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WEBSTER CITY COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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 **CARNEY,  
ALEXANDER,  
MAROLD & CO., L.L.P.**  
Certified Public Accountants

# WEBSTER CITY COMMUNITY SCHOOL DISTRICT

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**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Officials**

| <u>Name</u>  | <u>Title</u>   | <u>Term Expires</u> |
|--|----------------|---------------------|
| Board of Education<br>(Before September 2005 Election) |                |                     |
| Craig Loffredo   | President      | 2005                |
| Loween Clayberg  | Vice President | 2006                |
| Leo Moriarty   | Board Member   | 2005                |
| Dr. Subhash Sahai                                      | Board Member   | 2007                |
| Judy Maubach   | Board Member   | 2007                |

|   |                |      |
|---|----------------|------|
| Board of Education<br>(After September 2005 Election) |                |      |
| Craig Loffredo  | President      | 2008 |
| Loween Clayberg                                       | Vice President | 2006 |
| Dan Ryherd  | Board Member   | 2008 |
| Dr. Subhash Sahai                                     | Board Member   | 2007 |
| Judy Maubach  | Board Member   | 2007 |

School Officials

|                  |                              |            |
|------------------|------------------------------|------------|
| Mike Sherwood    | Superintendent               | 2006       |
| Cathi Hildebrand | District Secretary/Treasurer | 2006       |
| James Hanks      | Attorney                     | Indefinite |

**Webster City Community School District**

Independent Auditors' Report

To the Board of Education of the  
Webster City Community School District

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

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

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

In accordance with Government Auditing Standards, we have also issued our reports dated September 1, 2006 on our consideration of Webster City Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Webster City Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinions on those financial statements. The supplementary information included on pages 41 through 47, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Covey, Alexander, Kowal & Co., L.L.P.*

September 1, 2006

## Management Discussion and Analysis

This section of the Webster City Community School District's Annual Financial Report presents its discussion and analysis of the District's financial performance during the fiscal year ending June 30, 2006. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follows this section.

### Financial Highlights

- General Fund revenues increased from \$12,138,490 in fiscal 2005 to \$12,700,904 in fiscal 2006, while General Fund expenditures increased from \$12,413,758 in fiscal 2005 to \$12,623,521 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$1,145,128 in fiscal 2005 to \$1,223,261 in fiscal 2006, a 7 percent increase from the prior year.
- The increase in General Fund revenues was attributable to increases in state aid revenue, regular education and special education tuition. The increase in expenditures was due, for the most part, to increases in salaries and benefits.

### Overview of the Financial Statements

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

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

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

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

Figure A-1  
Organization of Webster City Community School District  
Annual Financial Report

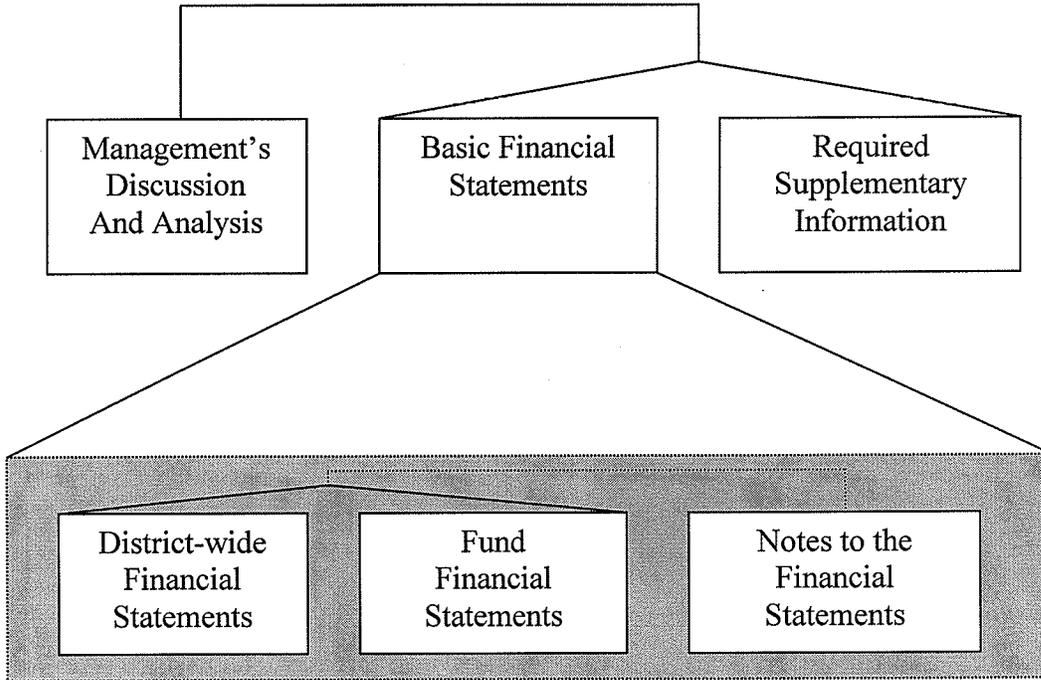


Figure A-2 below summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

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

### District-wide Statements

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

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

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

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

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

## Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds:* Most of the District’s basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The District’s governmental funds include the General Fund, Debt Service Fund, Capital Projects Fund and Special Revenue Funds.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide 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 two enterprise funds, school nutrition and building trades fund.
  - *Internal service funds*, the other kind of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. At this time the District chooses not to use any internal service funds.
- *Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

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

| <u>Figure A-3</u>                        |                     |                   |                      |                   |              |             |  |
|--|---------------------|-------------------|----------------------|-------------------|--------------|-------------|--|
| <u>Condensed Statement of Net Assets</u> |                     |                   |                      |                   |              |             |  |
| (expressed in thousands)                 |                     |                   |                      |                   |              |             |  |
|  | <u>Governmental</u> |                   | <u>Business-type</u> |                   | <u>Total</u> |             | <u>Total</u><br><u>Percentage</u><br><u>Change</u> |
|  | <u>Activities</u>   | <u>Activities</u> | <u>Activities</u>    | <u>Activities</u> | <u>2006</u>  | <u>2005</u> |  |
|  | 2006                | 2005              | 2006                 | 2005              | 2006         | 2005        |  |
| Current and other assets                 | 7,213               | 8,026             | 47                   | 75                | 7,260        | 8,101       | -10.4%   |
| Capital assets                           | 10,489              | 10,240            | 82                   | 91                | 10,571       | 10,331      | 2.3%   |
| Total assets                             | 17,702              | 18,266            | 129                  | 166               | 17,831       | 18,432      | -3.3%  |
| Long-term obligations                    | 4,244               | 4,744             | 0                    | 0                 | 4,244        | 4,744       | -10.5%   |
| Other liabilities                        | 4,824               | 5,810             | 1                    | 4                 | 4,825        | 5,814       | -17.0%   |
| Total liabilities                        | 9,068               | 10,554            | 1                    | 4                 | 9,069        | 10,558      | -14.1%   |
| Net assets:                              |                     |                   |                      |                   |              |             |  |
| Invested in capital assets,              |                     |                   |                      |                   |              |             |  |
| Net of related debt                      | 6,304               | 5,550             | 82                   | 91                | 6,386        | 5,641       | 13.2%  |
| Restricted                               | 1,478               | 904               | 0                    | 0                 | 1,478        | 904         | 63.6%  |
| Unrestricted                             | 851                 | 1,257             | 46                   | 71                | 897          | 1,328       | -32.5%   |
| Total Net Assets                         | 8,633               | 7,711             | 128                  | 162               | 8,761        | 7,873       | 11.3%  |

The District's combined net assets were significantly larger on June 30, 2006, than they were the year before, increasing, more than 11%. Most of this improvement in the District's financial position came from its governmental activities, the net assets of which grew .9 million to \$8.6 million. The net assets of the District's business-type activities decreased 21% to \$128 thousand.

The District's improved financial position is the product of many factors. The various sources of tax revenue, grants, and charges for services exceeded related expenditures.

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

**Figure A-4**

**Changes in Net Assets (expressed in thousands)**

|                                  | Governmental<br>Activities |                 | Business-type<br>Activities |              | Total<br>School District |                 | Percentage<br>Change |
|----------------------------------|----------------------------|-----------------|-----------------------------|--------------|--------------------------|-----------------|----------------------|
|                                  | 2006                       | 2005            | 2006                        | 2005         | 2006                     | 2005            | 2005-2006            |
| <b>Revenues</b>                  |                            |                 |                             |              |                          |                 |                      |
| Program revenues                 |                            |                 |                             |              |                          |                 |                      |
| Charges for service and sales    | 1,403                      | 1,331           | 517                         | 565          | 1,920                    | 1,896           | 1.3%                 |
| Operating Grants & Contributions | 1,497                      | 1,455           | 253                         | 252          | 1,750                    | 1,707           | 2.5%                 |
| Capital Grants & Contributions   | 0                          | 0               | 0                           | 0            | 0                        | 0               | 0                    |
| General revenues                 |                            |                 |                             |              |                          |                 |                      |
| Property taxes                   | 5,519                      | 5,535           | 0                           | 0            | 5,519                    | 5,535           | -3%                  |
| Unrestricted state grants        | 6,358                      | 5,815           | 0                           | 0            | 6,358                    | 5,815           | 9.3%                 |
| Unrestricted investment earnings | 114                        | 86              | 2                           | 0            | 116                      | 86              | 34.9%                |
| Other                            | 13                         | 2               | 0                           | 0            | 13                       | 2               | 550.0%               |
| <b>Total revenues</b>            | <b>\$14,904</b>            | <b>\$14,224</b> | <b>\$772</b>                | <b>\$817</b> | <b>\$15,676</b>          | <b>\$15,041</b> | <b>4.2%</b>          |
| <b>Program expenses</b>          |                            |                 |                             |              |                          |                 |                      |
| Governmental activities          |                            |                 |                             |              |                          |                 |                      |
| Instruction                      | 8,785                      | 8,569           | 0                           | 0            | 8,785                    | 8,569           | 2.5%                 |
| Support services                 | 4,081                      | 3,925           | 0                           | 0            | 4,081                    | 3,925           | 4.0%                 |
| Non-instructional programs       | 4                          | 18              | 794                         | 777          | 798                      | 795             | .4%                  |
| Other expenses                   | 1,112                      | 1,125           | 12                          | 23           | 1,124                    | 1,148           | 2.1%                 |
| <b>Total expenses</b>            | <b>\$13,982</b>            | <b>\$13,637</b> | <b>\$806</b>                | <b>\$800</b> | <b>\$14,788</b>          | <b>\$14,437</b> | <b>2.4%</b>          |
| <b>Change in net assets</b>      | <b>\$922</b>               | <b>\$587</b>    | <b>\$(34)</b>               | <b>\$17</b>  | <b>\$888</b>             | <b>\$604</b>    | <b>47%</b>           |

