

WEST LIBERTY COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS,  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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WEST LIBERTY COMMUNITY SCHOOL DISTRICT  
 Officials  
 June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Fay Cline	Board President	2006
Joe Stiff	Board Member	2005
Bill Laughlin	Board Member	2005
Scott Harvey	Board Member	2006
Priscilla Haessig	Board Member	2007
(After September 2005 Election)		
Bill Laughlin	Board President	2008
Fay Cline	Board Member	2006
Scott Harvey	Board Member	2006
Priscilla Haessig	Board Member	2007
Mike Duytschaver	Board Member	2008
<b>School Officials</b>		
Rebecca Rodocker	Superintendent	2006
Tom Anderson	District Secretary/Treasurer	2006
Brian Gruhn	Attorney	2006

# KAY L. CHAPMAN, CPA PC

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

## Independent Auditor's Report

To the Board of Education  
West Liberty 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 Liberty Community School District, West Liberty, 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.

Except as discussed in the following paragraph, 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.

The financial statements of West Liberty Community School Foundation have not been audited and I was not engaged to audit the Foundation financial statements as part of my audit of the West Liberty Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

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 Liberty 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 13, 2006 on my consideration of West Liberty Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to

describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 44 through 45 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 Liberty 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 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
September 13, 2006

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

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West Liberty 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 \$8,300,626 in fiscal 2005 to \$8,659,942 in fiscal 2006, while General Fund expenditures increased from \$8,449,906 in fiscal 2005 to \$9,207,921 in fiscal 2006. The District's General Fund balance decreased from \$1,805,455 in fiscal 2005 to \$1,254,164 in fiscal 2006, a 30% decrease.
- The increase in General Fund revenues was attributable to an increase in state foundation aid in fiscal 2006 from receiving 4% allowable growth and an increase in student certified enrollment.
- The increase in expenditures was due primarily to the addition of four new certified positions and four new support positions because of increasing enrollment in the elementary grades, increase in enrollment at the high school, and dual language moving up through 7<sup>th</sup> grade. Extra-curricular positions were also added because of increased participation and student safety concerns.
- The district consumed 33% more electricity in 2005-2006 mainly due to the first full year in a new 77,907 square foot high school with geo-thermal heating and cooling. The geo-thermal system consists of 100 heat pumps that run 24/7 during the year and the district saw a 61% increase in electricity costs.
- Higher natural gas and fuel prices resulted in a 30% increase and 31% increase respectively in expenditures, while consuming less in those areas.
- The General Fund Balance decrease was a result of the use of carryover balance to meet financial obligations during the year.

### **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 Liberty 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 Liberty 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 Liberty 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 non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

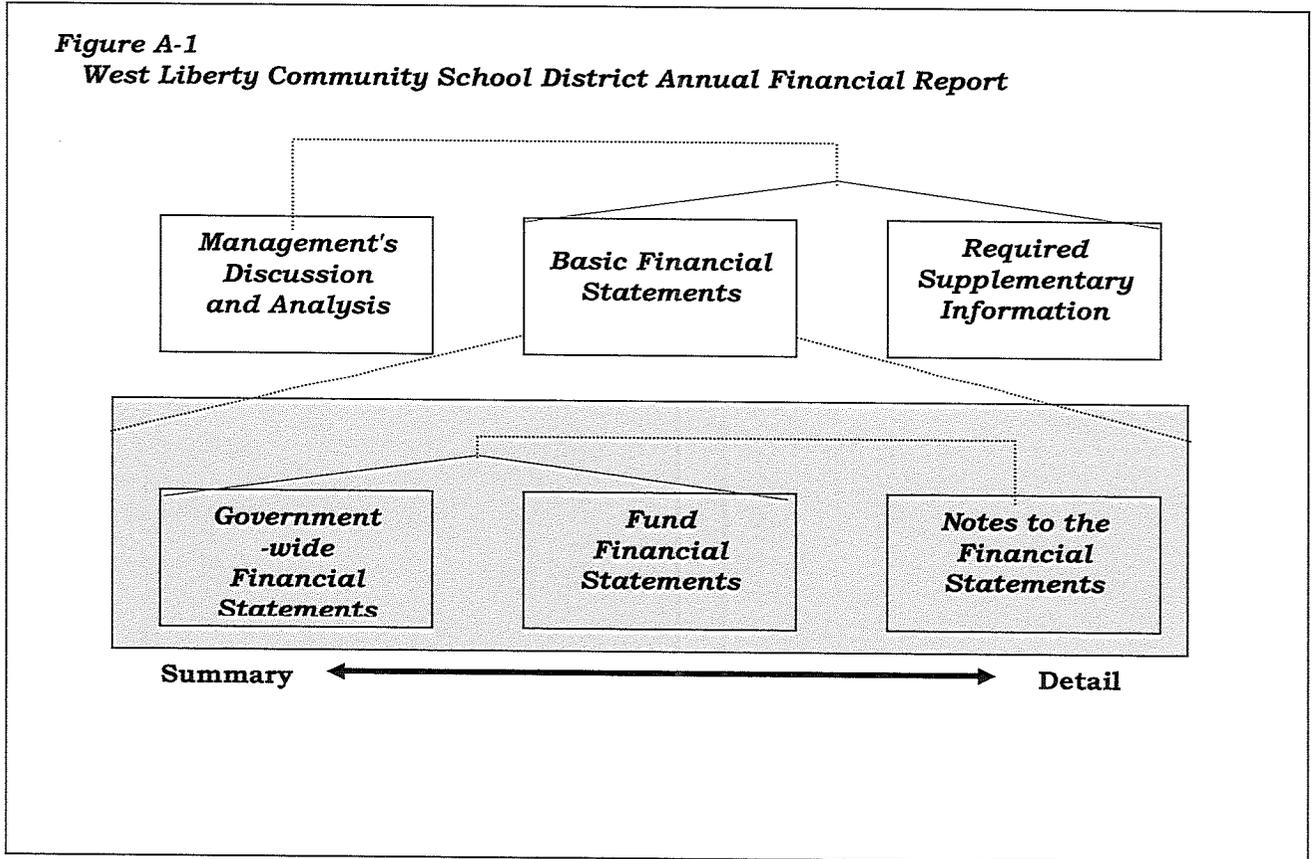


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses such as 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.

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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 three 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.
- *Component Unit:* This includes the activities of the West Liberty Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

#### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects 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. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The

District currently has one Internal Service Fund, the employee partial self-funding health insurance fund.

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

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

- 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 certain federal and/or state grants on behalf of other Districts and certain revenue collected for past district employee’s on the district’s Group Health Insurance Program and related expenditures.

