, provide planned corrective action or other explanation

There were no reported findings to correct.