Property tax and unrestricted state grants account for 76 percent of the total revenue. The District's expenses primarily relate to instruction and support services that account for 87 percent of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$14.9 million and expenses \$13.9 million. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
(expressed in thousands)

|                            | Total Cost of Services |                 | Percentage Change | Net Cost Of Services |                 | Percentage Change |
|----------------------------|------------------------|-----------------|-------------------|----------------------|-----------------|-------------------|
|                            | 2006                   | 2005            | 2005-2006         | 2006                 | 2005            | 2005-2006         |
| Instruction                | 8,785                  | 8,569           | 2.5%              | 5,905                | 5,815           | 1.5%              |
| Support services           | 4,081                  | 3,925           | 4.0%              | 4,061                | 3,892           | 4.3%              |
| Non-instructional programs | 4                      | 18              | -77.8%            | 4                    | 18              | -77.8%            |
| Other expenses             | 1,112                  | 1,125           | -1.2%             | 1,112                | 1,125           | -1.2%             |
| <b>Totals</b>              | <b>\$13,982</b>        | <b>\$13,637</b> | <b>2.5%</b>       | <b>\$11,082</b>      | <b>\$10,850</b> | <b>2.1%</b>       |

- The cost of all governmental activities this year was \$13.9 million.
- Some of the cost (\$1.4 million) was financed by users of the District's programs.
- The federal and state governments and private contributors subsidized certain programs with grants and contributions of \$1.5 million.
- Most of the District's costs (\$11.9 million), however, were financed by District taxpayers and the taxpayers of our state.
- The net cost portion of governmental activities was financed with \$5.5 million in property taxes, \$6.3 million in unrestricted state grants, \$114 thousand in interest income, and \$13 thousand in miscellaneous income.

## Business-Type Activities

Revenues of the District's business-type activities were \$772,005 and expenses were \$805,952. The District's business-type activities include the School Nutrition Fund and Building Trades Fund. Revenues of these activities were comprised of charges for service, reimbursement for supplies, federal and state reimbursements and investment income.

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

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,290,942, which is up from last year's ending fund balance of \$2,203,265.

### **Governmental Budgetary Highlights**

- The General Fund balance increased from \$1,145,128 to \$1,223,261 due, for the most part, to increased revenues.
- The Management Fund balance decreased from \$98,825 to \$83,886 due to increased cost for worker's compensation insurance.
- The Capital Projects Fund increased from \$537,839 to \$743,921 due to revenue received from Hamilton, Wright and Webster County Local Option Sales Tax dollars. Seventy-five percent of the revenue received from Hamilton County will be used for the payment or retirement of outstanding bonds previously issued for construction of Webster City Middle School.

### **Proprietary Fund Highlights**

The School Nutrition Fund net assets decreased from \$147,739 at June 30, 2005 to \$123,741 at June 30, 2006, representing a decrease of 16.2 percent. Although revenues increased in 2005-06, expenditures increased even more, resulting in the decrease of net assets.

## **Budgetary Highlights**

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

### **Legal Budgetary Highlights**

The District's total actual receipts were \$436,719 less than the total budgeted receipts, a variance of 2.8%. This year the District received more in various components of local and federal sources than anticipated and less from state sources.

Total expenditures were 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 the actual expenditures during the year.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2006, the District had invested more than \$17.4 million (\$10.6 million net of depreciation) in a broad range of capital assets including land, buildings, athletic facilities, computer and audiovisual equipment, maintenance equipment, and transportation equipment. (See Figure A-6) This amount represents a net increase of 2.3 percent from last year.

|  | Governmental Activities |               | Business-Type Activities |           | Total School District |               | Total Percentage Change 2005-2006 |
|--|-------------------------|---------------|--------------------------|-----------|-----------------------|---------------|-----------------------------------|
|  | 2006                    | 2005          | 2006                     | 2005      | 2006                  | 2005          |                                   |
|  | <b>Land</b>             | 590           | 590                      | 0         | 0                     | 590           |                                   |
| <b>Construction in progress</b>          | 0                       | 0             | 0                        | 0         | 0                     | 0             | N/A                               |
| <b>Buildings</b>                         | 8,985                   | 9,203         | 0                        | 0         | 8,985                 | 9,203         | -2.4%                             |
| <b>Improvements other than Buildings</b> | 147                     | 75            | 0                        | 0         | 147                   | 75            | 96.0%                             |
| <b>Machinery and equipment</b>           | 767                     | 372           | 82                       | 92        | 849                   | 464           | 82.9%                             |
| <b>TOTALS</b>                            | <b>10,489</b>           | <b>10,240</b> | <b>82</b>                | <b>92</b> | <b>10,571</b>         | <b>10,332</b> | <b>2.3%</b>                       |

The District has no major “construction in progress” activities at this time.

### Long-Term Debt

At June 30, 2006, the District had \$4.2 million in general obligation bonds and other long-term debt outstanding. This represents a decrease of 10.5% over the previous fiscal year as can be seen in Figure A-7 below.

|                             | Total School District |              | Total Percentage Change 2005-2006 |
|-----------------------------|-----------------------|--------------|-----------------------------------|
|                             | 2006                  | 2005         |                                   |
|                             | Compensated Absences  | 59           |                                   |
| Capital Loan Note           | 430                   | 525          | -18.1%                            |
| Bonds Payable               | 3,755                 | 4,165        | -9.8%                             |
| Other Long Term Liabilities | 0                     | 0            | 0                                 |
| <b>Total</b>                | <b>4,244</b>          | <b>4,744</b> | <b>-10.5%</b>                     |

The District retired \$500 thousand of its obligations in 2006. The District is looking at issuing a capital loan note in the amount of \$850,000 for updates to the High School electrical service and adding an entrance hallway to the fitness center in fiscal 2007 or 2008.

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

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

- District enrollment declined in fiscal year 2005-2006 by 62 students, or 3.8% in total budgeted enrollment. Under Iowa's school funding formula, District funding is highly dependant upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.
- Hamilton Local Option Sales Tax revenues will continue to go towards tax relief by paying down outstanding bonds issued for construction of Webster City Middle School.

### **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 Cathi Hildebrand, Business Manager/Board Secretary, Webster City Community School District, 825 Beach Street, Webster City, Iowa 50595.

## Basic Financial Statements

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Net Assets  
June 30, 2006**

|   | Governmental<br>Activities | Business-type<br>Activities | Total               |
|---|----------------------------|-----------------------------|---------------------|
| <b>Assets</b>                                   |                            |                             |                     |
| Cash and cash equivalents:                      |                            |                             |                     |
| Other   | \$ 2,154,748               | \$ 10,544                   | \$ 2,165,292        |
| Receivables:                                    |                            |                             |                     |
| Property tax:                                   |                            |                             |                     |
| Delinquent                                      | 53,051                     | -                           | 53,051              |
| Succeeding year                                 | 4,679,984                  | -                           | 4,679,984           |
| Accounts  | 11,333                     | 27,084                      | 38,417              |
| Accrued interest                                | 12,231                     | -                           | 12,231              |
| Due from other governments                      | 301,559                    | -                           | 301,559             |
| Inventories                                     | -                          | 9,180                       | 9,180               |
| Capital assets, net of accumulated depreciation | <u>10,488,720</u>          | <u>81,795</u>               | <u>10,570,515</u>   |
| Total assets                                    | <u>17,701,626</u>          | <u>128,603</u>              | <u>17,830,229</u>   |
| <b>Liabilities</b>                              |                            |                             |                     |
| Accounts payable                                | 80,227                     | 254                         | 80,481              |
| Accrued interest payable                        | 15,981                     | -                           | 15,981              |
| Salaries payable                                | 309                        | -                           | 309                 |
| Early retirement payable                        | 47,840                     | -                           | 47,840              |
| Deferred revenue, succeeding year property tax  | 4,679,984                  | -                           | 4,679,984           |
| Long-term liabilities:                          |                            |                             |                     |
| Due within one year                             | 589,007                    | -                           | 589,007             |
| Due after one year                              | <u>3,655,000</u>           | <u>-</u>                    | <u>3,655,000</u>    |
| Total liabilities                               | <u>9,068,348</u>           | <u>254</u>                  | <u>9,068,602</u>    |
| <b>Net assets</b>                               |                            |                             |                     |
| Invested in capital assets, net of related debt | 6,303,720                  | 81,795                      | 6,385,515           |
| Restricted for:                                 |                            |                             |                     |
| Categorical aid                                 | 311,266                    | -                           | 311,266             |
| Debt service                                    | 102,040                    | -                           | 102,040             |
| Management                                      | 83,886                     | -                           | 83,886              |
| Capital projects                                | 743,921                    | -                           | 743,921             |
| Physical plant and equipment levy               | 80,551                     | -                           | 80,551              |
| Other special revenue purposes                  | 157,283                    | -                           | 157,283             |
| Unrestricted                                    | <u>850,611</u>             | <u>46,554</u>               | <u>897,165</u>      |
| Total net assets                                | <u>\$ 8,633,278</u>        | <u>\$ 128,349</u>           | <u>\$ 8,761,627</u> |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Activities**