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		Business-type		Total		Total
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 6,194,076	\$ 6,423,756	\$ 56,961	\$ 33,476	\$ 6,251,037	\$ 6,457,232	-3.19%
Capital assets	<u>13,199,243</u>	<u>13,238,042</u>	<u>76,989</u>	<u>76,116</u>	<u>13,276,232</u>	<u>13,314,158</u>	-0.28%
Total assets	<u>19,393,319</u>	<u>19,661,798</u>	<u>133,950</u>	<u>109,592</u>	<u>19,527,269</u>	<u>19,771,390</u>	-1.23%
Long-term obligations	7,423,010	7,858,459	-	-	7,423,010	7,858,459	-5.54%
Other liabilities	<u>3,364,078</u>	<u>3,074,326</u>	<u>2,369</u>	<u>2,211</u>	<u>3,366,447</u>	<u>3,076,537</u>	9.42%
Total liabilities	<u>10,787,088</u>	<u>10,932,785</u>	<u>2,369</u>	<u>2,211</u>	<u>10,789,457</u>	<u>10,934,996</u>	-1.33%
Net assets							
Invested in capital assets, net of related debt	5,914,243	5,453,042	76,989	76,116	5,991,232	5,529,158	8.36%
Restricted	1,456,611	1,445,853	-	-	1,456,611	1,445,853	0.74%
Unrestricted	<u>1,235,377</u>	<u>1,830,118</u>	<u>54,592</u>	<u>31,265</u>	<u>1,289,969</u>	<u>1,861,383</u>	-30.70%
Total net assets	<u>\$ 8,606,231</u>	<u>\$ 8,729,013</u>	<u>\$ 131,581</u>	<u>\$ 107,381</u>	<u>\$ 8,737,812</u>	<u>\$ 8,836,394</u>	-1.12%

The District's combined net assets decreased by approximately 1%, or \$98,582, from the prior year. The largest portion of the District's net assets is the investment in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$10,758, or approximately 1% over the prior year. The increase was primarily a result of the completion of a new vocational agriculture and greenhouse complex and demolition of a 1916 old high school.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$571,414, or 31%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program revenues							
Charges for service and sales	\$ 260,049	\$ 350,103	\$ 194,128	\$ 183,253	\$ 454,177	\$ 533,356	-14.85%
Operating grants and contributions	1,347,389	1,395,323	233,196	204,754	1,580,585	1,600,077	-1.22%
Capital grants	-	432,964	-	-	-	432,964	-100.00%
General revenues							
Property tax	3,229,771	3,108,996	-	-	3,229,771	3,108,996	3.88%
Sales and services tax	719,008	565,349	-	-	719,008	565,349	27.18%
Unrestricted state grants	4,656,360	4,297,715	-	-	4,656,360	4,297,715	8.35%
Contributions and donations	31,624	2,089,972	-	-	31,624	2,089,972	-98.49%
Unrestricted investment earnings	121,774	74,117	1,466	389	123,240	74,506	65.41%
Other	9,066	35,814	-	-	9,066	35,814	-74.69%
Transfers	-	(53,319)	-	53,319	-	-	0.00%
Loss on disposal of capital assets	(18,980)	-	-	-	(18,980)	-	100.00%
Total revenues	<u>10,356,061</u>	<u>12,297,034</u>	<u>428,790</u>	<u>441,715</u>	<u>10,784,851</u>	<u>12,738,749</u>	-15.34%
Program expenses							
Governmental activities							
Instruction	6,482,732	6,131,322	-	-	6,482,732	6,131,322	5.73%
Support services	2,763,205	2,317,021	-	-	2,763,205	2,317,021	19.26%
Non-instructional programs	-	-	404,590	391,554	404,590	391,554	3.33%
Other expenses	<u>1,226,125</u>	<u>2,501,838</u>	<u>-</u>	<u>-</u>	<u>1,226,125</u>	<u>2,501,838</u>	-50.99%
Total expenses	<u>10,472,062</u>	<u>10,950,181</u>	<u>404,590</u>	<u>391,554</u>	<u>10,876,652</u>	<u>11,341,735</u>	-4.10%
Change in net assets	<u>\$ (116,001)</u>	<u>\$ 1,346,853</u>	<u>\$ 24,200</u>	<u>\$ 50,161</u>	<u>\$ (91,801)</u>	<u>\$ 1,397,014</u>	-106.57%

In fiscal 2006, property tax and unrestricted state grants account for 76% 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 \$10,784,851 of which \$10,356,061 was for governmental activities and \$428,790 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 15.3% decrease in revenues and a 4.1% decrease in expenses. Property tax increased \$120,775 to fund increases in expenditures. The decreases in expenses related to completion of major capital projects in fiscal year 2005.

### Governmental Activities

Revenues for governmental activities were \$10,356,061 and expenses were \$10,472,062.

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	\$ 6,482,732	\$ 6,131,322	5.7%	\$ 5,273,459	\$ 4,718,713	11.8%
Support services	2,763,205	2,317,021	19.3%	2,745,424	2,308,707	18.9%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	<u>1,226,125</u>	<u>2,501,838</u>	<u>-51.0%</u>	<u>845,741</u>	<u>1,744,371</u>	<u>-51.5%</u>
Total expenses	<u>\$ 10,472,062</u>	<u>\$ 10,950,181</u>	<u>-4.4%</u>	<u>\$ 8,864,624</u>	<u>\$ 8,771,791</u>	<u>1.1%</u>

- The cost financed by users of the District's programs was \$260,049.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,347,389.
- The net cost of governmental activities was financed with \$3,948,779 in property and other taxes and \$4,656,360 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$428,790 representing a 3% decrease from the prior year while expenses totaled \$404,590, 3% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

The District did not increase student or adult meal prices to help off-set any salary and benefit increases to food service staff and increases in food subsidies.

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## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,744,950, well below last year's ending fund balances of \$3,263,330. The primary reason for the decrease in combined fund balances in fiscal 2006 is due to use of carryover general fund balance to meet financial obligations during the year.

### **Governmental Fund Highlights**

- The District's General Fund decrease in financial position is the result of many factors. The district experienced an increase in certified enrollment and with the combination of 4% allowable growth had significant increase in state foundation aid. However the District's property tax revenue increased only moderately. Additionally, the District's increase in General Fund expenditures required the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$1,805,455 to \$1,254,164, due in part to hiring eight new staff, 61% increase in electricity costs, 30% increase in natural gas costs, 31% increase in fuel costs, and existing expenditure commitments of the District.
- New positions were added for required smaller class sizes, the District's Dual Language Program moving into high grades, and paraprofessionals added in kindergarten because of larger English-only sections and two dual language sections.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets increased from \$107,381 at June 30, 2005 to \$131,581 at June 30, 2006, representing an increase of approximately 22%. Supply costs were significantly lower than 2005 and Charges for Services and federal reimbursement were higher which resulted in an increase in the School Nutrition Fund net assets.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, West Liberty Community School District amended its annual budget one time by \$329,526 to reflect additional expenditures. The District amends their budget in May, over-estimating expenditures for the remainder of the year.

The District's receipts were \$108,090 more than budgeted receipts, a variance of approximately 1%. There was no significant reason why actual receipts were more than budgeted receipts.

Total expenditures were \$401,083 less than budgeted. It is the District's practice to budget the anticipated revenues and expenditures on a yearly basis, always over estimating expenditures. The Instructional and Other Expenditures were less than anticipated.

In spite of the District amending the budget, the certified budget was exceeded in the Support Services functional area due to state coding changes that moved expenditures from the instructional area of the budget to Support Services area of the budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$13.2 million, 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 less than 1% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$554,496.

