

WEST BRANCH COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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WEST BRANCH COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Kent Stuart	Board President	2006
Kathy Knoop	Board Member	2005
Richard Paulus	Board Member	2005
Jacinta Hart	Board Member	2007
Steve Nash	Board Member	2007
(After September 2005 Election)		
Kent Stuart	Board President	2006
Jacinta Hart	Board Member	2007
Steve Nash	Board Member	2007
Kathy Knoop	Board Member	2008
Richard Paulus	Board Member	2008
<b>School Officials</b>		
Craig Artist	Superintendent	2006
Angie Walter	District Secretary/Treasurer	2006
C. Joseph Holland	Attorney	2006

# KAY L. CHAPMAN, CPA PC

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

## Independent Auditor's Report

To the Board of Education  
West Branch Community School District

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

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

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

In accordance with Government Auditing Standards, I have also issued my report dated September 19, 2006 on my consideration of West Branch Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Branch Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
September 19, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,771,999 in fiscal 2005 to \$6,015,403 in fiscal 2006, and General Fund expenditures increased from \$5,735,620 in fiscal 2005 to \$6,068,473 in fiscal 2006. The District's General Fund balance decreased from \$979,457 in fiscal 2005 to \$924,347 in fiscal 2006, a 5.6% decrease.
- The increase in General Fund revenues was attributable to an increase in teacher compensation money from the state and allowable growth in state funding. This increase occurred in spite of a decline in enrollment. The increase in expenditures was due to salary increases and increased special education costs. Fuel costs were also significantly higher.

### **USING THIS ANNUAL REPORT**

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

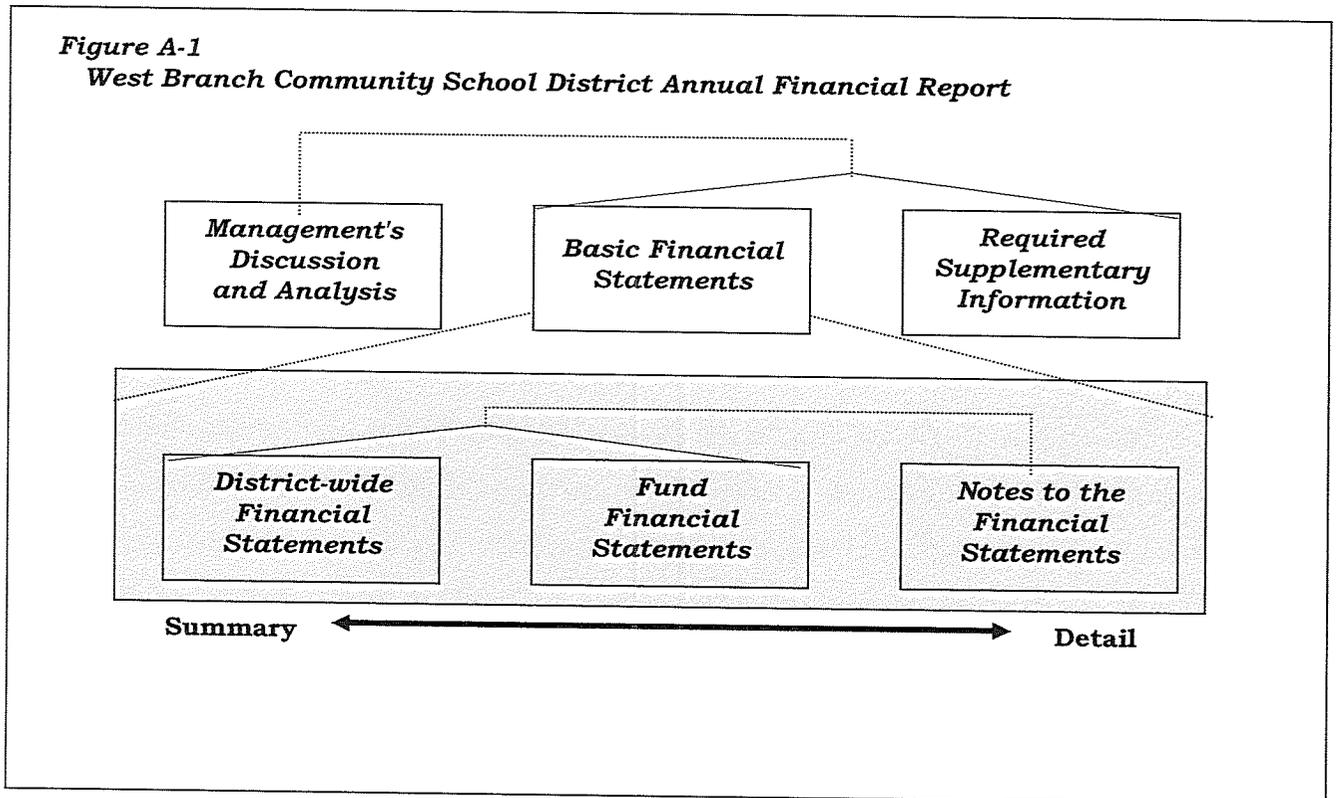


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<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 revenues, expenses and changes in fund 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 resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