**Year ended June 30, 2006**

| Functions/Programs                           | Expenses             | Program Revenues     |  |   |
|--|----------------------|----------------------|--|---|
|  |                      | Charges for Services | Operating Grant, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| <b>Governmental Activities</b>               |                      |                      |  |   |
| <b>Instruction:</b>                          |                      |                      |  |   |
| Regular instruction                          | \$ 5,004,849         | \$ 692,028           | \$ 1,429,216   | \$ -  |
| Special instruction                          | 2,222,952            | 230,145              | 12,038   | -   |
| Vocational instruction                       | 655,353              | -                    | -  | -   |
| Other instruction                            | 901,689              | 460,648              | 55,445   | -   |
|  | <u>8,784,843</u>     | <u>1,382,821</u>     | <u>1,496,699</u>                                       | <u>-</u>  |
| <b>Support services:</b>                     |                      |                      |  |   |
| Student services                             | 484,181              | -                    | -  | -   |
| Instructional staff services                 | 806,973              | -                    | -  | -   |
| General administration services              | 262,238              | -                    | -  | -   |
| Building administration services             | 833,559              | -                    | -  | -   |
| Business and central administration services | 124,929              | -                    | -  | -   |
| Operation and maintenance                    | 1,110,573            | 16,679               | -  | -   |
| Transportation services                      | 458,073              | 3,044                | -  | -   |
|  | <u>4,080,526</u>     | <u>19,723</u>        | <u>-</u>   | <u>-</u>  |
| Noninstructional programs                    | <u>4,003</u>         | <u>-</u>             | <u>-</u>   | <u>-</u>  |
| <b>Other expenditures:</b>                   |                      |                      |  |   |
| Facilities acquisition                       | 119,272              | -                    | -  | -   |
| Long-term debt interest                      | 216,126              | -                    | -  | -   |
| AEA flowthrough                              | 511,003              | -                    | -  | -   |
| Depreciation (unallocated)                   | 265,665              | -                    | -  | -   |
|  | <u>1,112,066</u>     | <u>-</u>             | <u>-</u>   | <u>-</u>  |
| Total governmental activities                | <u>13,981,438</u>    | <u>1,402,544</u>     | <u>1,496,699</u>                                       | <u>-</u>  |
| <b>Business-Type Activities</b>              |                      |                      |  |   |
| <b>Noninstructional programs:</b>            |                      |                      |  |   |
| Nutrition services                           | 766,842              | 487,608              | 253,606  | -   |
| House project                                | 39,110               | 28,998               | -  | -   |
|  | <u>805,952</u>       | <u>516,606</u>       | <u>253,606</u>   | <u>-</u>  |
| Total  | <u>\$ 14,787,390</u> | <u>\$ 1,919,150</u>  | <u>\$ 1,750,305</u>                                    | <u>\$ -</u>   |

Continued on following page.

Net (Expense) Revenue  
and Changes in Net Assets

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| Governmental<br>Activities | Business-Type<br>Activities | Total               |
|----------------------------|-----------------------------|---------------------|
| \$ (2,883,605)             | \$ -                        | \$ (2,883,605)      |
| (1,980,769)                | -                           | (1,980,769)         |
| (655,353)                  | -                           | (655,353)           |
| (385,596)                  | -                           | (385,596)           |
| <u>(5,905,323)</u>         | <u>-</u>                    | <u>(5,905,323)</u>  |
| (484,181)                  | -                           | (484,181)           |
| (806,973)                  | -                           | (806,973)           |
| (262,238)                  | -                           | (262,238)           |
| (833,559)                  | -                           | (833,559)           |
| (124,929)                  | -                           | (124,929)           |
| (1,093,894)                | -                           | (1,093,894)         |
| (455,029)                  | -                           | (455,029)           |
| <u>(4,060,803)</u>         | <u>-</u>                    | <u>(4,060,803)</u>  |
| <u>(4,003)</u>             | <u>-</u>                    | <u>(4,003)</u>      |
| (119,272)                  | -                           | (119,272)           |
| (216,126)                  | -                           | (216,126)           |
| (511,003)                  | -                           | (511,003)           |
| (265,665)                  | -                           | (265,665)           |
| <u>(1,112,066)</u>         | <u>-</u>                    | <u>(1,112,066)</u>  |
| <u>(11,082,195)</u>        | <u>-</u>                    | <u>(11,082,195)</u> |
| -                          | (25,628)                    | (25,628)            |
| -                          | (10,112)                    | (10,112)            |
| <u>-</u>                   | <u>(35,740)</u>             | <u>(35,740)</u>     |
| <u>(11,082,195)</u>        | <u>(35,740)</u>             | <u>(11,117,935)</u> |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Activities**

**Year ended June 30, 2006**

| Functions/Programs                            | Expenses | Program Revenues        |  |   |
|---|----------|-------------------------|--|---|
|   |          | Charges for<br>Services | Operating<br>Grant,<br>Contributions<br>and Restricted<br>Interest | Capital<br>Grants,<br>Contributions<br>and Restricted<br>Interest |
| General Revenues:                             |          |                         |  |   |
| Taxes:  |          |                         |  |   |
| Property taxes, levied for general purposes   |          |                         |  |   |
| Local option taxes, levied for capital outlay |          |                         |  |   |
| Unrestricted state grants                     |          |                         |  |   |
| Unrestricted investment earnings              |          |                         |  |   |
| Other   |          |                         |  |   |
| Total general revenues and transfers          |          |                         |  |   |
| Change in net assets                          |          |                         |  |   |
| Net assets beginning of year                  |          |                         |  |   |
| Net assets end of year                        |          |                         |  |   |

See notes to financial statements.

Net (Expense) Revenue  
and Changes in Net Assets

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| Governmental<br>Activities | Business-Type<br>Activities | Total               |
|----------------------------|-----------------------------|---------------------|
| 4,675,105                  | -                           | 4,675,105           |
| 843,856                    | -                           | 843,856             |
| 6,358,657                  | -                           | 6,358,657           |
| 113,747                    | 1,793                       | 115,540             |
| 12,788                     | -                           | 12,788              |
| <u>12,004,153</u>          | <u>1,793</u>                | <u>12,005,946</u>   |
| 921,958                    | (33,947)                    | 888,011             |
| <u>7,711,320</u>           | <u>162,296</u>              | <u>7,873,616</u>    |
| <u>\$ 8,633,278</u>        | <u>\$ 128,349</u>           | <u>\$ 8,761,627</u> |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Balance Sheet  
Governmental Funds  
June 30, 2006**

|                                      | General             | Management        | Capital<br>Projects | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--------------------------------------|---------------------|-------------------|---------------------|--|--------------------------------|
| <b>Assets</b>                        |                     |                   |                     |  |                                |
| Cash and pooled investments:         |                     |                   |                     |  |                                |
| Other                                | \$ 1,035,822        | \$ 131,141        | \$ 655,714          | \$ 332,071                                 | \$ 2,154,748                   |
| Receivables:                         |                     |                   |                     |  |                                |
| Property tax:                        |                     |                   |                     |  |                                |
| Delinquent                           | 42,430              | 3,035             | -                   | 7,586                                      | 53,051                         |
| Succeeding year                      | 3,985,673           | 220,949           | -                   | 473,362                                    | 4,679,984                      |
| Accounts                             | 1,256               | -                 | 10,000              | 77   | 11,333                         |
| Accrued interest                     | 7,537               | 936               | 2,678               | 1,080                                      | 12,231                         |
| Due from other governments           | 226,030             | -                 | 75,529              | -  | 301,559                        |
| Total assets                         | <u>\$ 5,298,748</u> | <u>\$ 356,061</u> | <u>\$ 743,921</u>   | <u>\$ 814,176</u>                          | <u>\$ 7,212,906</u>            |
| <b>Liabilities and Fund Balances</b> |                     |                   |                     |  |                                |
| Liabilities:                         |                     |                   |                     |  |                                |
| Accounts payable                     | \$ 75,901           | \$ 3,386          | \$ -                | \$ 940                                     | \$ 80,227                      |
| Salaries payable                     | 309                 | -                 | -                   | -  | 309                            |
| Early retirement payable             | -                   | 47,840            | -                   | -  | 47,840                         |
| Deferred revenue:                    |                     |                   |                     |  |                                |
| Succeeding year property tax         | 3,985,673           | 220,949           | -                   | 473,362                                    | 4,679,984                      |
| Other                                | 13,604              | -                 | -                   | -  | 13,604                         |
| Total liabilities                    | <u>4,075,487</u>    | <u>272,175</u>    | <u>-</u>            | <u>474,302</u>                             | <u>4,821,964</u>               |
| Fund balance:                        |                     |                   |                     |  |                                |
| Reserved for:                        |                     |                   |                     |  |                                |
| Categorical aid                      | 311,266             | -                 | -                   | -  | 311,266                        |
| Unreserved, reported in:             |                     |                   |                     |  |                                |
| General fund                         | 911,995             | -                 | -                   | -  | 911,995                        |
| Management fund                      | -                   | 83,886            | -                   | -  | 83,886                         |
| Capital projects fund                | -                   | -                 | 743,921             | -  | 743,921                        |
| Debt service fund                    | -                   | -                 | -                   | 102,040                                    | 102,040                        |
| Nonmajor Special revenue funds       | -                   | -                 | -                   | 237,834                                    | 237,834                        |
| Total fund balances                  | <u>1,223,261</u>    | <u>83,886</u>     | <u>743,921</u>      | <u>339,874</u>                             | <u>2,390,942</u>               |
| Total liabilities and fund balances  | <u>\$ 5,298,748</u> | <u>\$ 356,061</u> | <u>\$ 743,921</u>   | <u>\$ 814,176</u>                          | <u>\$ 7,212,906</u>            |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Reconciliation of the Balance Sheet of Governmental Funds  
to the Statement of Net Assets  
June 30, 2006**

|   |                            |
|---|----------------------------|
| Total governmental fund balances  | \$ 2,390,942               |
| Amounts reported for governmental activities in the<br>statement of net assets are different because:   |                            |
| Capital assets used in governmental activities are not financial resources and therefore<br>are not reported as assets in the governmental funds.                           | 10,488,720                 |
| Other long-term assets are not available to pay for current period expenditures and<br>therefore are deferred in the governmental funds.                                    | 13,604                     |
| Accrued interest payable on long-term liabilities is not due and payable in the current<br>period and, therefore, is not reported as a liability in the governmental funds. | (15,981)                   |
| Long-term liabilities, including compensated absences and bonds payable, are not due<br>and payable in the current period and therefore are not reported in the funds       | <u>(4,244,007)</u>         |
| Net assets of governmental activities   | <u><u>\$ 8,633,278</u></u> |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**Governmental Funds**