The original cost of the District's capital assets was \$19.8 million. Governmental funds account for \$19.5 million, with the remainder of \$246,247 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress and the buildings categories. The District's construction in progress was closed out after completion of a Vocational Agriculture/Greenhouse Complex and allocated to buildings and equipment during June 30, 2006.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 462,833	\$ 462,833	\$ -	\$ -	\$ 462,833	\$ 462,833	0.00%
Construction in progress	-	591,512	-	-	-	591,512	-100.00%
Buildings and improvements	11,286,827	10,706,837	-	-	11,286,827	10,706,837	5.42%
Improvements, other than buildings	971,940	1,045,054	-	-	971,940	1,045,054	-7.00%
Furniture and equipment	<u>477,643</u>	<u>431,806</u>	<u>76,989</u>	<u>76,116</u>	<u>554,632</u>	<u>507,922</u>	9.20%
Totals	<u>\$13,199,243</u>	<u>\$13,238,042</u>	<u>\$76,989</u>	<u>\$76,116</u>	<u>\$13,276,232</u>	<u>\$13,314,158</u>	-0.28%

### Long-Term Debt

At June 30, 2006, the District had \$7,423,010 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 5% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7  
Outstanding Long-term Obligations

	Total		Total Change
	School District	School District	
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
General obligation bonds	\$ 5,920,000	\$ 6,180,000	-4.21%
Revenue bonds	1,365,000	1,605,000	-14.95%
Early retirement	107,706	43,974	144.93%
Compensated absences	<u>30,304</u>	<u>29,485</u>	2.78%
Total	<u>\$ 7,423,010</u>	<u>\$ 7,858,459</u>	-5.54%

### **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:

- Iowa Legislatures have set allowable growth for 4% for 2006-2007.
- Another 100+ kindergarten class registered for 2006-07, five sections of kindergarten were continued for the start of the school year and a new section of 2<sup>nd</sup> grade was added due to 5 sections of kindergarten and 1<sup>st</sup> grade in 2005-06.
- The District will negotiate a new agreement during fiscal 2007 with the West Liberty Education Association (WLEA). Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- Our student data continues to show a growth in Hispanic population that will significantly impact the need for increased remedial programs for reading, At-Risk, and ELL/Dual Language.
- The District completed a buildings and grounds feasibility study during fiscal year 2006. In fiscal year 2007, Phase I of the grounds plan will start by constructing 3 practice fields next to the high school and a second access road to the high school.
- With bonding capacity limited and a need for space at our elementary and middle schools, the District will look to renew the Muscatine Local Option Sales and Services Tax for school infrastructure that expires in 2010. It is a county-wide election that will rely on Muscatine Community School District to be the lead district. By renewing the tax, the District will use Sales Tax Revenue Bonds to help finance adding on to the Administrative Center for a 6-8 or 7-8 middle school, convert the middle school into a 1-5 or 1-6 elementary building, and move the Administrative/Early Childhood Center to the elementary were it could also house kindergarten.
- Increase electrical costs associated with running geothermal heating and cooling pumps at the high school will continue to have significant impact on General Fund expenditures until the City of West Liberty establishes a new rate structure for energy-efficient buildings. The District has been working with the City to get those rates established.

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## **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 Tom Anderson, Business Manager and Board Secretary/Treasurer, West Liberty Community School District, 203 E 7<sup>th</sup> St, West Liberty, Iowa, 52776.

## Basic Financial Statements

WEST LIBERTY COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

Exhibit A

	Primary Government		Component Unit
	Governmental Activities	Business Type Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,022,899	\$ 54,145	\$ 3,077,044
Receivables			
Property tax			
Delinquent	44,117	-	44,117
Succeeding year	2,937,244	-	2,937,244
Accounts receivable	2,680	-	2,680
Prepaid lease	880	-	880
Due from other fund	-	712	712
Due from other governments	186,256	-	186,256
Inventories	-	2,104	2,104
Capital assets, net of accumulated depreciation	13,199,243	76,989	13,276,232
Total assets	<u>19,393,319</u>	<u>133,950</u>	<u>19,527,269</u>
<b>LIABILITIES</b>			
Accounts payable	255,861	700	256,561
Salaries and benefits payable	99,477	1,669	101,146
Accrued interest payable	55,238	-	55,238
Due to other fund	1,817	-	1,817
Deferred revenue			
Succeeding year property tax	2,937,244	-	2,937,244
Federal grants	14,441	-	14,441

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

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

Exhibit A

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	
<b>LIABILITIES (continued)</b>				
Long-term liabilities (continued)				
Portion due within one year				
Bonds payable	\$ 260,000	\$ -	\$ 260,000	-
Revenue bonds payable	240,000	-	240,000	-
Compensated absences payable	30,304	-	30,304	-
Early retirement payable	45,336	-	45,336	-
Portion due after one year				
Bonds payable	5,660,000	-	5,660,000	-
Revenue bonds payable	1,125,000	-	1,125,000	-
Early retirement payable	62,370	-	62,370	-
Total liabilities	10,787,088	2,369	10,789,457	-
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	5,914,243	76,989	5,991,232	-
Restricted for				
Capital projects	1,194,774	-	1,194,774	-
Physical plant and equipment levy	197,324	-	197,324	-
Other special revenue purposes	64,513	-	64,513	-
Unrestricted	1,235,377	54,592	1,289,969	509,131
Total net assets	\$ 8,606,231	\$ 131,581	\$ 8,737,812	\$ 509,131

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government			
					Governmental Activities	Business Activities	Total	
<b>Primary Government</b>								
Governmental activities								
Instruction								
Regular instruction	\$ 4,370,414	\$ 215,336	\$ 628,956	\$ -	\$ (3,526,122)	\$ -	\$ (3,526,122)	\$ -
Special instruction	1,172,616	27,636	329,378	-	(815,602)	-	(815,602)	-
Other instruction	939,702	-	7,967	-	(931,735)	-	(931,735)	-
	6,482,732	242,972	966,301	-	(5,273,459)	-	(5,273,459)	-
Support services								
Student services	191,056	-	-	-	(191,056)	-	(191,056)	-
Instructional staff services	570,564	-	-	-	(570,564)	-	(570,564)	-
Administration services	925,761	-	-	-	(925,761)	-	(925,761)	-
Operation and maintenance of plant services	736,619	262	-	-	(736,357)	-	(736,357)	-
Transportation services	339,205	16,815	704	-	(321,686)	-	(321,686)	-
Central support services	-	-	-	-	-	-	-	-
	2,763,205	17,077	704	-	(2,745,424)	-	(2,745,424)	-
Non-instructional programs								
Other expenditures								
Facilities acquisition	78,168	-	34,200	-	(43,968)	-	(43,968)	-
Long-term debt interest	343,083	-	-	-	(343,083)	-	(343,083)	-
AEA flowthrough	346,184	-	346,184	-	-	-	-	-
Depreciation (unallocated)*	458,690	-	-	-	(458,690)	-	(458,690)	-
	1,226,125	-	380,384	-	(845,741)	-	(845,741)	-
Total governmental activities	10,472,062	260,049	1,347,389	-	(8,864,624)	-	(8,864,624)	-

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
<b><u>Functions/Programs (continued)</u></b>							
<b>Primary Government (continued)</b>							
Business type activities							
Non-instructional programs							
Food service operations	\$ 404,590	\$ 194,128	\$ 233,196	\$ -	\$ 22,734	\$ 22,734	\$ -
Total primary government	<u>\$ 10,876,652</u>	<u>\$ 454,177</u>	<u>\$ 1,580,585</u>	<u>\$ -</u>	<u>\$ 22,734</u>	<u>\$ (8,841,890)</u>	<u>\$ -</u>
<b>Component Unit</b>							
Foundation	<u>\$ 172,158</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,158)</u>

**General Revenues**

Property tax levied for							
General purposes						2,595,216	-
Debt service						262,897	-
Capital outlay						371,658	-
Sales and services tax						719,008	-
Unrestricted state grants						4,656,360	-
Contributions and donations						31,624	-
Unrestricted investment earnings						121,774	167,650
Other						9,066	36,226
Special item - loss on disposal of capital assets						(18,980)	-
Total general revenues and special items						<u>8,748,623</u>	<u>203,876</u>
Change in net assets						(116,001)	31,718
Net assets, beginning of year, as adjusted						8,722,232	477,413
Net assets, end of year						<u>\$ 8,606,231</u>	<u>\$ 509,131</u>