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

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

### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Funds - These are funds through which the District administers and accounts for a student assistance program and weight room fundraiser.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Current and other assets	\$ 4,402,141	\$ 4,014,646	\$ 11,328	\$ 9,567	\$ 4,413,469	\$ 4,024,213	9.67%
Capital assets	<u>2,913,022</u>	<u>2,989,508</u>	<u>34,002</u>	<u>26,422</u>	<u>2,947,024</u>	<u>3,015,930</u>	-2.28%
Total assets	<u>7,315,163</u>	<u>7,004,154</u>	<u>45,330</u>	<u>35,989</u>	<u>7,360,493</u>	<u>7,040,143</u>	4.55%
Long-term obligations	20,069	39,719	-	-	20,069	39,719	-49.47%
Other liabilities	<u>2,863,547</u>	<u>2,614,381</u>	<u>118</u>	<u>339</u>	<u>2,863,665</u>	<u>2,614,720</u>	9.52%
Total liabilities	<u>2,883,616</u>	<u>2,654,100</u>	<u>118</u>	<u>339</u>	<u>2,883,734</u>	<u>2,654,439</u>	8.64%
Net assets							
Invested in capital assets, net of related debt	2,913,022	2,989,508	34,002	26,422	2,947,024	3,015,930	-2.28%
Restricted	609,178	523,501	-	-	609,178	523,501	16.37%
Unrestricted	<u>909,347</u>	<u>837,045</u>	<u>11,210</u>	<u>9,228</u>	<u>920,557</u>	<u>846,273</u>	8.78%
Total net assets	<u>\$ 4,431,547</u>	<u>\$ 4,350,054</u>	<u>\$ 45,212</u>	<u>\$ 35,650</u>	<u>\$ 4,476,759</u>	<u>\$ 4,385,704</u>	2.08%

The District's combined net assets increased by approximately 2%, or \$91,055, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. During 2006, capital assets were adjusted

for an error found relating to prior year accumulated depreciation. The accumulated depreciation component of net capital assets was increased by \$1,734,312.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$85,677, or approximately 16% over the prior year. The increase was primarily a result of an increase in the Management Fund, Physical Plant and Equipment and Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$74,284, or approximately 9%.

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

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change <u>2005-2006</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	
Revenues							
Program revenues							
Charges for service and sales	\$ 623,127	\$ 586,546	\$ 205,312	\$ 198,769	\$ 828,439	\$ 785,315	5.49%
Operating grant	621,973	588,766	74,297	67,136	696,270	655,902	6.15%
General revenues							
Property tax	2,892,187	2,761,681	-	-	2,892,187	2,761,681	4.73%
Sales and services tax	314,969	285,306	-	-	314,969	285,306	10.40%
Unrestricted state grants	2,618,411	2,599,938	-	-	2,618,411	2,599,938	0.71%
Contributions and donations	6,000	-	-	-	6,000	-	100.00%
Unrestricted investment earnings	75,552	28,170	1,005	501	76,557	28,671	167.02%
Other	<u>4,759</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>4,759</u>	<u>100</u>	4659.00%
Total revenues	<u>7,156,978</u>	<u>6,850,507</u>	<u>280,614</u>	<u>266,406</u>	<u>7,437,592</u>	<u>7,116,913</u>	4.51%
Program expenses							
Governmental activities							
Instruction	4,283,730	4,115,885	-	-	4,283,730	4,115,885	4.08%
Support services	1,997,851	1,829,616	-	-	1,997,851	1,829,616	9.20%
Non-instructional programs	-	-	281,362	283,942	281,362	283,942	-0.91%
Other expenses	<u>793,904</u>	<u>539,140</u>	<u>-</u>	<u>-</u>	<u>793,904</u>	<u>539,140</u>	47.25%
Total expenses	<u>7,075,485</u>	<u>6,484,641</u>	<u>281,362</u>	<u>283,942</u>	<u>7,356,847</u>	<u>6,768,583</u>	8.69%
Change in net assets	<u>\$ 81,493</u>	<u>\$ 365,866</u>	<u>\$ (748)</u>	<u>\$ (17,536)</u>	<u>\$ 80,745</u>	<u>\$ 348,330</u>	-76.82%

In fiscal 2006, property tax and unrestricted state grants account for 77% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.6% of the revenue from business type activities.

The District's total revenues were \$7,437,592 of which \$7,156,978 was for governmental activities and \$280,614 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.51% increase in revenues and a 8.69% increase in expenses. Property tax increased \$130,506 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

**Governmental Activities**

Revenues for governmental activities were \$7,156,978 and expenses were \$7,075,485.

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

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 4,283,730	\$ 4,115,885	4.1%	\$ 3,301,841	\$ 3,170,769	4.1%
Support services	1,997,851	1,829,616	9.2%	1,985,780	1,818,583	9.2%
Non-instructional programs	-	-	0.0%	(28,850)	-	0.0%
Other expenses	<u>793,904</u>	<u>539,140</u>	<u>47.3%</u>	<u>571,614</u>	<u>319,977</u>	<u>78.6%</u>
Total expenses	<u>\$ 7,075,485</u>	<u>\$ 6,484,641</u>	<u>9.1%</u>	<u>\$ 5,830,385</u>	<u>\$ 5,309,329</u>	<u>9.8%</u>

- The cost financed by users of the District's programs was \$623,127.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$621,973.
- The net cost of governmental activities was financed with \$3,207,156, in property and other taxes and \$2,618,411 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were \$280,614 representing a 5.35% increase over the prior year while expenses totaled \$281,362, a .9% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Meal prices were increased slightly in the 2005-06 school year. This helped bring the cash balance slightly. Free and reduced percentages for the district also raised by a small percentage. This also increased revenue.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,538,594, slightly more than last year's ending fund balances of \$1,400,265. The primary reason for the increase in combined fund balances in fiscal 2006 is due to an increase in the Capitol Projects and Management Fund balances.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$979,457 to \$924,347. Increased salary costs in combination with declining enrollment cut into the General Fund balance.
- The Capital Projects Fund balance increased from \$235,806 in fiscal 2005 to \$342,198 in fiscal 2006. The District received SILO money from Cedar County currently. Johnson County will vote on the issue in February of 2007.