**Year ended June 30, 2006**

|  | General             | Management       | Capital<br>Projects | Other<br>Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|------------------|---------------------|--|--------------------------------|
| <b>Revenues:</b>   |                     |                  |                     |  |                                |
| Property and other local taxes                               | \$ 3,750,341        | \$ 257,122       | \$ 843,856          | \$ 667,643                                 | \$ 5,518,962                   |
| Other local sources  | 1,122,479           | 9,598            | 29,924              | 409,737                                    | 1,571,738                      |
| State sources  | 7,392,561           | 209              | -                   | 517  | 7,393,287                      |
| Federal sources  | 435,523             | -                | -                   | -  | 435,523                        |
| Total revenues   | <u>12,700,904</u>   | <u>266,929</u>   | <u>873,780</u>      | <u>1,077,897</u>                           | <u>14,919,510</u>              |
| <b>Expenditures:</b>   |                     |                  |                     |  |                                |
| <b>Current:</b>  |                     |                  |                     |  |                                |
| <b>Instruction:</b>  |                     |                  |                     |  |                                |
| Regular instruction  | 4,938,693           | 121,548          | -                   | -  | 5,060,241                      |
| Special instruction  | 2,220,759           | -                | -                   | -  | 2,220,759                      |
| Vocational instruction                                       | 638,251             | -                | -                   | -  | 638,251                        |
| Other instruction  | 524,061             | -                | -                   | 411,080                                    | 935,141                        |
|  | <u>8,321,764</u>    | <u>121,548</u>   | <u>-</u>            | <u>411,080</u>                             | <u>8,854,392</u>               |
| <b>Support services:</b>                                     |                     |                  |                     |  |                                |
| Student services   | 475,109             | -                | -                   | -  | 475,109                        |
| Instructional staff services                                 | 757,464             | -                | -                   | -  | 757,464                        |
| General administration services                              | 252,991             | 3,152            | -                   | -  | 256,143                        |
| Building administration services                             | 821,523             | -                | -                   | -  | 821,523                        |
| Business and central administration services                 | 119,410             | -                | -                   | 400  | 119,810                        |
| Operation and maintenance                                    | 953,503             | 72,388           | -                   | 57,345                                     | 1,083,236                      |
| Transportation services                                      | 406,751             | -                | -                   | 150,492                                    | 557,243                        |
|  | <u>3,786,751</u>    | <u>75,540</u>    | <u>-</u>            | <u>208,237</u>                             | <u>4,070,528</u>               |
| Noninstructional programs                                    | 4,003               | -                | -                   | -  | 4,003                          |
| <b>Other expenditures:</b>                                   |                     |                  |                     |  |                                |
| Facilities acquisition and construction                      | -                   | -                | 433,071             | 136,116                                    | 569,187                        |
| <b>Debt service:</b>   |                     |                  |                     |  |                                |
| Principal  | -                   | -                | -                   | 505,000                                    | 505,000                        |
| Interest and other charges                                   | -                   | -                | -                   | 218,470                                    | 218,470                        |
| AEA flowthrough  | 511,003             | -                | -                   | -  | 511,003                        |
|  | <u>511,003</u>      | <u>-</u>         | <u>433,071</u>      | <u>859,586</u>                             | <u>1,803,660</u>               |
| Total expenditures   | <u>12,623,521</u>   | <u>197,088</u>   | <u>433,071</u>      | <u>1,478,903</u>                           | <u>14,732,583</u>              |
| Excess (deficiency) of revenues<br>over (under) expenditures | <u>77,383</u>       | <u>69,841</u>    | <u>440,709</u>      | <u>(401,006)</u>                           | <u>186,927</u>                 |
| <b>Other financing sources (uses):</b>                       |                     |                  |                     |  |                                |
| Operating transfers in                                       | -                   | -                | -                   | 353,416                                    | 353,416                        |
| Operating transfers out                                      | -                   | -                | (234,491)           | (118,925)                                  | (353,416)                      |
| Proceeds from sale of fixed assets                           | 750                 | -                | -                   | -  | 750                            |
| Total other financing sources (uses)                         | <u>750</u>          | <u>-</u>         | <u>(234,491)</u>    | <u>234,491</u>                             | <u>750</u>                     |
| Net change in fund balances                                  | 78,133              | 69,841           | 206,218             | (166,515)                                  | 187,677                        |
| Fund balances beginning of year                              | 1,145,128           | 14,045           | 537,703             | 506,389                                    | 2,203,265                      |
| Fund balances end of year                                    | <u>\$ 1,223,261</u> | <u>\$ 83,886</u> | <u>\$ 743,921</u>   | <u>\$ 339,874</u>                          | <u>\$ 2,390,942</u>            |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
Year ended June 30, 2006**

|  |                   |
|--|-------------------|
| Net change in fund balances - total governmental funds   | \$ 187,677        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                   |
| Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period. |                   |
| Capital outlays  | \$ 761,722        |
| Depreciation expense   | <u>(513,003)</u>  |
|  | 248,719           |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets.  | 505,000           |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.  | 2,344             |
| Certain revenue not collected for several months after year end is not considered available in the governmental funds and is deferred. However, it is recorded as revenue in the statement of activities.  | (16,864)          |
| 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:  |                   |
| Compensated absences   | <u>(4,918)</u>    |
| Change in net assets of governmental activities  | <u>\$ 921,958</u> |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Net Assets  
Proprietary Funds  
June 30, 2006**

| <b>Assets</b>                                   | School<br>Nutrition | Building<br>Trades | Total       |
|---|---------------------|--------------------|-------------|
| <b>Current assets:</b>                          |                     |                    |             |
| Cash and pooled investments                     | \$ 5,936            | \$ 4,608           | \$ 10,544   |
| Receivables:                                    |                     |                    |             |
| Accounts  | 27,084              | -                  | 27,084      |
| Inventories                                     | 9,180               | -                  | 9,180       |
|   | <hr/>               | <hr/>              | <hr/>       |
| Total current assets                            | 42,200              | 4,608              | 46,808      |
| <b>Noncurrent assets:</b>                       |                     |                    |             |
| Capital assets, net of accumulated depreciation | 81,795              | -                  | 81,795      |
|   | <hr/>               | <hr/>              | <hr/>       |
| Total assets                                    | 123,995             | 4,608              | 128,603     |
|   | <hr/>               | <hr/>              | <hr/>       |
| <b>Liabilities</b>                              |                     |                    |             |
| <b>Current liabilities:</b>                     |                     |                    |             |
| Accounts payable                                | 254                 | -                  | 254         |
|   | <hr/>               | <hr/>              | <hr/>       |
| Total current liabilities                       | 254                 | -                  | 254         |
|   | <hr/>               | <hr/>              | <hr/>       |
| Total liabilities                               | 254                 | -                  | 254         |
|   | <hr/>               | <hr/>              | <hr/>       |
| <b>Net assets</b>                               |                     |                    |             |
| Invested in capital assets, net of related debt | 81,795              | -                  | 81,795      |
| Unrestricted                                    | 41,946              | 4,608              | 46,554      |
|   | <hr/>               | <hr/>              | <hr/>       |
| Total net assets                                | \$ 123,741          | \$ 4,608           | \$ 128,349  |
|   | <hr/> <hr/>         | <hr/> <hr/>        | <hr/> <hr/> |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Revenues, Expenses and Changes in Net Assets  
Propriety Funds  
Year ended June 30, 2006**

|                              | School<br>Nutrition | Building<br>Trades | Total             |
|------------------------------|---------------------|--------------------|-------------------|
| Operating revenue:           |                     |                    |                   |
| Local sources:               |                     |                    |                   |
| Charges for service          | \$ 487,608          | \$ 28,998          | \$ 516,606        |
| Operating expenses:          |                     |                    |                   |
| Noninstructional programs:   |                     |                    |                   |
| Salaries and benefits        | 250,407             | -                  | 250,407           |
| Benefits                     | 130,159             | -                  | 130,159           |
| Purchased services           | 10,829              | -                  | 10,829            |
| Supplies                     | 348,381             | 39,110             | 387,491           |
| Depreciation                 | 15,147              | -                  | 15,147            |
| Other                        | 11,919              | -                  | 11,919            |
|                              | <u>766,842</u>      | <u>39,110</u>      | <u>805,952</u>    |
| Operating loss               | <u>(279,234)</u>    | <u>(10,112)</u>    | <u>(289,346)</u>  |
| Nonoperating revenue:        |                     |                    |                   |
| State sources                | 7,833               | -                  | 7,833             |
| Federal sources              | 245,773             | -                  | 245,773           |
| Interest on investments      | 1,630               | 163                | 1,793             |
| Total non-operating revenue  | <u>255,236</u>      | <u>163</u>         | <u>255,399</u>    |
| Change in net assets         | (23,998)            | (9,949)            | (33,947)          |
| Net assets beginning of year | <u>147,739</u>      | <u>14,557</u>      | <u>162,296</u>    |
| Net assets end of year       | <u>\$ 123,741</u>   | <u>\$ 4,608</u>    | <u>\$ 128,349</u> |