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

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

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

Exhibit C

<b>ASSETS</b>	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Cash and pooled investments	\$ 1,498,654	\$ 1,087,429	\$ 296,530	\$ 2,882,613
Receivables				
Property tax				
Delinquent	36,451	-	7,666	44,117
Succeeding year	2,418,410	-	518,834	2,937,244
Accounts receivable	1,960	-	720	2,680
Prepaid lease	-	-	880	880
Due from other funds	-	-	2,865	2,865
Due from other governments	78,911	107,345	-	186,256
Total assets and other debits	<u>\$ 4,034,386</u>	<u>\$ 1,194,774</u>	<u>\$ 827,495</u>	<u>\$ 6,056,655</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 243,212	\$ -	\$ 12,649	\$ 255,861
Salaries and benefits payable	99,477	-	-	99,477
Due to other funds	4,682	-	-	4,682
Deferred revenue				
Succeeding year property tax	2,418,410	-	518,834	2,937,244
Deferred revenue - federal grants	14,441	-	-	14,441
Total liabilities	<u>2,780,222</u>	<u>-</u>	<u>531,483</u>	<u>3,311,705</u>
Fund balances				
Reserved for				
Special purpose	67,340	210,000	107,706	385,046
Debt service	-	-	10,234	10,234
Unreserved, undesignated				
Special revenue funds	-	-	178,072	178,072
Other governmental	1,186,824	984,774	-	2,171,598
Total fund balances	<u>1,254,164</u>	<u>1,194,774</u>	<u>296,012</u>	<u>2,744,950</u>
Total liabilities and fund balances	<u>\$ 4,034,386</u>	<u>\$ 1,194,774</u>	<u>\$ 827,495</u>	<u>\$ 6,056,655</u>

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

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

Exhibit D

Total fund balances of governmental funds	\$ 2,744,950
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	13,199,243
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(55,238)
Long-term liabilities, including early retirement, bonds payable, capital leases and compensated absences are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(7,423,010)
The Internal Service Fund is used by management to charge the costs of funding of the District's employee health insurance plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	<u>140,286</u>
Net assets of governmental activities	<u><u>\$ 8,606,231</u></u>

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

WEST LIBERTY 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 Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,449,798	\$ 719,008	\$ 778,535	\$ 3,947,341
Tuition	87,345	-	-	87,345
Other	152,061	34,693	143,198	329,952
State sources	5,449,572	-	250	5,449,822
Federal sources	521,166	34,200	-	555,366
Total revenues	<u>8,659,942</u>	<u>787,901</u>	<u>921,983</u>	<u>10,369,826</u>
Expenditures				
Current				
Instruction				
Regular instruction	4,212,588	-	47,163	4,259,751
Special instruction	1,172,616	-	-	1,172,616
Other instruction	877,012	-	123,674	1,000,686
	<u>6,262,216</u>	<u>-</u>	<u>170,837</u>	<u>6,433,053</u>
Support services				
Student services	190,311	-	675	190,986
Instructional staff services	550,390	-	18,604	568,994
Administration services	917,914	-	15,525	933,439
Operation and maintenance of plant services	646,811	-	88,029	734,840
Transportation services	294,095	-	73,300	367,395
	<u>2,599,521</u>	<u>-</u>	<u>196,133</u>	<u>2,795,654</u>
Other expenditures				
Facilities acquisition	-	174,405	291,756	466,161
Long-term debt				
Principal	-	-	500,000	500,000
Interest and fiscal charges	-	-	348,842	348,842
AEA flowthrough	346,184	-	-	346,184
	<u>346,184</u>	<u>174,405</u>	<u>1,140,598</u>	<u>1,661,187</u>
Total expenditures	<u>9,207,921</u>	<u>174,405</u>	<u>1,507,568</u>	<u>10,889,894</u>

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

WEST LIBERTY 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 Governmental Funds</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (547,979)	\$ 613,496	\$ (585,585)	\$ (520,068)
Other financing sources (uses)				
Sale of supplies and materials	1,688	-	-	1,688
Interfund operating transfers in	-	81,236	609,682	690,918
Interfund operating transfers (out)	<u>(5,000)</u>	<u>(533,891)</u>	<u>(152,027)</u>	<u>(690,918)</u>
Total other financing sources (uses)	<u>(3,312)</u>	<u>(452,655)</u>	<u>457,655</u>	<u>1,688</u>
Net change in fund balances	(551,291)	160,841	(127,930)	(518,380)
Fund balance, beginning of year, as adjusted	<u>1,805,455</u>	<u>1,033,933</u>	<u>423,942</u>	<u>3,263,330</u>
Fund balance, end of year	<u>\$ 1,254,164</u>	<u>\$ 1,194,774</u>	<u>\$ 296,012</u>	<u>\$ 2,744,950</u>

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

WEST LIBERTY 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 \$ (518,380)

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

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

Expenditures for capital assets	\$ 521,058	
Loss on disposal of assets	(20,668)	
Depreciation expense	<u>(539,189)</u>	(38,799)

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. 500,000

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	(63,732)	
Compensated absences	<u>(819)</u>	(64,551)

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, interest expense is recognized as the interest accrues, regardless of when it is due. 5,759

The Internal Service Fund is used by management to charge the costs of the District's employee health insurance plan. The change in net assets of the Internal Service Fund is reported with governmental activities. (30)

Change in net assets of governmental activities \$ (116,001)

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Funds  
June 30, 2006

Exhibit G

	Business Type Activity	Governmental Activity
	Nonmajor School Nutrition	Internal Service
<b>ASSETS</b>		
Cash and pooled investments	\$ 54,145	\$ 140,286
Due from other fund	712	-
Inventories	2,104	-
Capital assets, net of accumulated depreciation	76,989	-
Total assets	133,950	140,286
<b>LIABILITIES</b>		
Accounts payable	700	-
Salaries and benefits payable	1,669	-
Total liabilities	2,369	-
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	76,989	-
Unrestricted	54,592	140,286
Total net assets	\$ 131,581	\$ 140,286

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

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

Exhibit H

	<u>Business Type</u> <u>Activity</u>	<u>Governmental</u> <u>Activity</u>
	<u>Nonmajor</u> <u>Enterprise</u>	<u>Internal</u> <u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$ 194,128	\$ -
Employee contributions	-	100,711
Total operating revenue	<u>194,128</u>	<u>100,711</u>
Operating expenses		
Support services		
Administration services	25,644	-
Operation and maintenance of plant	4,464	-
Non-instructional programs		
Salaries	125,450	-
Benefits	49,631	105,956
Purchased services	11	-
Supplies	184,072	-
Miscellaneous	11	-
Depreciation	15,307	-
Total operating expenses	<u>404,590</u>	<u>105,956</u>
Operating loss	<u>(210,462)</u>	<u>(5,245)</u>
Non-operating revenues		
Interest income	1,466	5,215
State sources	5,721	-
Federal sources	227,475	-
Total non-operating revenues	<u>234,662</u>	<u>5,215</u>
Net income (loss)	24,200	(30)
Net assets, beginning of year	<u>107,381</u>	<u>140,316</u>
Net assets, end of year	<u>\$ 131,581</u>	<u>\$140,286</u>

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

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

Exhibit I

	Business Type Activity Nonmajor Enterprise	Governmental Activity Internal Service
Cash flows from operating activities		
Cash received from sale of lunches and breakfasts	\$ 194,128	\$ -
Cash received from miscellaneous operating activities	-	100,711
Cash payments to employees for services	(200,405)	(105,956)
Cash payments to suppliers for goods and services	(170,463)	-
Net cash used in operating activities	(176,740)	(5,245)
Cash flows from non-capital financing activities		
State grants received	5,721	-
Federal grants received	208,721	-
Net cash provided by non-capital financing activities	214,442	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(16,180)	-
Cash flows from investing activities		
Interest on investments	1,466	5,215
Net increase (decrease) in cash and cash equivalents	22,988	(30)
Cash and cash equivalents, beginning of year	31,157	140,316
Cash and cash equivalents, end of year	\$ 54,145	\$ 140,286
 <b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (210,462)	\$ (5,245)
Adjustments to reconcile operating loss to net cash used in operating activities		
Commodities used	18,754	-
Depreciation	15,307	-
(Increase) in due from other fund	(712)	-
Decrease in inventories	215	-
Increase in accounts payable	700	-
(Decrease) in salaries and benefits payable	(542)	-
Net cash used in operating activities	\$ (176,740)	\$ (5,245)

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

During the year ended June 30, 2006, the District received \$18,754 of federal commodities.