### **Proprietary Fund Highlights**

Enterprise Fund net assets decreased from \$45,960 at June 30, 2005 to \$45,212 at June 30, 2006, representing a decrease of approximately 1.6%. During 2006 there were errors found relating to prior year capital assets and accounts payable reporting. Therefore, the beginning balance of the School Nutrition Fund was increased by \$10,310 for fiscal 2006. The District continues to update equipment and labor costs rose significantly in 2005-06. Meal prices were increased for 2005-06 to help offset the increase in expenditures.

## **BUDGETARY HIGHLIGHTS**

The District's receipts were \$663,292 more than budgeted receipts, a variance of approximately 10%. The most significant variance resulted from the District receiving more in state and federal grants than originally anticipated.

Total expenditures were \$316,953 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Support Services and Non-instructional Programs functions due to changes in the chart of accounts coding mandated by the Iowa Department of Education. Due to the lateness of guidance on the changes, there was not sufficient time to amend the budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$2,947,024, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 2% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$174,057.

The original cost of the District's capital assets was \$7,157,937. Governmental funds account for \$7,090,416, with the remainder of \$67,521 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled \$353,968 at June 30, 2006 compared to \$312,237 at June 30, 2005. This increase resulted from purchasing computers and other equipment and a bus purchase.

During fiscal 2006 an error was discovered relating to the accumulated depreciation amount reported for fiscal 2005. The prior accumulated depreciation amount did not include items that were fully depreciated. Therefore the accumulated depreciation amounts for fiscal 2005 have been restated to reflect \$1,734,312 more of accumulated depreciation.

Figure A-6

#### Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Land	\$ 116,055	\$ 116,055	\$ -	\$ -	\$ 116,055	\$ 116,055	0.00%
Buildings and improvements	111,632	122,442	-	-	111,632	122,442	-8.83%
Improvements, other than buildings	2,365,369	2,465,196	-	-	2,365,369	2,465,196	-4.05%
Furniture and equipment	<u>319,966</u>	<u>285,815</u>	<u>34,002</u>	<u>26,422</u>	<u>353,968</u>	<u>312,237</u>	13.37%
Totals	<u>\$2,913,022</u>	<u>\$2,989,508</u>	<u>\$34,002</u>	<u>\$26,422</u>	<u>\$2,947,024</u>	<u>\$3,015,930</u>	-2.28%

### Long-Term Debt

At June 30, 2006, the District had \$20,069 in compensated absences and early retirement debt outstanding. This represents a decrease of approximately 50% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 5 to the financial statements.

The District has no other long term debt outstanding at June 30, 2006.

Figure A-7  
Outstanding Long-term Obligations

	Total		Total
	School District		
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Compensated absences	\$15,000	\$10,678	40.48%
Early retirement	<u>5,069</u>	<u>29,041</u>	-82.55%
Total	<u>\$20,069</u>	<u>\$39,719</u>	-49.47%

**ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- Enrollment declined in the fall of 2006. This will result in the District receiving less New Money for the 2007-08 school year.
- The District signed a 4 year contract with the WBEA. This will help keep the increases in salary and benefits predictable and under control for the next few years.
- In February of 2007 Johnson County will vote on the Local Option tax for schools in Johnson County. If the measure passes, the District will receive approximately \$1,425,000 over the next ten years for infrastructure and equipment needs.

**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 Angie Walter, Business Manager/Board Secretary/treasurer, West Branch Community School District, 148 North Oliphant Street, West Branch, IA 52358.

## Basic Financial Statements

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
June 30, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,414,432	\$ 8,597	\$ 1,423,029
Receivables			
Property tax			
Delinquent	41,760	-	41,760
Succeeding year	2,812,828	-	2,812,828
Accounts receivable	153	70	223
Due from other governments	132,968	-	132,968
Inventories	-	2,661	2,661
Capital assets, net of accumulated depreciation	2,913,022	34,002	2,947,024
Total assets	7,315,163	45,330	7,360,493
<b>LIABILITIES</b>			
Accounts payable	46,184	118	46,302
Salaries and benefits payable	4,535	-	4,535
Deferred revenue - succeeding year property tax	2,812,828	-	2,812,828
Long-term liabilities			
Portion due within one year			
Early retirement	5,069	-	5,069
Compensated absences	15,000	-	15,000
Total liabilities	2,883,616	118	2,883,734
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	2,913,022	34,002	2,947,024
Restricted for			
Physical Plant and Equipment Levy	38,896	-	38,896
Management levy	137,563	-	137,563
Capital projects	342,198	-	342,198
Other special revenue purposes	90,521	-	90,521
Unrestricted	909,347	11,210	920,557
Total net assets	\$ 4,431,547	\$ 45,212	\$ 4,476,759