See notes to financial statements.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows  
Propriety Funds  
Year ended June 30, 2006

|   | School<br>Nutrition | Building<br>Trades | Total               |
|---|---------------------|--------------------|---------------------|
| Cash flows from operating activities:   |                     |                    |                     |
| Cash received from sale of lunches and breakfasts                                 | \$ 487,907          | \$ -               | \$ 487,907          |
| Cash received from sale of houses   | -                   | 28,998             | 28,998              |
| Cash payments to employees for services   | (380,566)           | -                  | (380,566)           |
| Cash payments to suppliers for goods or services                                  | <u>(372,461)</u>    | <u>(39,375)</u>    | <u>(411,836)</u>    |
| Net cash used in operating activities   | <u>(265,120)</u>    | <u>(10,377)</u>    | <u>(275,497)</u>    |
| Cash flows from noncapital financing activities:                                  |                     |                    |                     |
| State grants received   | 7,833               | -                  | 7,833               |
| Federal grants received   | <u>219,586</u>      | <u>-</u>           | <u>219,586</u>      |
| Net cash provided by noncapital financing activities                              | <u>227,419</u>      | <u>-</u>           | <u>227,419</u>      |
| Cash flows from capital and related financing activities:                         |                     |                    |                     |
| Acquisition of capital assets   | <u>(5,430)</u>      | <u>-</u>           | <u>(5,430)</u>      |
| Cash flows from investing activities:   |                     |                    |                     |
| Interest on investments   | <u>1,539</u>        | <u>163</u>         | <u>1,702</u>        |
| Net decrease in cash and cash equivalents   | (41,592)            | (10,214)           | (51,806)            |
| Cash and cash equivalents beginning of year                                       | <u>47,528</u>       | <u>14,822</u>      | <u>62,350</u>       |
| Cash and cash equivalents end of year   | <u>\$ 5,936</u>     | <u>\$ 4,608</u>    | <u>\$ 10,544</u>    |
| Cash and cash equivalents consist of the following:                               |                     |                    |                     |
| Cash and pooled investments   | <u>\$ 5,936</u>     | <u>\$ 4,608</u>    | <u>\$ 10,544</u>    |
| Total cash and cash equivalents   | <u>\$ 5,936</u>     | <u>\$ 4,608</u>    | <u>\$ 10,544</u>    |
| Reconciliation of operating loss to net cash used in operating activities:        |                     |                    |                     |
| Operating loss  | \$ (279,234)        | \$ (10,112)        | \$ (289,346)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                     |                    |                     |
| Commodities used  | 28,370              | -                  | 28,370              |
| Depreciation  | 15,147              | -                  | 15,147              |
| Increase in receivables   | (28,596)            | -                  | (28,596)            |
| Increase in inventories   | (1,045)             | -                  | (1,045)             |
| Increase (Decrease) in accounts payable and accrued liabilities                   | <u>238</u>          | <u>(265)</u>       | <u>(27)</u>         |
| Net cash used in operating activities   | <u>\$ (265,120)</u> | <u>\$ (10,377)</u> | <u>\$ (275,497)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$28,370 of federal commodities.

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2006**

|                             | Private Purpose<br>Trust-<br>Nonexpendable<br>Scholarships | <u>Agency Fund</u><br>Private Purpose<br>Trust-<br>Expendable<br>Scholarships |
|-----------------------------|--|---|
| <b>Assets</b>               |  |   |
| Cash and investments        | \$ 1,799,743   | \$ 231,967  |
| Accounts receivable - other | 480  | -   |
|                             | <hr/>  | <hr/>   |
| Total assets                | 1,800,223  | 231,967   |
|                             | <hr/>  | <hr/>   |
| <b>Liabilities</b>          |  |   |
| Liabilities:                |  |   |
| Due to others               | -  | 231,967   |
|                             | <hr/>  | <hr/>   |
| Total liabilities           | -  | 231,967   |
|                             | <hr/>  | <hr/>   |
| <b>Net assets</b>           |  |   |
| Reserved for scholarships   | \$ 1,800,223   | \$ -  |
|                             | <hr/> <hr/>  | <hr/> <hr/>   |

See notes to financial statements.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year ended June 30, 2006**

|                              | Private Purpose<br>Trust-<br>Nonexpendable<br>Scholarships |
|------------------------------|--|
| Additions:                   |  |
| Local sources:               |  |
| Investment income            | <u>\$ 50,139</u>   |
| Total additions              | 50,139   |
| Transfers                    | <u>(70,457)</u>  |
| Change in net assets         | (20,318)   |
| Net assets beginning of year | <u>1,820,541</u>   |
| Net assets end of year       | <u><u>\$ 1,800,223</u></u>                                 |

See notes to financial statements.

# WEBSTER CITY COMMUNITY SCHOOL DISTRICT

## Notes to Financial Statements

### (1) Summary of Significant Accounting Policies

The Webster City Community School District, which was incorporated under Chapter 274 of the State Code of Iowa, 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. These courses include remedial education as well as vocational and recreation courses. The geographic area served includes the city of Webster City, Iowa and the predominate agricultural territory in Hamilton, Webster, and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

#### A. Reporting Entity

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

#### 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. Interfund services provided and used are not eliminated in the process of consolidation. 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 services.

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 of enabling legislation.

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

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

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

Fund Financial Statements - Separate financial statements are provided for the 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 receipts 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 expenses, including instructional, support and other costs.

The Management Fund accounts for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

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

The District reports the following major proprietary funds:

The School Nutrition Fund is used to account for the food service operations of the District.

The Building Trades Fund accounts for house building projects of the building and trade classes of the District.

The District also reports a fiduciary fund which focuses on net assets and changes in net assets. The District's fiduciary fund includes 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.

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

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

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The Government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. The District's fiduciary fund, the agency fund, does not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 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 compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under 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 funds of the District apply 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 Principals Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

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

Pooled Cash and Investments - Separate bank accounts and investments are not maintained for all District funds, as certain funds maintain their cash and investment balances in a pooled account. Accounting records are maintained to show the portion of the pooled account attributable to each participating fund.

Receivables - Receivables are expected to be collected within twelve months of the end of the year.

Property Tax Receivable - Property tax in the governmental funds are 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 from the current and prior year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred 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 becomes due and collectible in September and March of the fiscal year with a 1 1/2% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

Inventories - Inventory items are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories are accounted for using the consumption method whereby inventory acquisitions are recorded in inventory accounts when purchased or received by other means and charged to operations when consumed or sold. The single inventory method is used, therefore, purchased and commodity items are accounted for in the same manner.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities column 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.

|                                   |          |
|-----------------------------------|----------|
| Land                              | \$ 1,000 |
| Buildings and improvements        | 1,000    |
| Improvements other than buildings | 1,000    |
| Machinery and equipment:          |          |
| School Nutrition Fund equipment   | 1,000    |
| Other machinery and equipment     | 1,000    |

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

|                                   |              |
|-----------------------------------|--------------|
| Buildings and improvements        | 50 years     |
| Improvements other than buildings | 20 years     |
| Machinery and equipment           | 5 - 20 years |

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or 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 collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue 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.

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent uses or for payment upon termination, retirement or death. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The compensated absences liability attributable to the governmental activities will be paid primarily by the Management Fund. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

Salaries and Benefits Payable - Payroll and related payroll taxes and benefits for employees with annual contracts corresponding to the current school year which are payable as of the end of the fiscal year, have been accrued as liabilities as they are applicable to services provided during the respective fiscal years, and will be paid with available resources.

Long-term obligations - In the Government-wide financial statement, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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

The District reserves the following fund balances:

Reserved for categorical aid - Accounts used to segregate a portion of the fund balance for amounts which are legally restricted.

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

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, total expenditures did not exceed the amount budgeted in any functional area, the total certified budget, nor the legally-authorized budget.

#### F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures and expenses, as appropriate during the reporting period. Actual results could differ from those estimates.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

(2) Cash and Cash Equivalents and Investments

Interest rate risk: As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy requires operating funds to be invested in investments that mature within three hundred and ninety-seven days or less. When investing other than operating funds, the investments must mature according to the needs of the funds. Operating funds of the District are funds which are reasonably expected to be used during a current budget year or within fifteen months of receipt.

Credit risk: The District is authorized by statute to invest public funds not currently needed for operating expenses 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 and the Treasurer of the State of Iowa; perfected repurchase agreements; certain joint investment trusts and warrants for improvement certificates of a drainage district. The District has no investment policies that would further limit its investment choices.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

|                       |                    |
|-----------------------|--------------------|
|                       | Amortized<br>Cost  |
| Diversified Portfolio | <u>\$2,316,932</u> |

The investments are rated Aaa by Moody's Investors Service and are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

The District has investments that were donated to the District to be used for scholarship awards for students. At June 30, 2006, those investments consisted of the following:

|               | Maturities | Fair Value        |
|---------------|------------|-------------------|
| Common stock  | N/A        | \$ 440,024        |
| U.S. agencies | 10/15/2008 | 44,691            |
|               |            | <u>\$ 484,715</u> |

Concentration of credit risk: The District's general investment policy is to apply the prudent-person rule: In making investments, the District will exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use to meet the goals of the investment program.

Custodial credit risk: For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Chapter 12C of the Code of Iowa requires all District funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2006, the District has no deposits or investments subject to custodial credit risk.