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

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

Exhibit J

	Private Purpose Trust Student Groups	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 895	\$2,309
Due from other fund	1,105	-
Accrued interest receivable	-	-
Total assets	2,000	2,309
<b>Liabilities</b>		
Accounts payable	2,000	-
Due to other fund	-	-
Due to others	-	2,309
Total liabilities	2,000	2,309
<b>Net assets</b>	\$ -	\$ -

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

WEST LIBERTY 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>Student Groups</u>
Additions	
Local sources	
Gifts and contributions	\$ 2,675
Deductions	
Instruction	
Salaries	-
Benefits	-
Purchased services	3,000
Supplies	675
Miscellaneous	-
Total deductions	<u>3,675</u>
Change in net assets	(1,000)
Net assets, beginning of year, as adjusted	<u>1,000</u>
Net assets, end of year	<u>\$ -</u>

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

WEST LIBERTY COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

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

The West Liberty Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades pre-kindergarten through twelve. The geographic area served includes the City of West Liberty, Iowa, and the agricultural territory in Cedar, Johnson and Muscatine 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 Liberty 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.

These financial statements present the West Liberty Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The West Liberty Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown on the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's Report, the Foundation financial statements have not been audited.

## 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 the acquisition and construction of capital facilities.

The District reports no proprietary funds as major. However, the District reports two nonmajor proprietary funds. The Enterprise Fund, School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is utilized to account for employee health insurance benefits.

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit various student groups.

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, principal and interest on long-term debt, early retirement benefits, compensated absences 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 funds 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	\$25,000
Improvements other than buildings	\$25,000
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	50 years
Site improvements	15 years
Improvements to buildings	20 years
Furniture and equipment	5-15 years

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

Compensated Absences - District employees receive specified amounts of vacation and sick leave benefits annually, to be used by the end of the fiscal year. Vacation and sick leave benefits do not accumulate from year to year. However, the benefits are payable 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.

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

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

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.

Designated Fund Balances - In the fund financial statements the District has designated a portion of its fund balance for special purposes as designated by the Board.

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 amount budgeted in the support services function. 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	<u>\$ 155,851</u>

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

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

**Note 3. Due From and Due to Other Funds**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Student Activities	General	\$ 1,916
Physical Plant and Equipment Levy	General	949
School Nutrition	General	712
Private Purpose Trust	General	<u>1,105</u>
Total		<u>\$ 4,682</u>

The Private Purpose Trust Fund is repaying the General Fund for interest that was credited to the Private Purpose Trust Fund but will be transferred to the General Fund during the year ending June 30, 2007. The other funds showed a negative reconciled checking balance at June 30, 2006. Since they share a bank account with the General Fund, these negatives are shown on the financial statements as Due to / Due From accounts.

**Note 4. 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>
Debt Service	Capital Projects	\$ 430,918
Debt Service	Physical Plant and Equipment Levy	152,027
Capital Projects	Capital Projects	81,236
Physical Plant and Equipment Levy	Capital Projects	21,737
Physical Plant and Equipment Levy	General Fund	<u>5,000</u>
		<u>\$ 690,918</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

## Note 5. 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	\$ 462,833	\$ -	\$ -	\$ 462,833
Construction in progress	<u>591,512</u>	-	<u>(591,512)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>1,054,345</u>	<u>-</u>	<u>(591,512)</u>	<u>462,833</u>
Capital assets being depreciated:				
Buildings and improvements	16,024,887	967,505	(275,417)	16,716,975
Improvements other than buildings	1,128,886	-	-	1,128,886
Furniture and equipment	<u>1,174,631</u>	<u>145,065</u>	<u>(88,703)</u>	<u>1,230,993</u>
Total capital assets being depreciated	<u>18,328,404</u>	<u>1,112,570</u>	<u>(364,120)</u>	<u>19,076,854</u>
Less accumulated depreciation for:				
Buildings and improvements	5,318,040	378,207	(266,099)	5,430,148
Improvements other than buildings	83,832	73,114	-	156,946
Furniture and equipment	<u>742,825</u>	<u>87,868</u>	<u>(77,343)</u>	<u>753,350</u>
Total accumulated depreciation	<u>6,144,697</u>	<u>539,189</u>	<u>(343,442)</u>	<u>6,340,444</u>
Total capital assets being depreciated, net	<u>12,183,707</u>	<u>573,381</u>	<u>(20,678)</u>	<u>12,736,410</u>
Governmental activities capital assets, net	<u>\$ 13,238,052</u>	<u>\$ 573,381</u>	<u>\$ (612,190)</u>	<u>\$ 13,199,243</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 230,067	\$ 16,180	\$ -	\$ 246,247
Less accumulated depreciation	<u>153,951</u>	<u>15,307</u>	<u>-</u>	<u>169,258</u>
Business type activities capital assets, net	<u>\$ 76,116</u>	<u>\$ 873</u>	<u>\$ -</u>	<u>\$ 76,989</u>

Depreciation expense was charged to the following functions:

<b>Governmental activities</b>	
Instruction	
Regular	\$ 48,243
Support services	
Student support services	70
Instructional staff	1,357
Administration	1,734
Operation and maintenance of plant	1,218
Transportation	27,877
Unallocated depreciation	<u>458,690</u>
Total governmental activities depreciation expense	<u>\$ 539,189</u>
 <b>Business type activities</b>	
Food services	<u>\$ 15,307</u>

#### Note 6. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 6,180,000	\$ -	\$(260,000)	\$ 5,920,000	\$ 260,000
Revenue bonds	1,605,000	-	(240,000)	1,365,000	250,000
Early retirement	43,974	97,008	(33,276)	107,706	45,336
Compensated absences	<u>29,485</u>	<u>819</u>	<u>-</u>	<u>30,304</u>	<u>30,304</u>
Totals	<u>\$ 7,858,459</u>	<u>\$ 97,827</u>	<u>\$(533,276)</u>	<u>\$ 7,423,010</u>	<u>\$ 585,640</u>

#### Early Retirement

A certified District employee is eligible for this program when a) the sum of his/her total years of teaching and age equals eighty-eight with at least twelve years of continuous service to the District or b) the employee is fifty-five or older with at least twelve years of continuous service to the District. The benefit amount is equivalent to fifty percent of the employee's base salary at the time of retirement. The following terms apply to the first, second and third years of eligibility:

Eligibility Year 1	100% of 50% of base
Eligibility Year 2	50% of 50% of base
Eligibility Year 3	33% of 50% of base

The employee must notify the Board by March 1st to receive the early retirement benefit. At June 30, 2006 the maximum accumulated early retirement pay is \$107,706 and five individuals are receiving the benefit. Early retirement expenditures for the year ended June 30, 2006 totaled \$33,276.