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b><u>Functions/Programs</u></b>							
Governmental activities							
Instruction							
Regular instruction	\$ 2,973,378	\$ 580,595	\$ 305,561	\$ -	\$ (2,087,222)	\$ -	\$ (2,087,222)
Special instruction	695,927	6,576	79,233	-	(610,118)	-	(610,118)
Other instruction	614,425	-	9,924	-	(604,501)	-	(604,501)
	<u>4,283,730</u>	<u>587,171</u>	<u>394,718</u>	<u>-</u>	<u>(3,301,841)</u>	<u>-</u>	<u>(3,301,841)</u>
Support services							
Student services	176,789	-	-	-	(176,789)	-	(176,789)
Instructional staff services	168,855	-	-	-	(168,855)	-	(168,855)
Administration services	706,209	-	-	-	(706,209)	-	(706,209)
Operation and maintenance of plant services	638,759	7,106	-	-	(631,653)	-	(631,653)
Transportation services	307,239	-	4,965	-	(302,274)	-	(302,274)
	<u>1,997,851</u>	<u>7,106</u>	<u>4,965</u>	<u>-</u>	<u>(1,985,780)</u>	<u>-</u>	<u>(1,985,780)</u>
Non-instructional programs							
Other expenditures	-	28,850	-	-	28,850	-	28,850
Facilities acquisition	460,119	-	-	-	(460,119)	-	(460,119)
Long-term debt interest	-	-	-	-	-	-	-
AEA flowthrough	222,290	-	222,290	-	-	-	-
Depreciation (unallocated) *	111,495	-	-	-	(111,495)	-	(111,495)
	<u>793,904</u>	<u>-</u>	<u>222,290</u>	<u>-</u>	<u>(571,614)</u>	<u>-</u>	<u>(571,614)</u>
Total governmental activities	<u>7,075,485</u>	<u>623,127</u>	<u>621,973</u>	<u>-</u>	<u>(5,830,385)</u>	<u>-</u>	<u>(5,830,385)</u>

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



WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2006

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments	\$ 912,434	\$ 230,434	\$ 271,564	\$ 1,414,432
Receivables				
Property tax				
Delinquent	36,025	-	5,735	41,760
Succeeding year	2,429,746	-	383,082	2,812,828
Accounts receivable	-	-	153	153
Due from other governments	21,204	111,764	-	132,968
Total assets and other debits	<u>\$ 3,399,409</u>	<u>\$ 342,198</u>	<u>\$ 660,534</u>	<u>\$ 4,402,141</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 40,781	\$ -	\$ 5,403	\$ 46,184
Salaries and benefits payable	4,535	-	-	4,535
Deferred revenue				
Succeeding year property tax	2,429,746	-	383,082	2,812,828
Total liabilities	<u>2,475,062</u>	<u>-</u>	<u>388,485</u>	<u>2,863,547</u>
Fund balances				
Reserved for				
Talented and gifted	80,287	-	-	80,287
Iowa Early Intervention grant	7,319	-	-	7,319
Unreserved, designated for special purpose	9,583	-	-	9,583
Unreserved, undesignated	827,158	342,198	272,049	1,441,405
Total fund balances	<u>924,347</u>	<u>342,198</u>	<u>272,049</u>	<u>1,538,594</u>
Total liabilities and fund balances	<u>\$ 3,399,409</u>	<u>\$ 342,198</u>	<u>\$ 660,534</u>	<u>\$ 4,402,141</u>

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

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

Exhibit D

Total fund balances of governmental funds	\$ 1,538,594
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,913,022
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(20,069)</u>
Net assets of governmental activities	<u>\$ 4,431,547</u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Special Revenue</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,369,325	\$ 314,969	\$ 522,864	\$ 3,207,158
Tuition	257,077	-	-	257,077
Other	148,617	11,500	292,242	452,359
State sources	3,138,714	-	-	3,138,714
Federal sources	101,670	-	-	101,670
Total revenues	<u>6,015,403</u>	<u>326,469</u>	<u>815,106</u>	<u>7,156,978</u>
Expenditures				
Current				
Instruction				
Regular instruction	2,942,770	-	43,262	2,986,032
Special instruction	695,927	-	-	695,927
Other instruction	344,791	-	266,855	611,646
	<u>3,983,488</u>	<u>-</u>	<u>310,117</u>	<u>4,293,605</u>
Support services				
Student services	176,789	-	-	176,789
Instructional staff services	168,855	-	-	168,855
Administration services	700,320	-	-	700,320
Operation and maintenance of plant services	555,409	-	75,860	631,269
Transportation services	261,322	-	74,155	335,477
	<u>1,862,695</u>	<u>-</u>	<u>150,015</u>	<u>2,012,710</u>
Other expenditures				
Facilities acquisition	-	220,077	269,967	490,044
AEA flowthrough	222,290	-	-	222,290
	<u>222,290</u>	<u>220,077</u>	<u>269,967</u>	<u>712,334</u>
Total expenditures	<u>6,068,473</u>	<u>220,077</u>	<u>730,099</u>	<u>7,018,649</u>
Excess (deficiency) of revenues over (under) expenditures	(53,070)	106,392	85,007	138,329
Other financing sources (uses)				
Operating transfers in (out)	(2,040)	-	2,040	-
Net change in fund balances	(55,110)	106,392	87,047	138,329
Fund balance, beginning of year	979,457	235,806	185,002	1,400,265
Fund balance, end of year	<u>\$ 924,347</u>	<u>\$ 342,198</u>	<u>\$ 272,049</u>	<u>\$ 1,538,594</u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
 Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities  
 For the Year Ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds \$ 138,329