WEBSTER CITY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

(3) Capital Assets

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

|  | Balance<br>Beginning<br>of Year | Increases  | Decreases | Balance<br>End of<br>Year |
|--|---------------------------------|------------|-----------|---------------------------|
| Governmental activities:                     |                                 |            |           |                           |
| Capital assets not being depreciated:        |                                 |            |           |                           |
| Land   | \$ 590,000                      | \$ -       | \$ -      | \$ 590,000                |
| Total capital assets not being depreciated   | 590,000                         | -          | -         | 590,000                   |
| Capital assets being depreciated:            |                                 |            |           |                           |
| Buildings and improvements                   | 13,724,089                      | 47,562     | -         | 13,771,651                |
| Improvements other than buildings            | 174,720                         | 85,051     | -         | 259,771                   |
| Machinery and equipment                      | 2,043,738                       | 629,109    | 45,146    | 2,627,701                 |
| Total capital assets being depreciated       | 15,942,547                      | 761,722    | 45,146    | 16,659,123                |
| Less accumulated depreciation for:           |                                 |            |           |                           |
| Buildings and improvements                   | 4,520,600                       | 265,665    | -         | 4,786,265                 |
| Improvements other than buildings            | 99,955                          | 12,989     | -         | 112,944                   |
| Machinery and equipment                      | 1,671,991                       | 234,349    | 45,146    | 1,861,194                 |
| Total accumulated depreciation               | 6,292,546                       | 513,003    | 45,146    | 6,760,403                 |
| Total capital assets being depreciated, net  | 9,650,001                       | 248,719    | -         | 9,898,720                 |
| Governmental activities capital assets, net  | \$ 10,240,001                   | \$ 248,719 | \$ -      | \$ 10,488,720             |
| Business-type activities:                    |                                 |            |           |                           |
| Furniture, equipment, vehicles               | \$ 193,354                      | \$ 5,430   | \$ 9,500  | \$ 189,284                |
| Less accumulated depreciation                | 101,842                         | 15,147     | 9,500     | 107,489                   |
| Business-type activities capital assets, net | \$ 91,512                       | \$ (9,717) | \$ -      | \$ 81,795                 |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

Depreciation expense was charged by the District as follows:

|                           |  |                   |
|---------------------------|--|-------------------|
| Governmental activities:  |  |                   |
| Instruction:              |  |                   |
| Regular                   |  | \$ 48,853         |
| Special                   |  | 19,244            |
| Vocational                |  | 17,102            |
| Other                     |  | 6,567             |
| Support services:         |  |                   |
| Student                   |  | 4,154             |
| Instructional staff       |  | 49,509            |
| General administration    |  | 6,095             |
| Building administration   |  | 12,036            |
| Business administration   |  | 5,119             |
| Operation and maintenance |  | 27,337            |
| Transportation            |  | 51,322            |
|                           |  | <u>247,338</u>    |
| Unallocated depreciation  |  | <u>265,665</u>    |
|                           |  | <u>\$ 513,003</u> |
| Business-type activities: |  |                   |
| School nutrition          |  | <u>\$ 15,147</u>  |
|                           |  | <u>\$ 15,147</u>  |

(4) Bonds Payable

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

| Year<br>Ending<br>June 30, | Series 1999       |                     |                   | Series 1995       |                   |                  | Total               |
|----------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|------------------|---------------------|
|                            | Interest<br>Rates | Principal           | Interest          | Interest<br>Rates | Principal         | Interest         |                     |
| 2007                       | 4.25%             | \$ 55,000           | \$ 148,408        | 6.00%             | \$ 375,000        | \$ 22,500        | \$ 600,908          |
| 2008                       | 4.25%             | 460,000             | 146,070           | -                 | -                 | -                | 606,070             |
| 2009                       | 4.30%             | 480,000             | 126,520           | -                 | -                 | -                | 606,520             |
| 2010                       | 4.35%             | 505,000             | 105,880           | -                 | -                 | -                | 610,880             |
| 2011                       | 4.40%             | 525,000             | 83,913            | -                 | -                 | -                | 608,913             |
| 2012                       | 4.45%             | 550,000             | 60,812            | -                 | -                 | -                | 610,812             |
| 2013                       | 4.50%             | 580,000             | 36,338            | -                 | -                 | -                | 616,338             |
| 2014                       | 4.55%             | 225,000             | 10,237            | -                 | -                 | -                | 235,237             |
| Total                      |                   | <u>\$ 3,380,000</u> | <u>\$ 718,178</u> |                   | <u>\$ 375,000</u> | <u>\$ 22,500</u> | <u>\$ 4,495,678</u> |

During the year ended June 30, 2006, the District retired \$410,000 of the above bond issues.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

(5) Capital Loan Notes

Details of the District's June 30, 2006, capital loan notes indebtedness are as follows:

| Year<br>Ending<br>June 30, | Interest<br>Rates | Principal         | Interest         | Total             |
|----------------------------|-------------------|-------------------|------------------|-------------------|
| 2007                       | 4.75-4.80%        | \$ 100,000        | \$ 19,683        | \$ 119,683        |
| 2008                       | 4.80-4.85%        | 105,000           | 14,895           | 119,895           |
| 2009                       | 4.85-4.90%        | 110,000           | 9,694            | 119,694           |
| 2010                       | 4.90-4.95%        | 115,000           | 4,317            | 119,317           |
|                            |                   | <u>\$ 430,000</u> | <u>\$ 48,589</u> | <u>\$ 478,589</u> |

During the year ended June 30, 2006, the District retired \$95,000 of the above capital loan notes.

(6) Long-Term Liabilities

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

|                         | Balance<br>Beginning<br>of Year | Additions        | Reductions        | Balance<br>End<br>of Year | Due<br>Within<br>One Year |
|-------------------------|---------------------------------|------------------|-------------------|---------------------------|---------------------------|
| Capital loan note       | \$ 525,000                      | \$ -             | \$ 95,000         | \$ 430,000                | \$ 100,000                |
| Bonds payable           | 4,165,000                       | -                | 410,000           | 3,755,000                 | 430,000                   |
| Compensated<br>absences | 54,089                          | 59,007           | 54,089            | 59,007                    | 59,007                    |
| Total                   | <u>\$ 4,744,089</u>             | <u>\$ 59,007</u> | <u>\$ 559,089</u> | <u>\$ 4,244,007</u>       | <u>\$ 589,007</u>         |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

The annual debt service requirements, including principal and interest, for long-term debt as June 30, 2006, are as follows:

| Year Ending<br>June 30,       | Total               |
|-------------------------------|---------------------|
| 2007                          | \$ 779,598          |
| 2008                          | 725,965             |
| 2009                          | 726,214             |
| 2010                          | 730,197             |
| 2011                          | 608,913             |
| After 2009                    | <u>1,462,387</u>    |
| Total Principal and Interest  | 5,033,274           |
| Less Interest                 | <u>(789,267)</u>    |
| Liability as of June 30, 2006 | <u>\$ 4,244,007</u> |

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$463,368, \$444,757, and \$433,138, respectively, equal to required contributions for each year.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and education services provided through the area education agency. The District's actual amount for this purpose totaled \$511,003 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.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

(9) Contingencies and Risk Management

At June 30, 2006, the District is involved in various claims and lawsuits against the District that arise in the normal course of operations, many of which are covered by insurance. The outcome and eventual liability of the District, if any, from these claims and any unasserted claims is not known at this time. It has been the District's experience that such claims are settled for amounts substantially less than claimed amounts. District management estimates that the potential claims against the District, not covered by various insurance policies, would not materially affect the financial condition of the District. The District is also exposed to various risks of loss related to torts; theft; damage to and destruction of assets; error and omissions; injuries to employees; and natural disasters. The District carries commercial insurance for all risks of loss, including Workers' Compensation and employee health and accident insurance. There has been no reduction in insurance coverage from the prior year. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Early Retirement Plans and Postemployment Benefits Other than Pension Benefits

The District maintains an early retirement plan covering substantially all employees. To be eligible for the early retirement plan, an employee must have been employed on a full-time basis for a minimum of 15 years of continuous service in the District. Certain part-time employees are eligible for benefits on a basis commensurate with the amount of time their position entails. Employees who submit a written request for early retirement to the District prior to January 1 of the school year in which they intend to retire shall be eligible for early retirement provided all other eligibility requirements have been met. Benefits are computed based on years of service at retirement and are financed either as a lump sum payment, two payments within a 12 month period, or pay as you go by applying early retirement compensation monies toward the District's group health and hospital insurance policy.

(11) Transfers Within the Reporting Entity

Interfund transfers were as follows:

| Transfer Out:                     | Transfer In:            |
|-----------------------------------|-------------------------|
|                                   | Debt<br>Service<br>Fund |
| Capital Projects                  | \$ 234,491              |
| Physical Plant and Equipment Levy | <u>118,925</u>          |
|                                   | <u>\$ 353,416</u>       |

**Required Supplementary Information**

**WEBSTER CITY 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  
Year ended June 30, 2006**

|   | Governmental<br>Fund Types<br>Actual | Proprietary<br>Fund Type<br>Actual |
|---|--------------------------------------|------------------------------------|
| Receipts:   |                                      |                                    |
| Local sources   | \$ 7,008,298                         | \$ 519,235                         |
| Intermediate sources  | -                                    | -                                  |
| State sources   | 6,841,412                            | 7,833                              |
| Federal sources   | 451,190                              | 219,586                            |
| Total receipts  | <u>14,300,900</u>                    | <u>746,654</u>                     |
| Disbursements:  |                                      |                                    |
| Instruction   | 8,871,057                            | 39,375                             |
| Support services  | 3,583,889                            | -                                  |
| Noninstructional programs   | 4,003                                | 759,085                            |
| Other expenditures  | 1,812,936                            | -                                  |
| Total disbursements   | <u>14,271,885</u>                    | <u>798,460</u>                     |
| Excess (deficiency) of receipts over (under) disbursements  | 29,015                               | (51,806)                           |
| Other financing sources, net  | <u>750</u>                           | <u>-</u>                           |
| Excess (deficiency) of receipts and other financing<br>sources over (under) disbursements and other<br>financing uses | 29,765                               | (51,806)                           |
| Balance beginning of year   | <u>2,124,983</u>                     | <u>62,350</u>                      |
| Balance end of year   | <u>\$ 2,154,748</u>                  | <u>\$ 10,544</u>                   |

See accompanying independent auditors' report.

| Total<br>Actual     | Budgeted Amounts    |                     | Final to<br>Actual<br>Variance-<br>Positive<br>(Negative) |
|---------------------|---------------------|---------------------|---|
|                     | Original            | Final               |   |
| \$ 7,527,533        | \$ 7,188,203        | \$ 7,188,203        | \$ 339,330  |
| -                   | -                   | -                   | -   |
| 6,849,245           | 7,631,070           | 7,631,070           | (781,825)   |
| 670,776             | 665,000             | 665,000             | 5,776   |
| <u>15,047,554</u>   | <u>15,484,273</u>   | <u>15,484,273</u>   | <u>(436,719)</u>  |
| 8,910,432           | 9,965,764           | 9,965,764           | 1,055,332   |
| 3,583,889           | 4,201,850           | 4,201,850           | 617,961   |
| 763,088             | 985,742             | 985,742             | 222,654   |
| 1,812,936           | 2,413,892           | 2,413,892           | 600,956   |
| <u>15,070,345</u>   | <u>17,567,248</u>   | <u>17,567,248</u>   | <u>2,496,903</u>  |
| (22,791)            | (2,082,975)         | (2,082,975)         | 2,060,184   |
| <u>750</u>          | <u>12,697</u>       | <u>12,697</u>       | <u>(11,947)</u>   |
| (22,041)            | (2,070,278)         | (2,070,278)         | 2,048,237   |
| <u>2,187,333</u>    | <u>5,060,698</u>    | <u>5,060,698</u>    | <u>(2,873,365)</u>  |
| <u>\$ 2,165,292</u> | <u>\$ 2,990,420</u> | <u>\$ 2,990,420</u> | <u>\$ (825,128)</u>                                       |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
Required Supplementary Information  
Year ended June 30, 2006**

|                                | Governmental Fund Types |                     |                        |
|--------------------------------|-------------------------|---------------------|------------------------|
|                                | Cash Basis              | Accrual Adjustments | Modified Accrual Basis |
| Revenues                       | \$ 14,300,900           | \$ 618,610          | \$ 14,919,510          |
| Expenditures                   | 14,271,885              | 460,698             | 14,732,583             |
| Net                            | 29,015                  | 157,912             | 186,927                |
| Other financing sources (uses) | 750                     | -                   | 750                    |
| Beginning fund balances        | 2,124,983               | 78,282              | 2,203,265              |
| Ending fund balances           | <u>\$ 2,154,748</u>     | <u>\$ 236,194</u>   | <u>\$ 2,390,942</u>    |

|                                | Proprietary Fund Type<br>Enterprise |                     |                   |
|--------------------------------|-------------------------------------|---------------------|-------------------|
|                                | Cash Basis                          | Accrual Adjustments | Accrual Basis     |
| Revenues                       | \$ 746,654                          | \$ 25,351           | \$ 772,005        |
| Expenses                       | 798,460                             | 7,492               | 805,952           |
| Net                            | (51,806)                            | 17,859              | (33,947)          |
| Other financing sources (uses) | -                                   | -                   | -                 |
| Beginning net assets           | 62,350                              | 99,946              | 162,296           |
| Ending net assets              | <u>\$ 10,544</u>                    | <u>\$ 117,805</u>   | <u>\$ 128,349</u> |

See accompanying independent auditors' report.

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Notes to Required Supplementary Information - Budgetary Reporting June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized in 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 functional areas, not by fund or fund type. These four functional areas are instruction, support services, noninstructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that district expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend the budget.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in any functional area and the District did not exceed its General Fund unspent authorized budget.

**Other Supplementary Information**

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006**

|                                       | Special Revenue     |  |                             |
|---------------------------------------|---------------------|--|-----------------------------|
|                                       | Student<br>Activity | Physical<br>Plant and<br>Equipment<br>Levy | Total<br>Special<br>Revenue |
| <b>Assets</b>                         |                     |  |                             |
| Cash and pooled investments           | \$ 157,399          | \$ 76,667                                  | \$ 234,066                  |
| Receivables:                          |                     |  |                             |
| Property tax:                         |                     |  |                             |
| Delinquent                            | -                   | 3,951                                      | 3,951                       |
| Succeeding year                       | -                   | 359,415                                    | 359,415                     |
| Accrued interest                      | 356                 | 324  | 680                         |
| Accounts                              | 77                  | -  | 77                          |
| Total assets                          | <u>\$ 157,832</u>   | <u>\$ 440,357</u>                          | <u>\$ 598,189</u>           |
| <b>Liabilities and Fund Equity</b>    |                     |  |                             |
| Liabilities:                          |                     |  |                             |
| Accounts payable                      | \$ 549              | \$ 391                                     | \$ 940                      |
| Deferred revenue:                     |                     |  |                             |
| Succeeding year property tax          | -                   | 359,415                                    | 359,415                     |
| Total liabilities                     | <u>549</u>          | <u>359,806</u>                             | <u>360,355</u>              |
| Fund equity:                          |                     |  |                             |
| Unreserved, undesignated fund balance | <u>157,283</u>      | <u>80,551</u>                              | <u>237,834</u>              |
| Total liabilities and fund equity     | <u>\$ 157,832</u>   | <u>\$ 440,357</u>                          | <u>\$ 598,189</u>           |

See accompanying independent auditors' report.

|    | Debt<br>Service<br>Fund | Total          |
|----|-------------------------|----------------|
| \$ | 98,005                  | \$ 332,071     |
|    | 3,635                   | 7,586          |
|    | 113,947                 | 473,362        |
|    | 400                     | 1,080          |
|    | -                       | 77             |
|    | <u>215,987</u>          | <u>814,176</u> |
| \$ | 215,987                 | \$ 814,176     |

|    |                |                |
|----|----------------|----------------|
| \$ | -              | \$ 940         |
|    | 113,947        | 473,362        |
|    | <u>113,947</u> | <u>474,302</u> |
|    | 102,040        | 339,874        |
| \$ | <u>215,987</u> | <u>814,176</u> |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
Year ended June 30, 2006**

|  | Special Revenue     |  |                             |
|--|---------------------|--|-----------------------------|
|  | Student<br>Activity | Physical<br>Plant and<br>Equipment<br>Levy | Total<br>Special<br>Revenue |
| Revenues:  |                     |  |                             |
| Property and other local taxes   | \$ -                | \$ 348,939                                 | \$ 348,939                  |
| Other local sources  | 391,886             | 11,476                                     | 403,362                     |
| State sources  | -                   | 269  | 269                         |
|  | <u>391,886</u>      | <u>360,684</u>                             | <u>752,570</u>              |
| Total revenues   |                     |  |                             |
| Expenditures:  |                     |  |                             |
| Current:   |                     |  |                             |
| Instruction:   |                     |  |                             |
| Other instruction  | 411,080             | -  | 411,080                     |
| Support services:  |                     |  |                             |
| Business and central administration services   | -                   | -  | -                           |
| Operating and maintenance  | -                   | 57,345                                     | 57,345                      |
| Transportation services  | -                   | 150,492                                    | 150,492                     |
| Other expenditures:  |                     |  |                             |
| Facilities acquisition   | -                   | 136,116                                    | 136,116                     |
| Debt service:  |                     |  |                             |
| Principal  | -                   | -  | -                           |
| Interest   | -                   | -  | -                           |
|  | <u>411,080</u>      | <u>343,953</u>                             | <u>755,033</u>              |
| Total expenditures   |                     |  |                             |
| Excess (deficiency) of revenues<br>over (under) expenditures   | <u>(19,194)</u>     | <u>16,731</u>                              | <u>(2,463)</u>              |
| Other financing uses:  |                     |  |                             |
| Operating transfers in   | -                   | -  | -                           |
| Operating transfers out  | -                   | (118,925)                                  | (118,925)                   |
| Total other financing uses   | <u>-</u>            | <u>(118,925)</u>                           | <u>(118,925)</u>            |
| Deficiency of revenues and other<br>financing sources under expenditures<br>and other financing uses | (19,194)            | (102,194)                                  | (121,388)                   |
| Fund balances beginning of year  | <u>176,477</u>      | <u>182,745</u>                             | <u>359,222</u>              |
| Fund balances end of year  | <u>\$ 157,283</u>   | <u>\$ 80,551</u>                           | <u>\$ 237,834</u>           |

See accompanying independent auditors' report.

| Debt<br>Service<br>Fund | Total             |
|-------------------------|-------------------|
| \$ 318,704              | \$ 667,643        |
| 6,375                   | 409,737           |
| 248                     | 517               |
| <u>325,327</u>          | <u>1,077,897</u>  |
| -                       | 411,080           |
| 400                     | 400               |
| -                       | 57,345            |
| -                       | 150,492           |
| -                       | 136,116           |
| 505,000                 | 505,000           |
| <u>218,470</u>          | <u>218,470</u>    |
| <u>723,870</u>          | <u>1,478,903</u>  |
| <u>(398,543)</u>        | <u>(401,006)</u>  |
| 353,416                 | 353,416           |
| -                       | (118,925)         |
| <u>353,416</u>          | <u>234,491</u>    |
| (45,127)                | (166,515)         |
| <u>147,167</u>          | <u>506,389</u>    |
| <u>\$ 102,040</u>       | <u>\$ 339,874</u> |

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Changes in Fiduciary Assets and Liabilities -  
Agency Funds  
Year ended June 30, 2006**

| <b>Assets</b>            | <b>Balance<br/>Beginning<br/>of Year</b> | <b>Additions</b>        | <b>Deductions</b>        | <b>Balance<br/>End<br/>of Year</b> |
|--------------------------|--|-------------------------|--------------------------|------------------------------------|
| Cash and investments     | <u>\$ 269,658</u>                        | <u>\$ 82,294</u>        | <u>\$ 119,985</u>        | <u>\$ 231,967</u>                  |
| <b>Total assets</b>      | <u><u>\$ 269,658</u></u>                 | <u><u>\$ 82,294</u></u> | <u><u>\$ 119,985</u></u> | <u><u>\$ 231,967</u></u>           |
| <b>Liabilities</b>       |  |                         |                          |                                    |
| Due to others            | <u>\$ 269,658</u>                        | <u>\$ 82,294</u>        | <u>\$ 119,985</u>        | <u>\$ 231,967</u>                  |
| <b>Total liabilities</b> | <u><u>\$ 269,658</u></u>                 | <u><u>\$ 82,294</u></u> | <u><u>\$ 119,985</u></u> | <u><u>\$ 231,967</u></u>           |

See accompanying independent auditors' report.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
Year ended June 30, 2006**

|                          | Balance<br>Beginning<br>of Year | Revenues<br>and Interfund<br>Transfers | Expenditures      | Balance<br>End of<br>Year |
|--------------------------|---------------------------------|--|-------------------|---------------------------|
| Athletics clubs and band | \$ (23,118)                     | \$ 83,621                              | \$ 87,670         | \$ (27,167)               |
| Elementary School        | 29,108                          | 75,913                                 | 77,319            | 27,702                    |
| Middle School            | 19,397                          | 50,877                                 | 49,803            | 20,471                    |
| High School              | 66,302                          | 141,742                                | 131,764           | 76,280                    |
| Administration           | <u>84,788</u>                   | <u>39,733</u>                          | <u>64,524</u>     | <u>59,997</u>             |
| Total                    | <u>\$ 176,477</u>               | <u>\$ 391,886</u>                      | <u>\$ 411,080</u> | <u>\$ 157,283</u>         |

See accompanying independent auditors' report.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Revenues by Source and Expenditures by Function  
All Governmental Fund Types  
For the Last Four Years**

|  | Modified Accrual Basis |                      |                      |                      |
|--|------------------------|----------------------|----------------------|----------------------|
|  | Years ended June 30,   |                      |                      |                      |
|  | 2006                   | 2005                 | 2004                 | 2003                 |
| <b>Revenues:</b>                             |                        |                      |                      |                      |
| Local sources:                               |                        |                      |                      |                      |
| Local tax                                    | \$ 5,518,962           | \$ 5,535,176         | \$ 5,037,018         | \$ 5,073,782         |
| Other  | 1,571,738              | 1,466,358            | 1,479,136            | 1,544,659            |
| Intermediate sources                         | -                      | 7,000                | -                    | 19,212               |
| State sources                                | 7,393,287              | 6,748,480            | 6,571,400            | 6,741,238            |
| Federal sources                              | 435,523                | 507,218              | 616,757              | 276,157              |
|  | <u>\$ 14,919,510</u>   | <u>\$ 14,264,232</u> | <u>\$ 13,704,311</u> | <u>\$ 13,655,048</u> |
| <b>Expenditures:</b>                         |                        |                      |                      |                      |
| Instruction:                                 |                        |                      |                      |                      |
| Regular instruction                          | \$ 5,060,241           | \$ 4,818,441         | \$ 4,546,254         | \$ 4,577,077         |
| Special instruction                          | 2,220,759              | 2,180,591            | 2,335,725            | 2,193,091            |
| Vocational instruction                       | 638,251                | 582,507              | 578,846              | 592,397              |
| Other instruction                            | 935,141                | 934,383              | 647,472              | 561,621              |
| Support services:                            |                        |                      |                      |                      |
| Student services                             | 475,109                | 501,381              | 489,013              | 475,719              |
| Instructional staff services                 | 757,464                | 855,658              | 591,880              | 816,572              |
| General administration services              | 256,143                | 212,448              | 195,594              | 204,461              |
| Building administration services             | 821,523                | 743,519              | 709,239              | 685,769              |
| Business and central administration services | 119,810                | 222,505              | 215,542              | 195,425              |
| Operation and maintenance                    | 1,083,236              | 946,380              | 965,685              | 955,000              |
| Transportation services                      | 557,243                | 427,672              | 360,294              | 381,900              |
| Non-instructional programs                   | 4,003                  | 18,622               | 10,454               | 9,916                |
| Other expenses:                              |                        |                      |                      |                      |
| Facilities acquisition                       | 569,187                | 403,082              | 247,769              | 65,016               |
| Long-term debt:                              |                        |                      |                      |                      |
| Principal                                    | 505,000                | 475,000              | 3,925,044            | 485,897              |
| Interest and other charges                   | 218,470                | 244,487              | 482,457              | 511,087              |
| AEA flowthrough                              | 511,003                | 497,832              | 489,209              | 512,703              |
|  | <u>\$ 14,732,583</u>   | <u>\$ 14,064,508</u> | <u>\$ 16,790,477</u> | <u>\$ 13,223,651</u> |

See accompanying independent auditors' report.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Expenditures of Federal Awards  
Year ended June 30, 2006**

| Grantor/Program   | CFDA<br>Number | Grant<br>Number | Expenditures   |
|---|----------------|-----------------|----------------|
| Indirect:   |                |                 |                |
| U.S. Department of Agriculture:                           |                |                 |                |
| Iowa Department of Education:                             |                |                 |                |
| Food Donation (Noncash)                                   | 10.550         | N/A             | \$ 28,370      |
| Child Nutrition Cluster Programs:                         |                |                 |                |
| School Breakfast Program                                  | 10.553         | N/A             | 24,307         |
| National School Lunch Program                             | 10.555         | N/A             | 193,096        |
|   |                |                 | <u>217,403</u> |
| Total U.S. Department of Agriculture                      |                |                 | <u>245,773</u> |
| U.S. Department of Education:                             |                |                 |                |
| Area Education Agency:                                    |                |                 |                |
| Special Education - Grants to States                      | 84.027         | N/A             | 90,866         |
| Drake University:   |                |                 |                |
| Special Education - Grants to States                      | 84.027         | N/A             | -              |
|   |                |                 | <u>90,866</u>  |
| Iowa Department of Education:                             |                |                 |                |
| Title I Grants to Local Educational Agencies              | 84.010         | 6867-G-00       | 151,573        |
| Title I Grants to Local Educational Agencies              | 84.010         | 6867-GC-0       | 8,263          |
|   |                |                 | <u>159,836</u> |
| Vocational Education - Basic Grants to States             | 84.048         | N/A             | <u>24,604</u>  |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186         | N/A             | <u>8,600</u>   |
| Migrant Education State Grant Programs                    | 84.011         | N/A             | <u>509</u>     |
| State Grants for Innovative Programs                      | 84.298         | N/A             | <u>22,207</u>  |
| Improving Teacher Quality State Grants                    | 84.367         | N/A             | <u>72,761</u>  |
| Eisenhower Professional Development State Grants          | 84.281         | N/A             | <u>3,336</u>   |
| Hurricane Education Recovery                              | 84.938         | N/A             | <u>2,190</u>   |
| Grants for State Assessments and Related Activities       | 84.369         | N/A             | <u>10,722</u>  |
| Total U.S. Department of Education                        |                |                 | <u>395,631</u> |

(continued)

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Expenditures of Federal Awards  
Year ended June 30, 2006**

| Grantor/Program  | CFDA<br>Number | Grant<br>Number | Expenditures |
|--|----------------|-----------------|--------------|
| Indirect:  |                |                 |              |
| National Foundation on the Arts and the Humanities::   |                |                 |              |
| Iowa Department of Education:  |                |                 |              |
| Promotion of the Arts Partnership Agreements   | 45.025         | N/A             | 200          |
| Total National Foundation on the Arts and the Humanities                                     |                |                 | 200          |
| U.S. Department of Health and Human Services:  |                |                 |              |
| Iowa State University:   |                |                 |              |
| Substance Abuse and Mental Health Services-Projects of<br>Regional and National Significance | 93.243         | N/A             | 39,652       |
| Total U.S. Department of Health and Human Services   |                |                 | 39,652       |
| Total  |                |                 | \$ 681,256   |

- (1) Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Webster City Community School District and is presented in conformity with 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 auditors' report.

## Internal Controls and Compliance

Independent Auditors' 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  
Webster City Community School District

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Webster City Community School District, 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, and have issued our report thereon dated September 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Webster City Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we considered to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II 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 misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. Prior year reportable conditions have all been resolved except for II-A-06.

## Compliance

As part of obtaining reasonable assurance about whether Webster City Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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 our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Webster City Community School District and other parties to whom Webster City Community School 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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Webster City Community School District during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Corney, Alexander Harold & Co., L.L.P.*

September 1, 2006

Independent Auditors' 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  
Webster City Community School District

Compliance

We have audited the compliance of Webster City Community School District, Iowa, 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. Webster City 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 grants applicable to each of its major federal programs is the responsibility of Webster City Community School District's management. Our responsibility is to express an opinion on Webster City Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, 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 provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance 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 Webster City Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Webster City Community School District's compliance with those requirements.

In our opinion, Webster City 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 Webster City 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 our audit, we considered Webster City 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Webster City Community School District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described in the accompanying schedule of findings and questioned costs as items III-A-06.

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 noncompliance with the 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. Our 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, we believe that the reportable condition described above is not 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 Webster City Community School District, and other parties to whom Webster City Community School District may report, including federal award agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Carney, Alexander, Knudsen & Co., L.L.P.*

September 1, 2006

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
Year ended June 30, 2006**

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, including no material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including no material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) Audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a) are reported in this schedule.
- (g) Major programs were as follows:
  - Clustered Programs:
    - CFDA Number 10.553                      School Breakfast Program
    - CFDA Number 10.555                      National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Webster City Community School District did qualify as a low-risk auditee.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
Year ended June 30, 2006**

Part II: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the same individual could receive cash, prepare and make bank deposits, post cash receipts to the cash receipts journal, and prepare the bank reconciliation. We also noted the same individual could compute payroll, prepare payroll checks, prepare the payroll journal and distribute payroll checks.

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

Response - Office personnel will review procedures and divide duties to obtain the best internal control possible.

Conclusion - Response accepted.

**WEBSTER CITY COMMUNITY SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
Year ended June 30, 2006**

Part III: Findings and Questioned Costs for Federal Awards: (continued)

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITION:

All programs displayed on the Schedule of Expenditures of Federal Awards.

III-A-06 Segregation of Duties - The same individual could perform duties which were incompatible in the areas of cash receipts and payroll. See audit finding II-A-06.

## WEBSTER CITY COMMUNITY SCHOOL DISTRICT

### Schedule of Findings and Questioned Costs Year ended June 30, 2006

#### Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, did not exceed the amounts budgeted.
- IV-B-06 Questionable Expenditures - No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 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.
- IV-D-06 Business Transactions - No business transactions between the District and District officials or employees were noted.
- IV-E-06 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.
- IV-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-06 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- IV-J-06 Deficit Balances - Some Student activity 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 the student activity accounts at the end of the year.

Conclusion - Response accepted.

IV-K-06 Electronic Check Images - Electronic check images returned with monthly bank statements included only an image of the front of the cancelled checks.

Recommendation - The District should ensure that the images of the front and back of checks are returned with the bank statements as required by Code Section 554D.114.

Response - The District will request the financial institutions to include images of the front and back of checks as required by the Code of Iowa.

Conclusion - Response accepted.