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 \$30,304.

Bonds Payable

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

Year Ending June 30,	10/01/1997				12/02/2002			
	Interest Rates	Principal	Interest	Total	Interest Rates	Principal	Interest	Total
2007	4.75	\$ 160,000	\$ 55,070	\$ 215,070	3.500	\$ 100,000	\$ 210,400	\$ 310,400
2008	4.80	175,000	47,470	222,470	3.625	100,000	206,900	306,900
2009	4.90	180,000	39,070	219,070	3.750	100,000	203,276	303,276
2010	5.00	190,000	30,250	220,250	4.000	100,000	199,526	299,526
2011	5.00	200,000	20,750	220,750	4.000	105,000	195,526	300,526
2012	5.00	215,000	10,750	225,750	4.000	110,000	191,326	301,326
2013	-	-	-	-	4.000	345,000	186,926	531,926
2014	-	-	-	-	4.100	360,000	173,126	533,126
2015	-	-	-	-	4.200	375,000	158,366	533,366
2016	-	-	-	-	4.300	390,000	142,616	532,616
2017	-	-	-	-	4.400	405,000	125,846	530,846
2018	-	-	-	-	4.500	425,000	108,026	533,026
2019	-	-	-	-	4.600	440,000	88,900	528,900
2020	-	-	-	-	4.700	460,000	68,660	528,660
2021	-	-	-	-	4.750	480,000	47,040	527,040
2022	-	-	-	-	4.800	505,000	24,240	529,240
Totals		<u>\$ 1,120,000</u>	<u>\$ 203,360</u>	<u>\$ 1,323,360</u>		<u>\$ 4,800,000</u>	<u>\$ 2,330,700</u>	<u>\$ 7,130,700</u>

Year Ending <u>June 30,</u>	<u>Total</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 260,000	\$ 265,470	\$ 525,470
2008	275,000	254,370	529,370
2009	280,000	242,346	522,346
2010	290,000	229,776	519,776
2011	305,000	216,276	521,276
2012	325,000	202,076	527,076
2013	345,000	186,926	531,926
2014	360,000	173,126	533,126
2015	375,000	158,366	533,366
2016	390,000	142,616	532,616
2017	405,000	125,846	530,846
2018	425,000	108,026	533,026
2019	440,000	88,900	528,900
2020	460,000	68,660	528,660
2021	480,000	47,040	527,040
2022	<u>505,000</u>	<u>24,240</u>	<u>529,240</u>
Totals	<u>\$ 5,920,000</u>	<u>\$ 2,534,060</u>	<u>\$ 8,454,060</u>

### Revenue Bonds Payable

Details of the District's June 30, 2006 local option sales and services tax revenue bonded indebtedness are as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>November 12, 2002</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	4.50	\$ 250,000	\$ 60,608	\$ 310,608
2008	4.75	260,000	48,808	308,808
2009	4.75	275,000	36,101	311,101
2010	5.20	285,000	22,160	307,160
2011	5.00	<u>295,000</u>	<u>7,375</u>	<u>302,375</u>
Totals		<u>\$ 1,365,000</u>	<u>\$ 175,052</u>	<u>\$ 1,540,052</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

#### **Note 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, 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 \$322,505, \$300,463 and \$285,482 respectively, equal to the required contributions for each year.

#### **Note 8. Risk Management**

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

#### **Note 9. Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$346,184 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 10. Correction of Beginning Balances**

During fiscal year ended June 30, 2006, the District discovered errors in prior year balances in the General Fund and Trust Fund. Therefore the beginning balances have been adjusted accordingly:

General Fund	decreased \$6,781
Trust Fund	decreased \$2,806

Required Supplementary Information

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

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
						Original	Final	
Revenues								
Local sources	\$ 4,364,638	\$ 301,520	\$ 4,666,158	\$ (105,926)	\$ 4,560,232	\$ 4,346,213	\$ 4,346,213	\$ 214,019
State sources	5,449,822	5,721	5,455,543	-	5,455,543	5,494,707	5,494,707	(39,164)
Federal sources	555,366	227,475	782,841	-	782,841	701,517	849,606	(66,765)
Total revenues	<u>10,369,826</u>	<u>534,716</u>	<u>10,904,542</u>	<u>(105,926)</u>	<u>10,798,616</u>	<u>10,542,437</u>	<u>10,690,526</u>	<u>108,090</u>
Expenditures								
Instruction	6,433,053	-	6,433,053	-	6,433,053	6,628,806	6,776,895	343,842
Support services	2,795,654	30,108	2,825,762	-	2,825,762	2,518,205	2,655,270	(170,492)
Non-instructional programs	-	480,438	480,438	(105,956)	374,482	390,819	397,620	23,138
Other expenditures	1,661,187	-	1,661,187	-	1,661,187	1,828,211	1,865,782	204,595
Total expenditures	<u>10,889,894</u>	<u>510,546</u>	<u>11,400,440</u>	<u>(105,956)</u>	<u>11,294,484</u>	<u>11,366,041</u>	<u>11,695,567</u>	<u>401,083</u>
Excess (deficiency) of revenues over (under) expenditures	(520,068)	24,170	(495,898)	30	(495,868)	(823,604)	(1,005,041)	509,173
Net other financing sources	1,688	-	1,688	-	1,688	19,823	19,823	(18,135)
Net change in fund balance	(518,380)	24,170	(494,210)	30	(494,180)	(803,781)	(985,218)	491,038
Balance, beginning of year, as adjusted	3,263,330	247,697	3,511,027	(140,316)	3,370,711	2,311,462	2,311,462	1,059,249
Balance, end of year	<u>\$ 2,744,950</u>	<u>\$ 271,867</u>	<u>\$ 3,016,817</u>	<u>\$ (140,286)</u>	<u>\$ 2,876,531</u>	<u>\$ 1,507,681</u>	<u>\$ 1,326,244</u>	<u>\$ 1,550,287</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY 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 Capital Projects 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. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$329,526.

During the year ended June 30, 2006, District expenditures exceeded the amended amount budgeted in the Support Services function; however, General Fund expenditures did not exceed the District's unspent authorized budget.

## Other Supplementary Information

WEST LIBERTY COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

Schedule 1

	Special Revenue				
<b>ASSETS</b>	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
Cash and pooled investments	\$ 21,657	\$ 65,982	\$ 202,866	\$ 6,025	\$ 296,530
Receivables					
Property tax					
Delinquent	2,284	-	1,173	4,209	7,666
Succeeding year	156,121	-	92,260	270,453	518,834
Accounts receivable	-	720	-	-	720
Due from other fund	-	1,916	949	-	2,865
Prepaid lease	-	-	880	-	880
Total assets	<u>\$ 180,062</u>	<u>\$ 68,618</u>	<u>\$ 298,128</u>	<u>\$ 280,687</u>	<u>\$ 827,495</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Accounts payable	\$ -	\$ 4,105	\$ 8,544	\$ -	\$ 12,649
Deferred revenue					
Succeeding year property tax	156,121	-	92,260	270,453	518,834
Total liabilities	<u>156,121</u>	<u>4,105</u>	<u>100,804</u>	<u>270,453</u>	<u>531,483</u>
Fund balances					
Reserved for special purpose	107,706	-	-	-	107,706
Reserved for debt service	-	-	-	10,234	10,234
Unreserved fund balances	(83,765)	64,513	197,324	-	178,072
Total fund balances	<u>23,941</u>	<u>64,513</u>	<u>197,324</u>	<u>10,234</u>	<u>296,012</u>
Total liabilities and fund balances	<u>\$ 180,062</u>	<u>\$ 68,618</u>	<u>\$ 298,128</u>	<u>\$ 280,687</u>	<u>\$ 827,495</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