Amounts reported for governmental activities in the statement of activities  
 are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Expenditures for capital assets	\$ 92,309	
Depreciation expense	<u>(168,795)</u>	(76,486)

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

Early retirement	23,972	
Compensated absences	<u>(4,322)</u>	<u>19,650</u>

Change in net assets of governmental activities \$ 81,493

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
June 30, 2006

Exhibit G

	<u>School Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 8,597
Accounts receivable	70
Inventories	2,661
Capital assets, net of accumulated depreciation	<u>34,002</u>
Total assets	<u>45,330</u>
 <b>LIABILITIES</b>	
Accounts payable	<u>118</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	34,002
Unreserved retained earnings	<u>11,210</u>
Total net assets	<u><u>\$ 45,212</u></u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund  
For the Year Ended June 30, 2006

Exhibit H

	<u>School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 205,312</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	83,501
Benefits	28,461
Purchased services	1,569
Supplies	162,569
Depreciation	<u>5,262</u>
Total operating expenses	<u>281,362</u>
Operating loss	<u>(76,050)</u>
Non-operating revenue	
Interest income	1,005
State sources	3,584
Federal sources	<u>70,713</u>
Total non-operating revenue	<u>75,302</u>
Net loss	(748)
Net assets, beginning of year, as corrected	<u>45,960</u>
Net assets, end of year	<u>\$ 45,212</u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 206,218
Cash payments to employees for services	(112,003)
Cash payments to suppliers for goods and services	<u>(151,385)</u>
Net cash used in operating activities	<u>(57,170)</u>
Cash flows from non-capital financing activities	
State grants received	3,584
Federal grants received	<u>57,944</u>
Net cash provided by non-capital financing activities	<u>61,528</u>
Cash flows from capital and related financing activities	
Purchase of capital assets	<u>(2,532)</u>
Cash flows from investing activities	
Interest on investments	<u>1,005</u>
Net increase in cash and cash equivalents	2,831
Cash and cash equivalents, beginning of year	<u>5,766</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,597</u></u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (76,050)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,262
Commodities used	13,012
Decrease in accounts receivable	906
(Increase) in inventories	(79)
(Decrease) in accounts payable	(180)
(Decrease) in salaries and benefits payable	<u>(41)</u>
Net cash used in operating activities	<u><u>\$ (57,170)</u></u>

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

During the year ended June 30, 2006, the District received \$13,012 of federal commodities.

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

Exhibit J

	<u>Private Purpose Trust</u>	<u>Scholarships</u> <u>Agency</u>
Assets		
Cash and pooled investments	\$ 1,064	\$ 472
Liabilities		
Due to others	<u>          -</u>	<u>      472</u>
Net assets		
Reserved for scholarships	<u><u>\$ 1,064</u></u>	<u><u>\$ -</u></u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2006

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 299
Deductions	
Support services	
Scholarships	<u>433</u>
Change in net assets	(134)
Net assets, beginning of year	<u>1,198</u>
Net assets, end of year	<u><u>\$ 1,064</u></u>

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

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The West Branch Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the City of West Branch, Iowa, and the agricultural territory in Cedar and Johnson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports one major proprietary fund, the School Nutrition Fund, which is used to account for the food service operations of the District.

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

The Private Purpose Trust Fund is used to account for assets held by the District which are used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

### C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, early retirement and claims and judgments are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

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

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value, except for the investment in the Iowa Schools Joint Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings and improvements	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	4-15 years

Salaries and Benefits Payable - Teacher contracts and payroll for hourly employees are paid at June 30, 2006; however, the benefits on these payments are not paid until July. Therefore, these benefits have been accrued as liabilities.

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the

related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures exceeded the amounts budgeted in the Support Services and Non-instructional Programs functions. However, the District did not exceed its General Fund unspent authorized budget.

#### **Note 2. Cash and Pooled Investments**

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

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

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

	Amortized Cost
Diversified Portfolio	\$ 26

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody’s Investors Service.

**Note 3. Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Management	General	\$ 2,040

This transfer was to correct amounts reported in the General Fund in the prior fiscal year that should be reported in the Management Fund.

#### Note 4. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 116,055	\$ -	\$ -	\$ 116,055
Capital assets being depreciated:				
Buildings and improvements	472,418	-	(3,656)	468,762
Improvements other than buildings	5,300,087	-	(11,131)	5,288,956
Furniture and equipment	1,780,463	92,309	(656,129)	1,216,643
Total capital assets being depreciated	7,552,968	92,309	(670,916)	6,974,361
Less accumulated depreciation for:				
Buildings and improvements	349,976	10,810	(3,656)	357,130
Improvements other than buildings	2,834,891	99,827	(11,131)	2,923,587
Furniture and equipment	1,494,648	58,158	(656,129)	896,677
Total accumulated depreciation	4,679,515	168,795	(670,916)	4,177,394
Total capital assets being depreciated, net	2,873,453	(76,486)	-	2,796,967
Governmental activities capital assets, net	<u>\$ 2,989,508</u>	<u>\$ (76,486)</u>	<u>\$ -</u>	<u>\$ 2,913,022</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 54,679	\$ 12,842	\$ -	\$ 67,521
Less accumulated depreciation	28,257	5,262	-	33,519
Business type activities capital assets, net	<u>\$ 26,422</u>	<u>\$ 7,580</u>	<u>\$ -</u>	<u>\$ 34,002</u>

Depreciation expense was charged to the following functions:

<b>Governmental activities</b>	
Instruction	
Regular	\$ 6,250
Other	2,779
Support services	
Administration	2,877
Operation and maintenance of plant	10,372
Transportation	35,022
Unallocated depreciation	111,495
Total governmental activities depreciation expense	<u>\$ 168,795</u>
<b>Business type activities</b>	
Food services	<u>\$ 5,262</u>

During the fiscal year ended June 30, 2006, the District discovered that the accumulated depreciation amount reported at June 30, 2005 was incorrect. The amount previously reported did not include fully-depreciated items. The accumulated depreciation amount reported at June 30, 2006 has been increased by \$1,734,312 to include these items.

**Note 5. Long-term Liabilities**

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

	Balance, Beginning <u>of Year</u>	<u>Additions</u>	<u>Reductions</u>	Balance, End <u>of Year</u>	Due Within <u>One Year</u>
Compensated absences	\$ 10,678	\$ 17,243	\$(12,921)	\$ 15,000	\$ 15,000
Early retirement	<u>29,041</u>	<u>-</u>	<u>(23,972)</u>	<u>5,069</u>	<u>5,069</u>
 Totals	 <u>\$ 39,719</u>	 <u>\$ 17,243</u>	 <u>\$(36,893)</u>	 <u>\$ 20,069</u>	 <u>\$ 20,069</u>

Early retirement

District employees who have 14 years of continuous service and are at least 59 years of age by June 30, are eligible for early retirement pay. All employees who apply and are approved will receive a fifty percent benefit based of the criteria below.

For teachers, the benefit shall be based upon the Schedule A salary, longevity and extended contracts. Benefits for all other employees shall be based upon the contracted salary. Benefits for part-time employees shall be prorated as determined by the average of full-time equivalency of the last five years of employment.

Benefits will be paid, as follows:

- A. If the employee wishes to remain on the district’s insurance policy, the amount of the benefit will be placed in a Health Care Savings Plan. This contribution will be made on behalf of the employee tax-free. The deposits will grow tax-free and are used at retirement tax-free for eligible medical expenses and premiums.
- B. If the employee waives the district’s health insurance policy, the benefit will be placed in a special pay deferral plan (403(b)). The contribution will be made on behalf of the employee tax-deferred. The deposits grow tax-deferred and can be accessed by the retiree at any time. The withdrawals will be taxable at the time of withdrawal to the employee.

The employee must notify the Board by the first of February to receive the early retirement pay. Depending upon the economic impact to the District, the Board may limit the number of employees allowed to take early retirement in any fiscal year. At June 30, 2006, the maximum accumulated retirement pay was \$5,069 and one individual was receiving the benefit.

### Compensated Absences

District employees accumulate vacation and compensatory hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as expenditures by the District until used or paid. The District's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2006 is \$15,000.

### **Note 6. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$208,398, \$198,494 and \$190,076 respectively, equal to the required contributions for each year.

### **Note 7. Risk Management**

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks havenot exceeded commercial insurance coverage in any of the past three fiscal years.

### **Note 8. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$222,290 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

### **Note 9. Unspent Balance**

The District's unspent balance as of June 30, 2006 was \$1,402,703.

**Note 10. Solvency Ratio**

The District's solvency ratio at June 30, 2006 is calculated as follows:

$$\frac{\text{Unreserved General Fund Balance}}{\text{General Fund Revenues}} = \frac{\$828,229}{\$6,016,412} = 13.8\%$$

**Note 11. Related Party Transactions**

The District conducted business transactions between the District and a District official, totaling \$4,940 during the year ended June 30, 2006.

**Note 12. Correction of Beginning Balance**

During the year ended June 30, 2006, the District became aware of prior year errors in the School Nutrition Fund capital assets and accounts payable. Therefore, the beginning fund balance in the School Nutrition Fund was increased by \$10,310 to correct these errors. Also, an error was noted in the accumulated depreciation amount reported in prior years, as described in Note 4. This resulted in a correction to the beginning balance of the government-wide Statement of Activities. The governmental activities beginning balance was decreased by \$1,734,312 on Exhibit B, accordingly.