	Special Revenue				<u>Total</u>
	Management <u>Levy</u>	Student <u>Activity</u>	Physical Plant and Equipment <u>Levy</u>	Debt <u>Service</u>	
Revenues					
Local sources					
Local taxes	\$ 144,156	\$ -	\$ 371,620	\$ 262,759	\$ 778,535
Other	7,180	124,095	7,712	4,211	143,198
State sources	74	-	38	138	250
Total revenues	151,410	124,095	379,370	267,108	921,983
Expenditures					
Current instruction					
Regular program instruction	47,163	-	-	-	47,163
Other instruction	-	123,674	-	-	123,674
Support services					
Student support services	675	-	-	-	675
Instructional staff services	608	995	17,001	-	18,604
Administration services	1,553	570	13,402	-	15,525
Operation and maintenance of plant services	74,794	91	13,144	-	88,029
Transportation services	15,129	-	58,171	-	73,300
Other expenditures					
Facilities acquisition and constructio:	-	-	291,756	-	291,756
Long-term debt: Principal	-	-	-	500,000	500,000
Interest and fiscal charges	-	-	-	348,842	348,842
Total expenditures	139,922	125,330	393,474	848,842	1,507,568
Excess (deficiency) of revenues over (under) expenditures	11,488	(1,235)	(14,104)	(581,734)	(585,585)
Other financing sources (uses)					
Interfund operating transfers in	-	-	26,737	582,945	609,682
Interfund operating transfers (out)	-	-	(152,027)	-	(152,027)
Total other financing sources (uses)	-	-	(125,290)	582,945	457,655
Net change in fund balances	11,488	(1,235)	(139,394)	1,211	(127,930)
Fund balances, beginning of year	12,453	65,748	336,718	9,023	423,942
Fund balances, end of year	\$ 23,941	\$ 64,513	\$ 197,324	\$ 10,234	\$ 296,012

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, End of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
District wide					
Interest	\$ 1,108	\$ 2,679	\$ -	\$ (1,108)	\$ 2,679
Miscellaneous	373	1,956	2,072	-	257
Adult activity tickets	1,875	2,144	-	(1,875)	2,144
Student pictures	1,153	1,121	-	(1,153)	1,121
Student transportation fees	-	1,300	1,300	-	-
Cultural diversity fund	872	-	-	-	872
Booster club reimbursement	-	6,352	6,352	-	-
Elementary					
Activity tickets	210	245	-	(210)	245
Miscellaneous/Gardner	3,725	1,969	2,454	-	3,240
Middle school					
5th and 6th grade choir	(28)	-	-	28	-
Activity tickets	2,030	1,540	-	(2,030)	1,540
MS misc.	1,426	946	725	(28)	1,619
Vending machines	1,995	1,668	2,030	-	1,633
Junior high					
Vocal music	151	-	40	-	111
Band	147	-	83	-	64
Honor band	50	-	-	-	50
Athletics	186	-	10	(186)	(10)
Boys' basketball	(930)	-	1,064	930	(1,064)
Football	(1,023)	-	692	1,023	(692)
Boys' track	(225)	626	538	225	88
Wrestling	(220)	-	160	220	(160)
Girls' Basketball	(930)	-	2,137	930	(2,137)
Girls' volleyball	(553)	-	692	552	(693)
Girls' track	(105)	421	438	105	(17)
Softball	-	-	171	-	(171)
Magazines	2,442	3,760	1,918	(2,442)	1,842
Student council	854	1,689	1,468	-	1,075
Science club	184	-	-	-	184

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, End of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Intrafund <u>Transfers</u>	Balance, End of <u>Year</u>
High school					
Drama	\$ 1,475	\$ 1,246	\$ 1,416	\$ -	\$ 1,305
Musical Fund	-	3,017	2,148	-	869
Vocal music	383	4,512	5,532	717	80
Vocal music fundraiser	158	-	-	-	158
Instrumental music	495	243	1,111	605	232
Athletics	(4,702)	270	6,467	7,074	(3,825)
Activity tickets	2,885	3,045	52	(2,885)	2,993
Cross country	(402)	316	1,057	402	(741)
Cross Country fundraiser	-	689	-	-	689
Boys' basketball	363	5,141	3,025	(363)	2,116
Boys' basketball fundraiser	458	-	-	-	458
Boys Basketball resale	-	288	288	-	-
Football	7,963	7,739	5,118	(7,963)	2,621
Football fundraiser	626	-	60	-	566
Football resale	987	2,554	1,920	-	1,621
Baseball	(3,471)	1,476	4,182	3,471	(2,706)
Baseball fundraiser	8,331	1,790	1,255	-	8,866
Baseball resale	-	868	1,038	-	(170)
Boys' track	(1,956)	1,572	2,361	1,956	(789)
KRNA/boys' track fundraiser	3	-	-	(3)	-
Boys' golf	(513)	415	695	513	(280)
Wrestling	1,157	2,023	4,259	(1,157)	(2,236)
Wrestling fundraiser	2,104	3,800	3,066	-	2,838
Wrestling/weight room	829	2,490	-	-	3,319
Girls' basketball	(50)	5,661	3,720	50	1,941
Girls' basketball fundraiser	155	484	-	-	639
Volleyball	(444)	3,398	1,785	444	1,613
Volleyball fundraiser	667	-	90	-	577
Volleyball resale	20	-	-	-	20
Girls' soccer	(1,254)	919	1,952	1,254	(1,033)
Softball	(546)	2,404	1,849	546	555
Softball fundraiser	486	-	-	-	486
Girls' track resale	(64)	-	-	-	(64)

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, End of Year	Revenues	Expenditures	Intrafund Transfers	Balance, End of Year
High school (continued)					
Girls' track	\$ 777	\$ 1,587	\$ 2,607	\$ (777)	\$ (1,020)
Girls' track fundraiser	1,262	-	1,262	-	-
Softball resale	(38)	-	-	-	(38)
Vocal music fundraiser	9	-	-	-	9
Girls' golf fundraiser	162	675	628	-	209
Instrumental music fundraiser	128	-	-	-	128
Girls' golf	(291)	-	383	291	(383)
Seniors	701	-	33	(299)	369
Juniors	402	1,792	2,399	1,379	1,174
Sophomore	1,782	-	68	(215)	1,499
Freshmen	1,566	-	86	(766)	714
FHA	79	1,241	1,007	-	313
FFA	(1,511)	6,977	12,136	-	(6,670)
Cheerleaders	(24)	2,356	2,628	-	(296)
Color guard	996	30	847	-	179
Dance team	(240)	834	576	-	18
Forensics	155	-	-	285	440
Anime fund	65	-	-	-	65
National Honor Society	2,411	-	258	-	2,153
Student council	1,933	1,337	846	-	2,424
Yearbook #2	7,725	7,607	10,870	-	4,462
Video productions	74	-	-	-	74
Students in need of assistance	1,102	240	350	-	992
Academic letters	166	358	-	-	524
Boys' soccer	(460)	1,265	1,849	460	(584)
Soccer fundraiser	525	-	-	-	525
KCRG athletics	231	-	-	-	231
Boys' soccer resale	192	-	-	-	192
Greenhouse fund	-	1,833	1,249	-	584
FHA/FCCLA fundraisers	940	-	-	-	940
FFA resale	(73)	390	390	-	(73)
FFA fundraiser	14,092	10,797	6,068	-	18,821
Totals	<u>\$ 65,748</u>	<u>\$ 124,095</u>	<u>\$ 125,330</u>	<u>\$ -</u>	<u>\$ 64,513</u>

See accompanying Independent Auditor's Report.