Required Supplementary Information

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
<b>Revenues</b>						
Local sources	\$ 3,916,594	\$ 206,317	\$ 4,122,911	\$ 3,472,916	\$ 3,472,916	\$ 649,995
State sources	3,138,714	3,584	3,142,298	3,208,509	3,208,509	(66,211)
Federal sources	101,670	70,713	172,383	92,875	92,875	79,508
Total revenues	<u>7,156,978</u>	<u>280,614</u>	<u>7,437,592</u>	<u>6,774,300</u>	<u>6,774,300</u>	<u>663,292</u>
<b>Expenditures</b>						
Instruction	4,293,605	-	4,293,605	4,543,048	4,543,048	249,443
Support services	2,012,710	-	2,012,710	1,938,466	1,938,466	(74,244)
Non-instructional programs	-	281,362	281,362	270,174	270,174	(11,188)
Other expenditures	712,334	-	712,334	865,276	865,276	152,942
Total expenditures	<u>7,018,649</u>	<u>281,362</u>	<u>7,300,011</u>	<u>7,616,964</u>	<u>7,616,964</u>	<u>316,953</u>
Excess (deficiency) of revenues over (under) expenditures	138,329	(748)	137,581	(842,664)	(842,664)	980,245
Balance, beginning of year, as corrected	1,400,265	45,960	1,446,225	845,618	845,618	600,607
Balance, end of year	<u>\$ 1,538,594</u>	<u>\$ 45,212</u>	<u>\$ 1,583,806</u>	<u>\$ 2,954</u>	<u>\$ 2,954</u>	<u>\$ 1,580,852</u>

See accompanying Independent Auditor's Report.

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend its certified budget during the year ended June 30, 2006.

During the year ended June 30, 2006, District expenditures exceeded the amounts budgeted in the Support Services and Non-instruction Programs functions; however, General Fund expenditures did not exceed the District's unspent authorized budget.

## Other Supplementary Information

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2006

Schedule 1

	<u>Student</u>	<u>Management</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
	<u>Activity</u>			
<b>ASSETS</b>				
Cash and pooled investments	\$ 94,427	\$ 140,154	\$ 36,983	\$ 271,564
Receivables				
Property tax				
Delinquent	-	2,731	3,004	5,735
Succeeding year	-	165,000	218,082	383,082
Accounts receivable	153	-	-	153
Total assets	<u>\$ 94,580</u>	<u>\$ 307,885</u>	<u>\$ 258,069</u>	<u>\$ 660,534</u>
 <b>LIABILITIES AND FUND BALANCE</b>				
Liabilities				
Accounts payable	\$ 4,059	\$ 253	\$ 1,091	\$ 5,403
Deferred revenue				
Succeeding year property tax	-	165,000	218,082	383,082
Total liabilities	4,059	165,253	219,173	388,485
Fund balance				
Unreserved fund balances	90,521	142,632	38,896	272,049
Total liabilities and fund balance	<u>\$ 94,580</u>	<u>\$ 307,885</u>	<u>\$ 258,069</u>	<u>\$ 660,534</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

	<u>Student Activity</u>	<u>Management</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ -	\$ 167,679	\$ 355,185	\$ 522,864
Other	<u>277,726</u>	<u>3,941</u>	<u>10,575</u>	<u>292,242</u>
Total revenues	<u>277,726</u>	<u>171,620</u>	<u>365,760</u>	<u>815,106</u>
Expenditures				
Current				
Instruction				
Regular program instruction	-	43,262	-	43,262
Other instruction	266,855	-	-	266,855
Support services				
Operation and maintenance of plant services	-	75,860	-	75,860
Transportation services	-	11,771	62,384	74,155
Other expenditures				
Facilities acquisition	-	-	269,967	269,967
Total expenditures	<u>266,855</u>	<u>130,893</u>	<u>332,351</u>	<u>730,099</u>
Excess of revenues over expenditures	10,871	40,727	33,409	85,007
Other financing sources				
Operating transfer in	<u>-</u>	<u>2,040</u>	<u>-</u>	<u>2,040</u>
Net change in fund balances	10,871	42,767	33,409	87,047
Fund balances, beginning of year	<u>79,650</u>	<u>99,865</u>	<u>5,487</u>	<u>185,002</u>
Fund balances, end of year	<u>\$ 90,521</u>	<u>\$ 142,632</u>	<u>\$ 38,896</u>	<u>\$ 272,049</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2006

Schedule 3

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
Drama	\$ 990	\$ 3,384	\$ 3,587	\$ 340	\$ 1,127
Arts Angels	1,700	-	-	(1,700)	-
HS art	1,437	35	-	340	1,812
Speech/debate	1,753	25	596	-	1,182
HS vocal music	3,531	5,006	11,453	2,916	-
HS instrumental music	3,086	6,254	7,072	340	2,608
MS instrumental music	1,005	8,660	8,755	340	1,250
Musical	1,269	5,991	5,070	-	2,190
Swing show	4,174	-	191	-	3,983
Athletics	12,674	58,763	58,077	(5,063)	8,297
Booster club donation	-	30,000	-	(30,000)	-
Golf fundraiser	-	3,334	3,630	296	-
Drill team	175	50	133	-	92
Boys basketball	-	-	2,959	2,959	-
Boys basketball camp	787	12,491	10,824	-	2,454
Football	-	-	12,921	12,921	-
Football fundraiser	2,435	19,257	18,218	(150)	3,324
MS football	397	1,248	1,013	-	632
Baseball	-	-	1,607	1,607	-
Baseball fundraiser	362	4,995	4,981	-	376
Boys track	-	-	1,945	1,945	-
Boys track fundraiser	420	132	165	-	387
Boys golf	-	-	1,318	1,318	-
Wrestling	-	-	1,542	1,542	-
Wrestling fundraiser	-	3,029	1,701	-	1,328
Girls basketball	-	-	1,433	1,433	-
Girls basketball camp	919	4,150	3,204	-	1,865
Volleyball	-	-	3,193	3,193	-
Volleyball fundraiser	1,404	6,308	4,970	-	2,742
Softball	-	-	2,761	2,761	-
Softball captains	824	2,500	3,407	423	340
Girls track	-	-	4,592	4,592	-
Girls track fundraiser	220	6,649	6,953	84	-