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

Schedule 4

	Balance, Beginning of Year	Additions	Deductions	Balance, End of Year
Assets				
Cash	<u>\$ 2,414</u>	<u>\$ 10,319</u>	<u>\$ 10,424</u>	<u>\$ 2,309</u>
Liabilities				
Due to others	<u>\$ 2,414</u>	<u>\$ 10,319</u>	<u>\$ 10,424</u>	<u>\$ 2,309</u>

See accompanying Independent Auditor's Report.

WEST LIBERTY 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	\$ 3,947,341	\$ 3,672,741	\$ 3,732,914	\$ 3,403,374
Tuition	87,345	113,168	84,354	139,424
Other	329,952	2,378,613	376,649	350,733
Intermediate sources	-	-	-	1,452
State sources	5,449,822	5,131,990	4,644,022	4,822,440
Federal sources	555,366	1,020,523	1,004,441	446,349
Total revenues	<u>\$ 10,369,826</u>	<u>\$ 12,317,035</u>	<u>\$ 9,842,380</u>	<u>\$ 9,163,772</u>
Expenditures				
Instruction				
Regular instruction	4,259,751	4,059,112	3,917,591	3,626,622
Special instruction	1,172,616	1,131,055	1,404,202	1,312,977
Other instruction	1,000,686	1,007,535	475,596	439,884
Support services				
Student services	190,986	216,691	198,062	131,774
Instructional staff services	568,994	394,044	324,869	316,899
Administration services	933,439	824,547	729,971	728,877
Operation and maintenance of plant services	734,840	624,595	519,585	488,431
Transportation services	367,395	329,810	266,168	227,285
Central support services	-	-	11,425	-
Other expenditures				
Facilities acquisition	466,161	5,687,846	4,902,180	891,244
Long-term debt				
Principal	500,000	505,744	418,188	158,660
Interest and other charges	348,842	372,421	501,289	99,002
AEA flowthrough	346,184	324,503	313,631	336,203
Total expenditures	<u>\$ 10,889,894</u>	<u>\$ 15,477,903</u>	<u>\$ 13,982,757</u>	<u>\$ 8,757,858</u>

See accompanying Independent Auditor's Report.

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

Schedule 6

Grantor/Program	<u>CFDA</u> <u>Number</u>	Agency or <u>Pass-through</u> <u>Number</u>	<u>Program</u> <u>Expenditures</u>
Indirect			
U.S. Department of Agriculture			
Iowa Department of Education			
Food distribution program (non-cash)	10.550	FY06	\$ 18,754
National School Breakfast Program	10.553	FY06	23,298
National School Lunch Program	10.555	FY06	<u>185,423</u>
Total U.S. Department of Agriculture			<u>227,475</u>
U.S. Department of Education			
Iowa Department of Education			
Title I Grants to Local			
Educational Agencies	84.010	FY05	22,005
Title I Grants to Local			
Educational Agencies	84.010	FY06	125,325
Title I Grants to Local			
Educational Agencies - Migrant	84.011	FY06	<u>26,520</u>
Total Title I Grants to Local Education Agencies			<u>173,850</u>
Federal, State and Local Partnerships			
for Educational Improvements			
Title V Program	84.298	FY06	12,513
Title VI A - State Assessment	84.369	FY06	9,522
Safe and Drug-free Schools and Communities	84.186	FY05	67
Safe and Drug-free Schools and Communities	84.186	FY06	4,327
Title IIA - Federal Teach Quality Programs	84.367	FY06	76,052
Special Education Grants to States-Part B	84.027	FY06	<u>65,356</u>
Total Iowa Department of Education			<u>341,687</u>

See accompanying Independent Auditor's Report.

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

Schedule 6

Grantor/Program	<u>CFDA</u> <u>Number</u>	Agency or <u>Pass-through</u> <u>Number</u>	<u>Program</u> <u>Expenditures</u>
Indirect (continued)			
U.S. Department of Education			
Area Education Agency			
Vocational Education - Basic Grants to States	84.048A	FY06	\$ 1,652
Advanced Placement Fee Program	84.330	FY06	780
Reading First State Grants	84.357	FY06	57,258
Title III - ELL	84.365	FY06	44,497
Special Educaiton - Grants to States - Success 4	84.196	FY06	<u>19,561</u>
Total Area Education Agency			<u>123,748</u>
Total U.S. Department of Education			<u>465,435</u>
U.S. Department of Homeland Security			
Iowa Department of Education			
Emergency Response Crisis Management	97.042	FY06	<u>121</u>
U.S. Department of Health and Human Services			
Iowa East Central T.R.A.I.N.			
Head Start	93.600	FY06	<u>55,629</u>
Total federal awards			<u>\$ 748,660</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the West Liberty 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 general-purpose financial statements.

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 Liberty 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 Liberty 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 13, 2006. I did not issue an opinion on the West Liberty Community School Foundation, which is included as a discretely presented component unit. 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 Liberty Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item 06-II-A Segregation of Duties, is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether West Liberty 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 IV of the accompanying Schedule of Findings and Questioned Costs.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the West Liberty 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 Liberty Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
September 13, 2006

**KAY L. CHAPMAN, CPA PC**

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

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

To the Board of Education  
West Liberty Community School District  
West Liberty, Iowa

Compliance

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

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

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

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect West Liberty Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. There were no reportable conditions described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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

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

*Kay L. Chapman, CPA PC*

Kay L. Chapman, CPA PC  
September 13, 2006

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

**Part I. Summary of the Independent Auditor's Results**

1. An unqualified opinion was issued on the financial statements.
2. Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
3. The audit did not disclose any noncompliance which is material to the financial statements.
4. No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
5. An unqualified opinion was issued on compliance with requirements applicable to each major program.
6. The audit disclosed an audit finding, which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
7. Major programs were as follows:
  - CFDA Number 84.010 Title I Grants to Local Educational Agencies
  - Clustered programs
    - CFDA Number 10.553 School Breakfast Program
    - CFDA Number 10.555 National School Lunch Program
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. West Liberty Community School District did not qualify as a low-risk auditee.

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

**Part II. Findings Related to the General Purpose Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

06-II-A 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. The cash receipts and disbursements, bank deposits and bank account reconciliations were all handled by the same person.

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

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

Conclusion - Response accepted.

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

**Part III. Findings and Questioned Costs for Federal Awards**

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

There were no reportable conditions or material weaknesses relating to federal grant programs.

WEST LIBERTY COMMUNITY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
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 amended amount budgeted in the Support Service function.

Recommendation - The District should have amended the budget in sufficient amounts before expenditures were allowed to exceed the budget.

Response - This was a result of changes to the chart of accounts and where various expenditures were coded as required by the State of Iowa Department of Education. Due to the lateness of guidance received from the Iowa Department of Education, we were not able to amend our budget sufficiently to cover these expenditures under their corrected function. We will be more attentive of this in the future and amend the budget in sufficient amounts, as necessary.

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 - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

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

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 LIBERTY COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant

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

<u>Comment Number</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not corrected, provide planned corrective action or other explanation</u>
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There were no audit findings relating to federal programs.

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

Comment Number	Comment Title	Corrective Action Plan	Contact Person	Anticipated Date of Completion
There were no audit findings relating to federal programs.				