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Schedule of Changes in Special Revenue Fund, Student Activity Accounts  
For the Year Ended June 30, 2006

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
Girls golf	\$ -	\$ -	\$ 350	\$ 350	\$ -
Cheerleaders	632	2,145	1,923	-	854
HS manufacturing	-	900	870	-	30
Industrial tech club	257	2,127	2,435	51	-
Calendar	172	1,592	648	-	1,116
Spanish club	481	-	194	-	287
High school fund	3,703	7,886	3,809	-	7,780
Ecology club	365	-	62	-	303
Elementary school fund	9,458	13,703	12,222	-	10,939
HS yearbook	7,539	5,159	5,758	-	6,940
HS student government	440	2,272	2,790	78	-
Journalism - The Bear	4,994	2,332	2,546	-	4,780
Middle school fund	-	16,763	15,784	-	979
Hoover IMC	305	50	-	-	355
MS IMC	232	128	138	-	222
HS media	14	366	6	-	374
MS pop fund	-	388	85	-	303
Journalism - travel	570	-	-	-	570
Band uniforms	-	500	447	-	53
Family and consumer science	691	-	45	-	646
FFA	7,855	14,287	9,230	-	12,912
MS yearbook	756	2,025	1,964	-	817
National Honor Society	-	1,668	1,504	-	164
Central office	602	2,167	2,444	-	325
Economics club	383	-	-	-	383
Ski club	-	1,937	1,230	-	707
Class of					
2007	-	8,306	8,556	603	353
2006	-	603	-	(603)	-
Interest	-	4,327	-	(2,916)	1,411
Concessions	639	3,834	3,544	-	929
Totals	<u>\$ 79,650</u>	<u>\$ 277,726</u>	<u>\$ 266,855</u>	<u>\$ -</u>	<u>\$ 90,521</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Fiduciary Assets and Liabilities  
 Agency Fund  
 For the Year Ended June 30, 2006

Schedule 4

	Balance, Beginning <u>of Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 222</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 472</u>
Liabilities				
Due to others	<u>\$ 222</u>	<u>\$ 250</u>	<u>\$ -</u>	<u>\$ 472</u>

See accompanying Independent Auditor's Report.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Four Years

Schedule 5

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 3,207,158	\$ 3,046,484	\$ 2,786,886	\$ 2,572,469
Tuition	257,077	233,158	208,726	219,201
Other	452,359	375,715	268,002	318,573
Intermediate sources	-	4,944	13,706	47,500
State sources	3,138,714	3,079,953	2,914,952	3,004,047
Federal sources	101,670	110,254	140,136	116,133
Total revenues	<u>\$ 7,156,978</u>	<u>\$ 6,850,508</u>	<u>\$ 6,332,408</u>	<u>\$ 6,277,923</u>
Expenditures				
Instruction				
Regular instruction	2,986,032	2,715,358	2,833,913	2,674,266
Special instruction	695,927	607,288	637,515	678,188
Other instruction	611,646	769,602	572,011	558,862
Support services				
Student services	176,789	114,682	106,769	102,615
Instructional staff services	168,855	225,587	124,357	122,504
Administration services	700,320	637,241	597,660	598,671
Operation and maintenance of plant services	631,269	608,420	569,145	573,621
Transportation services	335,477	293,685	244,661	225,018
Other expenditures				
Facilities acquisition	490,044	196,359	392,887	594,687
Long-term debt				
Interest and other charges	-	9,150	-	-
AEA flowthrough	222,290	219,163	216,427	231,702
Total expenditures	<u>\$ 7,018,649</u>	<u>\$ 6,396,535</u>	<u>\$ 6,295,345</u>	<u>\$ 6,360,134</u>

See accompanying Independent Auditor's Report.

**KAY L. CHAPMAN, CPA PC**

210 Cedar Street  
Muscatine, Iowa 52761  
563-264-1385

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

To the Board of Education  
West Branch Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of West Branch Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated September 19, 2006. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered West Branch Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Branch Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the West Branch Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



Kay L. Chapman, CPA PC  
September 19, 2006

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
 Schedule of Findings  
 For the Year Ended June 30, 2006

**Part II. Other Findings Related to Statutory Reporting:**

1. Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the amounts budgeted in the Support Services and Non-instructional Programs functions.

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

Response - Expenditures exceeded the budgeted amounts in these functions due to changes to the chart of accounts mandated by the Iowa Department of Education. These changes were made available too late in the year to amend the budget. We will be more attentive of this in the future.

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - Business transactions between the District and a District official are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Steve Nash, board member owner of Nash Tree Service	Grounds maintenance	\$4,940

The transactions with the board member may represent a conflict of interest since the transactions exceeded \$2,500 for the fiscal year as allowed by Chapter 279.7A of the Code of Iowa and they were not competitively bid.

Recommendation - The District should monitor this situation annually to ensure that they comply with the Code of Iowa. The District should consult legal counsel to resolve this issue.

Response - We will continue to monitor these transactions.

Conclusion - Response accepted.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Schedule of Findings  
For the Year Ended June 30, 2006

5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

WEST BRANCH COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant