



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE October 30, 2006

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Auditor of State David A. Vaudt today released an audit report on Boone Community School District in Boone, Iowa.

The District's revenues totaled \$22,492,443 for the year ended June 30, 2005, a 9% increase over the prior year. Revenues included \$5,796,553 in local tax, charges for service of \$2,990,441, operating grants, contributions and restricted interest of \$2,177,383, capital grants, contributions and restricted interest of \$282,004, local option sales and services tax of \$1,175,919, income surtax of \$838,845, unrestricted state grants of \$9,141,386, unrestricted investment earnings of \$86,302 and other general revenues of \$3,610.

Expenses for District operations totaled \$21,120,150, a 3% increase over the prior year. Expenses included \$8,757,475 for regular instruction, \$3,793,311 for special instruction and \$1,600,955 for operation and maintenance of plant services.

The report contains recommendations to the Board to review operating procedures to obtain the maximum internal control possible under the circumstances. The report also included recommendations for compliance with various statutory requirements. The District's responses to the recommendations are included in the report.

A copy of the audit report is available for review in the District Secretary's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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BOONE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2005

Table of Contents

| | | <u>Page</u> |
|---|-----------------|-------------|
| Officials | | 3 |
| Independent Auditor’s Report | | 5-6 |
| Management’s Discussion and Analysis | | 7-15 |
| Basic Financial Statements: | <u>Exhibit</u> | |
| Government-wide Financial Statements: | | |
| Statement of Net Assets | A | 18-19 |
| Statement of Activities | B | 20-21 |
| Governmental Fund Financial Statements: | | |
| Balance Sheet | C | 22 |
| Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets | D | 23 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | E | 24 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities | F | 25 |
| Proprietary Fund Financial Statements: | | |
| Statement of Net Assets | G | 26 |
| Statement of Revenues, Expenses and Changes in Fund Net Assets | H | 27 |
| Statement of Cash Flows | I | 28 |
| Fiduciary Fund Financial Statements: | | |
| Statement of Fiduciary Net Assets | J | 29 |
| Statement of Changes in Fiduciary Net Assets | K | 30 |
| Notes to Financial Statements | | 31-42 |
| Required Supplementary Information: | | |
| Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual – All Governmental Funds and Proprietary Fund | | 44 |
| Notes to Required Supplementary Information – Budgetary Reporting | | 45 |
| Other Supplementary Information: | <u>Schedule</u> | |
| Nonmajor Governmental Funds: | | |
| Combining Balance Sheet | 1 | 48 |
| Combining Schedule of Revenues, Expenditures and Changes in Fund Balances | 2 | 49 |
| Schedule of Changes in Special Revenue Fund, Student Activity Accounts | 3 | 50-51 |
| Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds | 4 | 52 |
| Schedule of Expenditures of Federal Awards | 5 | 53 |
| 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 <u>Government Auditing Standards</u> | | 57-58 |
| 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 | | 61-62 |
| Schedule of Findings and Questioned Costs | | 63-78 |
| Staff | | 79 |

Boone Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|---|----------------|---------------------|
| Board of Education | | |
| (Before September 2004 Election) | | |
| Dr. Jeffrey Anderson | President | 2004 |
| Kirk Leeds | Vice President | 2004 |
| Jim Malloy | Board Member | 2005 |
| Paulette Newbold | Board Member | 2005 |
| Stan Brandmeyer | Board Member | 2006 |

Board of Education

(After September 2004 Election)

| | | |
|----------------------|----------------|------|
| Dr. Jeffrey Anderson | President | 2007 |
| Jim Malloy | Vice President | 2005 |
| Paulette Newbold | Board Member | 2005 |
| Stan Brandmeyer | Board Member | 2006 |
| Kirk Leeds | Board Member | 2007 |

School Officials

| | | |
|--------------------|------------------------------|----------------------|
| Joseph Kirchoff | Superintendent | Retired, Dec 2004 |
| Dr. Theron Shutte | Superintendent | 2005 |
| Micky Heath | District Secretary/Treasurer | Terminated, Oct 2005 |
| Jodi Severson, CPA | District Secretary/Treasurer | Indefinite |

Boone Community School District



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Independent Auditor's Report

To the Board of Education of
Boone Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Boone Community School District, Boone Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 14, a special investigation of the Nutrition Department of the Boone Community School District was performed by the Office of Auditor of State for the period August 30, 2004 through March 31, 2006 and identified estimated undeposited collections of \$33,500 from the Nutrition Department, a major proprietary fund. Of the \$33,500 of estimated undeposited collections, approximately \$25,600 apply to the year ended June 30, 2005.

In our opinion, except for the effects of the estimated undeposited collections described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities and the School Nutrition Fund of Boone Community School District at June 30, 2005, and the respective changes in financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

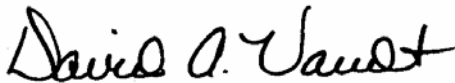
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund except the School Nutrition Fund and the aggregate remaining fund information of Boone Community School District at June 30, 2005, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Also, as discussed in Note 14, a special investigation of Boone Community School District was performed by the Office of Auditor of State for the period of July 1, 2001 through November 30, 2005 and identified \$208,649 of improper disbursements made by the former Business Manager, including \$149,317 of unrecorded disbursements. Improper disbursements pertaining to the year ended June 30, 2005 are included as expenditures in the District's financial statements. The prior year's unrecorded improper disbursements were approximately equal to unrecorded revenues. The financial statements also reflect the District's subsequent insurance recovery of substantially all the improper disbursements made as of June 30, 2005.

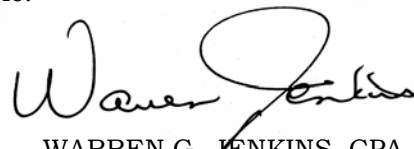
In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2006 on our consideration of Boone Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 44 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Boone Community School District's basic financial statements. The financial statements for the three years ended June 30, 2004 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 23, 2006, except for
Note 14, as to which the
date is July 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Boone Community School District is pleased to provide this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the District's financial performance is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

During fiscal year 2005, beginning net assets for governmental activities were restated (decreased) by \$1,398,328 to implement new capitalization thresholds for reporting capital assets and to correct errors in reporting prior year income surtax receivable and early retirement liability. Beginning net assets for the business type activities were restated (decreased) by \$36,706 to correct an error in reporting inventories. Beginning net assets for the fiduciary fund were restated (increased) by \$24,342 to correct an error in reporting investments. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2004 amounts have been revised to reflect the changes for the errors and the change in capitalization thresholds as if the changes had been made in the prior year.

- General Fund revenues increased from \$18,262,139 in fiscal year 2004 to \$18,769,269 in 2005, an increase of \$507,130. General Fund expenditures increased from \$18,235,206 in 2004 to \$18,897,407 in fiscal year 2005, an increase of \$662,201. The District's General Fund balance deficit increased from \$102,255 at the end of fiscal year 2004 to \$212,539.
- Total state and local General Fund revenues for fiscal year 2005 increased by more than \$500,000 over the prior year.
- Capital Projects Fund expenditures increased from \$372,609 in fiscal year 2004 to \$4,885,338 in 2005, an increase of over \$4.5 million. The increase is the result of the District project for a new middle school. The Capital Projects Fund balance of \$8,556,289 at June 30, 2005 will be used to complete the project.

Overview of the Financial Statements

This annual report consists of five parts:

1. Management's Discussion and Analysis (this section)
2. Basic Financial Statements
3. Notes to Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first, the Statement of Net Assets and the Statement of Activities, are *District-wide Financial Statements* that provide information about the District as a whole and present an overall view of the District's finances.
- The second are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements, as follows:
 - The *Governmental Fund Statements* explain how basic services, such as regular and special education, were financed in the *short term* as well as what remains for future spending.

- *The Proprietary Fund Statements* offer short- and long-term financial information about the activities the District operates like a business, such as food services.
- The statements for *Fiduciary Funds* provide information about the financial relationships in which the District acts solely as a trustee for the benefit of others, such as scholarship trusts.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

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

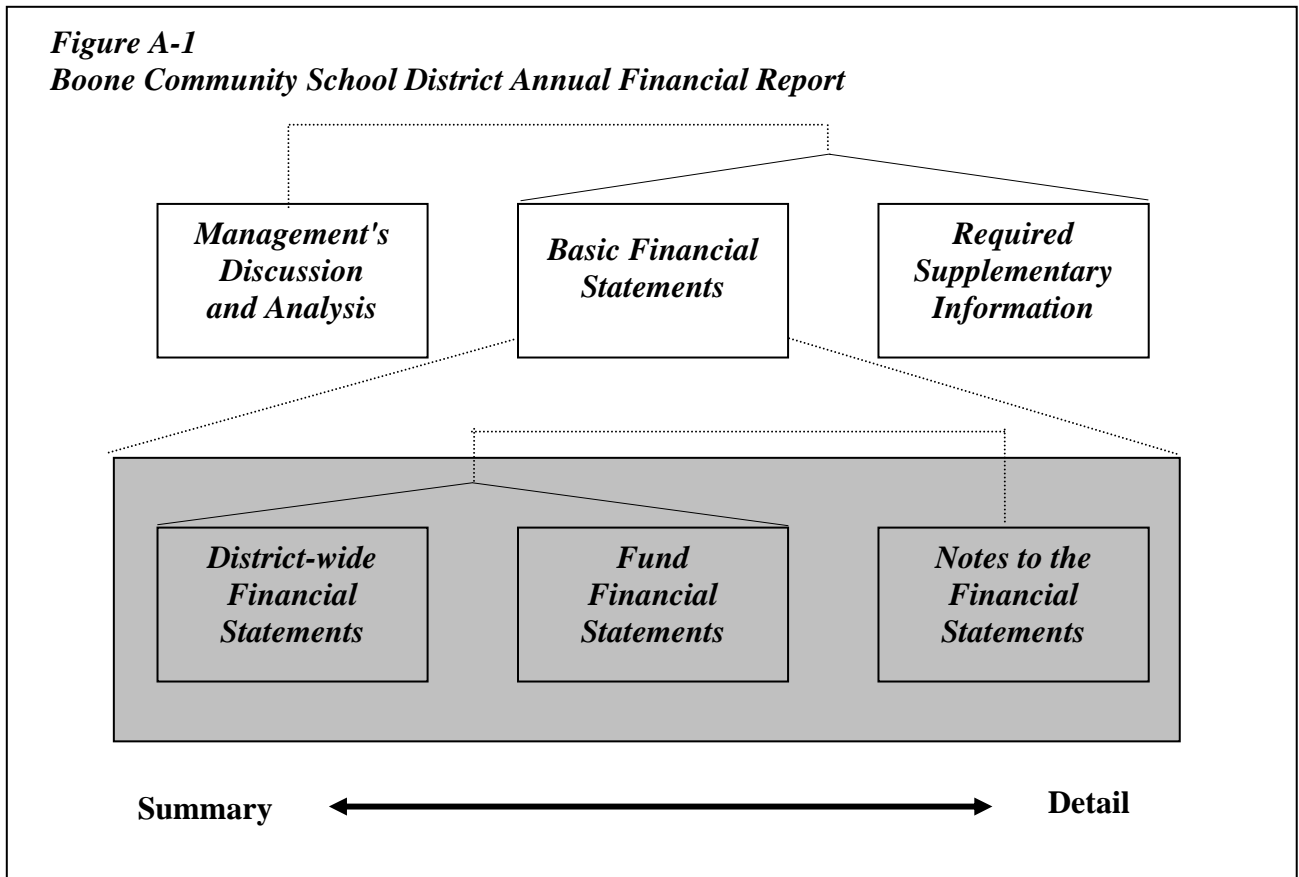


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents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

| <i>Figure A-2</i> | | | | |
|--|--|---|--|---|
| Major Features of the District-Wide and Fund Financial Statements | | | | |
| | District-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"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset / liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow / outflow information | All revenues and expenses during the 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 after | 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

District-wide Financial Statements

The District-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 and how they have changed. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two District-wide 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 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, readers should consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property 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 food services are included here, as reported in the School Nutrition Fund.

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 or by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for various student activity funds or to demonstrate it is properly using certain revenues.

The District has three types 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 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. Because this information does not encompass the additional long-term focus of the District-wide financial statements, reconciliations between the District-wide financial statements and the fund financial statements follow the fund financial statements.

- The District's governmental funds include the General Fund, the Special Revenue Funds, the Capital Projects Fund and the Debt Service Fund.
- The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

(2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide financial statements.

- The District's *Enterprise Funds*, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- The District is responsible for ensuring assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District *excludes* all fiduciary activities from the District-wide financial statements since it cannot use these assets to finance its own operations.
- The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets – Figure A-3 provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

| | Governmental Activities | | Business Type Activities | | Total School District | | Percent Change |
|--|----------------------------|--------|-----------------------------|------|--------------------------|--------|-------------------|
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 |
| Current and other assets | \$ 23,905 | 23,556 | 121 | 112 | 24,026 | 23,668 | 1.5% |
| Capital assets | 10,981 | 6,307 | 34 | 30 | 11,015 | 6,337 | 73.8% |
| Total assets | 34,886 | 29,863 | 155 | 142 | 35,041 | 30,005 | 16.8% |
| Long-term liabilities | 13,539 | 14,087 | - | - | 13,539 | 14,087 | -3.9% |
| Other liabilities | 13,545 | 9,333 | - | - | 13,545 | 9,333 | 45.1% |
| Total liabilities | 27,084 | 23,420 | - | - | 27,084 | 23,420 | 15.6% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 6,093 | 5,242 | 34 | 30 | 6,127 | 5,272 | 16.2% |
| Restricted | 1,023 | 651 | - | - | 1,023 | 651 | 57.1% |
| Unrestricted | 686 | 550 | 121 | 112 | 807 | 662 | 21.9% |
| Total net assets | \$ 7,802 | 6,443 | 155 | 142 | 7,957 | 6,585 | 20.8% |

As shown in figure A-3, total assets increased by approximately 17%, or by approximately \$5 million, over the prior year. The increase was due to the District's increased participation in the Iowa School Cash Anticipation Program (ISCAP) and the construction of the new middle school. The District's other liabilities increased by approximately 45%, or by approximately \$4.2 million. The increase was due in part to the District's increased participation in ISCAP in fiscal year 2005, as well as liabilities in the Capital Projects Fund related to the middle school project.

Restricted net assets increased by approximately \$372,000, or 57%. These net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation which limits how they can be used. The increase in restricted net assets is primarily due to increases in the fund balances of the Debt Service and the Physical Plant and Equipment Levy Funds. Unrestricted assets, the part of net assets that can be used to finance day-to-day operations without constraints, increased by approximately \$145,000, or 22%, over the prior fiscal year, while total net assets increased by approximately \$1,372,000, or 21%, over the prior year.

Changes in Net Assets – Figure A-4 shows a summary of the District’s changes in net assets for the fiscal year ended June 30, 2005 as compared to fiscal year 2004.

| Figure A-4 | | | | | | | | |
|---|-----------------|---------------|---------------|------------|-----------------|---------------|-----------|---------------|
| Change in Net Assets | | | | | | | | |
| (expressed in thousands) | | | | | | | | |
| | Governmental | | Business Type | | Total | | Percent | Change |
| | Activities | | Activities | | School District | | | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2004-2005 | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for service | \$ 2,581 | 1,899 | 409 | 418 | 2,990 | 2,317 | | 29.0% |
| Operating grants, contributions and restricted interest | 1,883 | 2,424 | 294 | 273 | 2,177 | 2,697 | | -19.3% |
| Capital grants, contributions and restricted interest | 282 | 91 | - | - | 282 | 91 | | 209.9% |
| General revenues: | | | | | | | | |
| Property tax | 5,797 | 5,590 | - | - | 5,797 | 5,590 | | 3.7% |
| Local option sales and services tax | 1,176 | 340 | - | - | 1,176 | 340 | | 245.9% |
| Income surtax | 839 | 702 | - | - | 839 | 702 | | 19.5% |
| Unrestricted state grants and contributions | 9,141 | 8,733 | - | - | 9,141 | 8,733 | | 4.7% |
| Unrestricted investment earnings | 84 | 90 | 3 | - | 87 | 90 | | -3.3% |
| Other | 4 | 26 | - | - | 4 | 26 | | -84.6% |
| Total revenues | <u>21,787</u> | <u>19,895</u> | <u>706</u> | <u>691</u> | <u>22,493</u> | <u>20,586</u> | | <u>9.3%</u> |
| Program expenses: | | | | | | | | |
| Instruction | 13,750 | 13,208 | - | - | 13,750 | 13,208 | | 4.1% |
| Support services | 5,264 | 4,835 | - | - | 5,264 | 4,835 | | 8.9% |
| Non-instructional programs | 10 | 10 | 692 | 669 | 702 | 679 | | 3.4% |
| Other expenses | 1,404 | 1,324 | - | - | 1,404 | 1,324 | | 6.0% |
| Total expenses | <u>20,428</u> | <u>19,377</u> | <u>692</u> | <u>669</u> | <u>21,120</u> | <u>20,046</u> | | <u>5.4%</u> |
| Change in net assets | <u>\$ 1,359</u> | <u>518</u> | <u>14</u> | <u>22</u> | <u>1,373</u> | <u>540</u> | | <u>154.3%</u> |

Property tax and unrestricted state grants account for 66% of the District’s total revenues in all funds, as shown above. The District’s expenses are primarily in instruction and support services, which total 90% of the total expenses shown in Figure A-4. Total District revenues were 9.3% higher than the prior year, and the corresponding expenses were 2.6% higher.

Governmental Activities

Revenues for governmental activities were \$21,786,632, a 9.5% increase over the prior year. Expenses were \$20,410,002, a 2.5% increase over the prior year. The District was able to balance the operating budget for fiscal year 2005 by trimming expenses to match available revenues.

Revenues from the local option sales and services tax (LOSST) increased significantly from fiscal year 2004 to fiscal year 2005. The District began collecting LOSST in March 2004, so fiscal year 2005 was the first full year of LOSST revenue. Revenues from capital grants, contributions and restricted interest increased significantly due to the District earning interest on unspent bond and note proceeds for a full year in fiscal year 2005 versus only part of the year in fiscal year 2004.

The following table, Figure A-5, presents the cost of the four major District activities: Instruction, Support Services, Non-Instructional Programs and Other Expenses. The table shows each activity's *net* cost, which is the total expense less any fees generated by the activities and intergovernmental aid provided for specific programs. Therefore, the net cost indicates the financial burden placed on the District's taxpayers by each of these District functions.

| | 2005 | | 2004 | |
|----------------------------|---------------------------|-------------------------|---------------------------|-------------------------|
| | Total Cost of Services | Net Cost of Services | Total Cost of Services | Net Cost of Services |
| Instruction | \$ 13,750 | 10,336 | 13,208 | 9,591 |
| Support services | 5,264 | 4,859 | 4,835 | 4,783 |
| Non-instructional programs | 10 | 10 | 10 | 10 |
| Other expenses | 1,404 | 476 | 1,324 | 579 |
| Total | \$ 20,428 | 15,681 | 19,377 | 14,963 |

The total cost of all governmental activities for fiscal year 2005 was \$20,427,856. Approximately \$2.6 million was financed by users of the District's programs through fees and admissions revenues. Approximately \$1.9 million was subsidized by federal and state governments through restricted program grants and contributions. These revenues are categorized as program revenues as they are specifically related to a certain program and, therefore, must be expended within that program.

The net cost of services for all governmental activities for fiscal year 2005 was \$15,681,242, financed primarily with revenues from unrestricted state aid and local property tax. State aid and property tax are examples of general revenues as they are not specific to a program and are available to be expended for more universal purposes within a specific fund. The differences in total cost of services versus net cost of services remained very similar from the prior year to the current year, as shown in the comparison above.

Business-Type Activities

As previously discussed, the District's business-type fund is the School Nutrition Fund. Reported revenues for this fund were \$705,811, an increase of approximately \$15,000 over the prior year. Similarly, expenses in fiscal year 2005 increased by approximately \$23,000, or 3%, over the prior year, totaling \$692,294, as shown in Figure A-4.

Financial Analysis of the District's Funds

The Boone Community School District uses fund accounting to ensure and demonstrate compliance with finance-related statutory requirements. A summary financial analysis of individual District Funds follows, categorized into governmental and business type funds.

Governmental Fund Highlights

The financial performance of the District as a whole is largely reflected in its governmental funds, particularly by analysis of the fund balances. Overall, the District's governmental funds had combined fund balances of \$9,432,566 at June 30, 2005, a decrease of approximately \$4.3 million from the prior year. The following is a closer look at each individual major fund:

- The **General Fund** reported an overall increase of \$128,138 in its deficit fund balance, from \$102,255 at the end of fiscal year 2004 to \$230,393 at the end of fiscal year 2005. The decrease is primarily due to an increase in expenditures. A special investigative audit of the District was performed which identified improper disbursements made from the District. For fiscal year 2005, the improper expenditures totaled \$94,144.
- The **Capital Projects Fund** balance decreased from \$12,960,262 at the end of fiscal year 2004 to \$8,556,289 at the end of fiscal year 2005. The District collects local option sales and services tax and is required to account for these revenues and expenditures in a separate fund since they may only be used for capital projects or debt reduction. The District's share of revenues from the local option sales and services tax from Boone County was \$1,175,919 for fiscal year 2005.

Business-Type Fund Highlightsg

- The **School Nutrition Fund** balance increased from a restated balance of \$141,735 at the end of fiscal year 2004 to \$155,252 at June 30, 2005. Students and staff continued to enjoy high quality breakfasts and lunches with no increase in meal prices.

Budgetary Highlights

Over the course the year, the District amended its annual budget one time to reflect additional revenue and expenditures associated with various programs within the District.

The District's revenues were \$652,371 more than budgeted revenues, a variance of 3% while the District's expenditures/expenses were \$7,881,080 less than budgeted expenditures/expenses, a variance of 23%. The District spent nearly \$7.5 million less in other expenditures, due primarily to spending less on the middle school capital project than was budgeted.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2005, the District had invested, net of depreciation, approximately \$11 million in capital assets, including school buildings, vehicles and other equipment. During fiscal year 2005, the District increased its capitalization thresholds and restated the beginning capital assets reported.

Construction in progress increased to nearly \$4.9 million at June 30, 2005. This category typically can vary greatly from year to year, according to the timing of when construction projects are started or completed. The category included the District's new middle school project which will continue into the next fiscal year. The project is funded through debt issuances which occurred in fiscal year 2004. Additional information about the District's capital assets is presented in Note 6 to the financial statements.

Long-Term Debt

On June 30, 2005, the District had a total of \$13,520,861 in general obligation bonds and other long-term obligations outstanding. This represents a decrease of 4% from the prior year total of \$14,087,109.

Regular scheduled debt service payments of principal and interest on general obligation bonds were paid in fiscal 2005 and included principal payments of \$570,000.

Early retirement obligations rose slightly from \$72,109 at the end of fiscal year 2004 to \$75,861 at the end of fiscal year 2005. For additional information about the District's long-term debt, see Note 7 to the financial statements.

Economic Factors Bearing on the District's Future

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

- District enrollment increased at the start of the 2005-06 school year by 41.4 students, or by about 1.76% of the total enrolled in the previous year. Under Iowa's school foundation formula, a school district's state aid funding is highly dependant upon its enrollment. Even though 1.76% is a small percentage, it generates a substantial increase in funding over and above the allowable growth amount set by the Legislature. These enrollment figures reported in September 2005 will be the basis for the District's state funding for fiscal year 2007.
- The District levied a cash reserve levy of \$685,000 for fiscal year 2007.
- Successful grant applications will allow continuation or expansion of programs.
- The State's economy is showing limited signs of recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its two collective bargaining units. The District will negotiate new agreements during fiscal year 2007. 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. Corresponding cost reductions may be necessary to offset the cost of negotiated settlements and other cost increases.
- Rising fuel costs will increase the cost of student transportation, leaving fewer funds available for instructional and other services.

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 commitment of accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Jodi Severson, Business Manager, Boone Community School District, 500 Seventh Street, Boone, Iowa 50036-2898.

Boone Community School District

Basic Financial Statements

Boone Community School District

Statement of Net Assets

June 30, 2005

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|-------------------|----------------------|
| | Governmental Activities | Business Type Activities | Total | School Foundation |
| Assets | | | | |
| Cash and cash equivalents: | | | | |
| ISCAP | \$ 5,020,197 | - | 5,020,197 | - |
| Other | 11,787,115 | 110,774 | 11,897,889 | 294,327 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 77,023 | - | 77,023 | - |
| Succeeding year | 5,383,000 | - | 5,383,000 | - |
| Accounts | 189,943 | - | 189,943 | - |
| ISCAP accrued interest | 17,745 | - | 17,745 | - |
| Due from other governments | 1,429,888 | - | 1,429,888 | - |
| Inventories | - | 10,442 | 10,442 | - |
| Capital assets - nondepreciable | 5,204,770 | - | 5,204,770 | - |
| Capital assets - depreciable, net | 5,776,420 | 34,036 | 5,810,456 | - |
| Total assets | 34,886,101 | 155,252 | 35,041,353 | 294,327 |
| Liabilities | | | | |
| Accounts payable | 1,396,736 | - | 1,396,736 | - |
| Salaries and benefits payable | 1,617,283 | - | 1,617,283 | - |
| Accrued interest payable | 87,601 | - | 87,601 | - |
| ISCAP warrants payable | 5,000,000 | - | 5,000,000 | - |
| ISCAP accrued interest payable | 22,677 | - | 22,677 | - |
| ISCAP unamortized premium | 55,923 | - | 55,923 | - |
| Deferred revenue: | | | | |
| Succeeding year property tax | 5,383,000 | - | 5,383,000 | - |
| Long-term liabilities: | | | | |
| Portion due within one year: | | | | |
| General obligation bonds payable | 470,000 | - | 470,000 | - |
| General obligation capital loan notes payable | 210,000 | - | 210,000 | - |
| Early retirement payable | 75,861 | - | 75,861 | - |
| Portion due after one year: | | | | |
| General obligation bonds payable | 12,110,000 | - | 12,110,000 | - |
| General obligation capital loan notes payable | 655,000 | - | 655,000 | - |
| Total liabilities | 27,084,081 | - | 27,084,081 | - |

Boone Community School District

Statement of Net Assets

June 30, 2005

| | Primary Government | | | Component Unit |
|---|----------------------------|-----------------------------|------------------|----------------------|
| | Governmental Activities | Business Type Activities | Total | School Foundation |
| Net assets | | | | |
| Invested in capital assets, net of related debt | 6,092,479 | 34,036 | 6,126,515 | - |
| Restricted for: | | | | |
| Physical plant and equipment levy | 861,907 | - | 861,907 | - |
| Other special revenue purposes | 58,738 | - | 58,738 | - |
| Debt service | 102,438 | - | 102,438 | - |
| Unrestricted | 686,458 | 121,216 | 807,674 | 294,327 |
| Total net assets | \$ 7,802,020 | 155,252 | 7,957,272 | 294,327 |

See notes to financial statements.

Boone Community School District

Statement of Activities

Year ended June 30, 2005

| | Expenses | Program Revenues | | |
|---|----------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Functions/Programs | | | | |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 8,757,475 | 1,655,439 | 540,612 | - |
| Special instruction | 3,793,311 | 488,477 | 376,956 | - |
| Other instruction | 1,198,894 | 300,195 | 51,751 | - |
| | <u>13,749,680</u> | <u>2,444,111</u> | <u>969,319</u> | <u>-</u> |
| Support services: | | | | |
| Student services | 676,438 | - | - | - |
| Instructional staff services | 998,199 | - | 247,473 | - |
| Administration services | 1,576,997 | 119,971 | 12,487 | - |
| Operation and maintenance of plant services | 1,600,955 | 14,105 | 3,717 | - |
| Transportation services | 411,526 | 3,112 | 4,384 | - |
| | <u>5,264,115</u> | <u>137,188</u> | <u>268,061</u> | <u>-</u> |
| Non-instructional programs | 10,260 | - | - | - |
| Other expenditures: | | | | |
| Facilities acquisition | 13,509 | - | - | 282,004 |
| Long-term debt interest | 542,180 | - | 2,039 | - |
| AEA flowthrough | 643,892 | - | 643,892 | - |
| Depreciation (unallocated)* | 204,220 | - | - | - |
| | <u>1,403,801</u> | <u>-</u> | <u>645,931</u> | <u>282,004</u> |
| Total governmental activities | 20,427,856 | 2,581,299 | 1,883,311 | 282,004 |
| Business type activities: | | | | |
| Non-instructional programs: | | | | |
| Food service operations | 692,294 | 409,142 | 294,072 | - |
| Total Primary Government | <u>\$ 21,120,150</u> | <u>2,990,441</u> | <u>2,177,383</u> | <u>282,004</u> |
| Component Unit: | | | | |
| School Foundation | \$ - | - | 3,468 | - |
| General Revenues: | | | | |
| Property tax levied for: | | | | |
| General purposes | | | | |
| Debt service | | | | |
| Capital outlay | | | | |
| Local option sales and services tax | | | | |
| Income surtax | | | | |
| Unrestricted state grants | | | | |
| Unrestricted investment earnings | | | | |
| Other | | | | |
| Total general revenues | | | | |
| Change in net assets | | | | |
| Net assets beginning of year, as restated | | | | |
| Net assets end of year | | | | |

* This amount excludes depreciation included in the direct expenses of the various functions.

See notes to financial statements.

| Net (Expense) Revenue and Changes in Net Assets | | | |
|--|-----------------------------|--------------|----------------------|
| Primary Government | | | Component Unit |
| Governmental Activities | Business Type Activities | Total | School Foundation |
| (6,561,424) | - | (6,561,424) | - |
| (2,927,878) | - | (2,927,878) | - |
| (846,948) | - | (846,948) | - |
| (10,336,250) | - | (10,336,250) | - |
| (676,438) | - | (676,438) | - |
| (750,726) | - | (750,726) | - |
| (1,444,539) | - | (1,444,539) | - |
| (1,583,133) | - | (1,583,133) | - |
| (404,030) | - | (404,030) | - |
| (4,858,866) | - | (4,858,866) | - |
| (10,260) | - | (10,260) | - |
| 268,495 | - | 268,495 | - |
| (540,141) | - | (540,141) | - |
| - | - | - | - |
| (204,220) | - | (204,220) | - |
| (475,866) | - | (475,866) | - |
| (15,681,242) | - | (15,681,242) | - |
| - | 10,920 | 10,920 | - |
| (15,681,242) | 10,920 | (15,670,322) | - |
| - | - | - | 3,468 |
| 5,149,171 | - | 5,149,171 | - |
| 55,140 | - | 55,140 | - |
| 592,242 | - | 592,242 | - |
| 1,175,919 | - | 1,175,919 | - |
| 838,845 | - | 838,845 | - |
| 9,141,386 | - | 9,141,386 | - |
| 83,705 | 2,597 | 86,302 | 19,505 |
| 3,610 | - | 3,610 | - |
| 17,040,018 | 2,597 | 17,042,615 | 19,505 |
| 1,358,776 | 13,517 | 1,372,293 | 22,973 |
| 6,443,244 | 141,735 | 6,584,979 | 271,354 |
| \$ 7,802,020 | 155,252 | 7,957,272 | 294,327 |

Boone Community School District

Balance Sheet
Governmental Funds

June 30, 2005

| | General | Capital Projects | Nonmajor | Total |
|--|---------------------|---------------------|------------------|-------------------|
| Assets | | | | |
| Cash and pooled investments: | | | | |
| ISCAP | \$ 5,020,197 | - | - | 5,020,197 |
| Other | 1,142,202 | 9,542,690 | 1,102,223 | 11,787,115 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 63,838 | - | 13,185 | 77,023 |
| Succeeding year | 4,450,000 | - | 933,000 | 5,383,000 |
| Accounts | 189,943 | - | - | 189,943 |
| ISCAP accrued interest | 17,745 | - | - | 17,745 |
| Due from other funds | 8,738 | - | - | 8,738 |
| Due from other governments | 1,183,972 | 245,916 | - | 1,429,888 |
| Total assets | \$12,076,635 | 9,788,606 | 2,048,408 | 23,913,649 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 164,419 | 1,232,317 | - | 1,396,736 |
| Salaries and benefits payable | 1,617,283 | - | - | 1,617,283 |
| Due to other funds | - | - | 8,738 | 8,738 |
| ISCAP warrants payable | 5,000,000 | - | - | 5,000,000 |
| ISCAP accrued interest payable | 22,677 | - | - | 22,677 |
| ISCAP unamortized premium | 55,923 | - | - | 55,923 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 4,450,000 | - | 933,000 | 5,383,000 |
| Other | 996,726 | - | - | 996,726 |
| Total liabilities | 12,307,028 | 1,232,317 | 941,738 | 14,481,083 |
| Fund balances: | | | | |
| Reserved for debt service | - | - | 190,039 | 190,039 |
| Unreserved, reported in: | | | | |
| General fund | (230,393) | - | - | (230,393) |
| Special revenue funds | - | - | 916,631 | 916,631 |
| Capital projects fund | - | 8,556,289 | - | 8,556,289 |
| Total fund balances | (230,393) | 8,556,289 | 1,106,670 | 9,432,566 |
| Total liabilities and fund balances | \$12,076,635 | 9,788,606 | 2,048,408 | 23,913,649 |

See notes to financial statements.

Boone Community School District

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2005

| | |
|---|----------------------------|
| Total fund balances of governmental funds (page 22) | \$ 9,432,566 |
| <i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i> | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 10,981,190 |
| Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. | 996,726 |
| 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. | (87,601) |
| Long-term liabilities, including general obligation bonds and capital loan notes payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(13,520,861)</u> |
| Net assets of governmental activities (page 19) | <u><u>\$ 7,802,020</u></u> |

See notes to financial statements.

Exhibit E

Boone Community School District

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2005

| | General | Capital Projects | Nonmajor | Total |
|---|--------------|---------------------|-----------|-------------|
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 5,528,927 | 1,175,919 | 1,002,188 | 7,707,034 |
| Tuition | 2,019,484 | - | - | 2,019,484 |
| Other | 266,227 | 279,806 | 354,327 | 900,360 |
| Intermediate sources | 445 | - | - | 445 |
| State sources | 10,392,048 | - | 1,048 | 10,393,096 |
| Federal sources | 562,138 | - | - | 562,138 |
| Total revenues | 18,769,269 | 1,455,725 | 1,357,563 | 21,582,557 |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | 8,398,814 | - | 342,537 | 8,741,351 |
| Special instruction | 3,793,311 | - | - | 3,793,311 |
| Other instruction | 873,401 | - | 332,291 | 1,205,692 |
| | 13,065,526 | - | 674,828 | 13,740,354 |
| Support services: | | | | |
| Student services | 675,543 | - | 895 | 676,438 |
| Instructional staff services | 997,559 | - | 640 | 998,199 |
| Administration services | 1,640,340 | - | 15,535 | 1,655,875 |
| Operation and maintenance of plant services | 1,512,844 | - | 93,390 | 1,606,234 |
| Transportation services | 351,443 | - | 64,779 | 416,222 |
| | 5,177,729 | - | 175,239 | 5,352,968 |
| Non-instructional programs | 10,260 | - | - | 10,260 |
| Other expenditures: | | | | |
| Facilities acquisition | - | 4,885,338 | 13,509 | 4,898,847 |
| Long-term debt: | | | | |
| Principal | - | - | 570,000 | 570,000 |
| Interest and fiscal charges | - | - | 635,305 | 635,305 |
| AEA flowthrough | 643,892 | - | - | 643,892 |
| | 643,892 | 4,885,338 | 1,218,814 | 6,748,044 |
| Total expenditures | 18,897,407 | 4,885,338 | 2,068,881 | 25,851,626 |
| Deficiency of revenues under expenditures | (128,138) | (3,429,613) | (711,318) | (4,269,069) |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 1,205,305 | 1,205,305 |
| Operating transfers out | - | (974,360) | (230,945) | (1,205,305) |
| Total other financing sources (uses) | - | (974,360) | 974,360 | - |
| Net change in fund balances | (128,138) | (4,403,973) | 263,042 | (4,269,069) |
| Fund balances beginning of year | (102,255) | 12,960,262 | 843,628 | 13,701,635 |
| Fund balances end of year | \$ (230,393) | 8,556,289 | 1,106,670 | 9,432,566 |

See notes to financial statements.

Boone Community School District

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

Year ended June 30, 2005

Net change in fund balances - total governmental funds (page 24) \$ (4,269,069)

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 | \$ 4,969,337 | |
| Depreciation expense | <u>(261,671)</u> | 4,707,666 |

In the Statement of Activities, the loss on the disposition of capital assets is reported whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (33,420)

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. 294,226

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 570,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 93,125

Early retirement 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. (3,752)

Change in net assets of governmental activities (page 21) \$ 1,358,776

See notes to financial statements.

Boone Community School District

Statement of Net Assets
Proprietary Funds

June 30, 2005

| | <u>School</u> <u>Nutrition</u> |
|---|-----------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 110,774 |
| Inventories | 10,442 |
| Capital assets, net of accumulated depreciation | 34,036 |
| Total assets | <u>155,252</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 34,036 |
| Unrestricted | 121,216 |
| Total net assets | <u>\$ 155,252</u> |

See notes to financial statements.

Boone Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2005

| | School Nutrition |
|---|---------------------|
| Operating revenues: | |
| Local sources: | |
| Charges for service | \$ 409,142 |
| Operating expenses: | |
| Non-instructional programs: | |
| Food service operations: | |
| Salaries | 202,368 |
| Benefits | 66,934 |
| Purchased services | 4,971 |
| Supplies | 408,503 |
| Other | 904 |
| Depreciation | 8,614 |
| Total operating expenses | 692,294 |
| Operating loss | (283,152) |
| Non-operating revenues: | |
| State sources | 9,441 |
| Federal sources | 284,631 |
| Interest income | 2,597 |
| Total non-operating revenues | 296,669 |
| Change in net assets | 13,517 |
| Net assets beginning of year, as restated | 141,735 |
| Net assets end of year | \$ 155,252 |

See notes to financial statements.

Exhibit I

Boone Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

| | <u>School Nutrition</u> |
|---|-----------------------------|
| Cash flows from operating activities: | |
| Cash received from sale of lunches and breakfasts | \$ 409,142 |
| Cash paid to employees for services | (269,302) |
| Cash paid to suppliers for goods or services | (390,918) |
| Net cash used by operating activities | <u>(251,078)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | 9,441 |
| Federal grants received | 256,130 |
| Net cash provided by non-capital financing activities | <u>265,571</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | <u>(13,168)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>2,597</u> |
| Net increase in cash and cash equivalents | 3,922 |
| Cash and cash equivalents beginning of year | <u>106,852</u> |
| Cash and cash equivalents end of year | <u>\$ 110,774</u> |
| Reconciliation of operating loss to net cash used by operating activities: | |
| Operating loss | \$ (283,152) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | |
| Commodities used | 28,501 |
| Depreciation | 8,614 |
| Increase in inventories | <u>(5,041)</u> |
| Net cash used by operating activities | <u>\$ (251,078)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$28,501 of federal commodities.

See notes to financial statements.

Boone Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

| | <u>Private Purpose</u> <u>Trust</u> <u>Scholarship</u> |
|-----------------------------|--|
| Assets | |
| Cash and pooled investments | \$ 146,717 |
| Liabilities | |
| None | - |
| Net assets | |
| Reserved for scholarships | <u>\$ 146,717</u> |

See notes to financial statements.

Exhibit K

Boone Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
June 30, 2005

| | <u>Private Purpose Trust</u> | <u>Scholarship</u> |
|---|----------------------------------|--------------------|
| Additions: | | |
| Local sources: | | |
| Gifts and contributions | \$ 10,870 | |
| Interest income | 3,698 | |
| Total additions | <u>14,568</u> | |
| Deductions: | | |
| Regular instruction: | | |
| Scholarships awarded | | <u>6,723</u> |
| Change in net assets | | 7,845 |
| Net assets beginning of year, as restated | | <u>138,872</u> |
| Net assets end of year | | <u>\$ 146,717</u> |

See notes to financial statements.

Boone Community School District

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

Boone Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Boone, Iowa, and the predominate agricultural territory in Boone County. 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, Boone 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 Boone Community School District 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 Boone Education Endowment Foundation is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to collect funds and provide financial support for activities of the Boone Community School District. The Foundation is governed by an eight member Board of Directors appointed by the Boone Community School District Board of Directors. 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.

Jointly Governed Organization – 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 Boone 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 attributable 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 not meeting 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 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 not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and the collection and use of the local option sales and services tax.

The District reports the following major proprietary fund:

The District's proprietary fund is the School Nutrition Fund. This fund is used to account for the food service operations of the District.

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

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

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 District considers revenues to be available if they are collected within 60 days after year end.

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

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

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

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

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

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, 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 the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current 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 year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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 repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

| Asset Class | Amount |
|-----------------------------------|----------|
| Land | \$ 5,000 |
| Buildings | 5,000 |
| Improvements other than buildings | 5,000 |
| Equipment: | |
| School Nutrition Fund equipment | 500 |
| Other equipment | 5,000 |

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

| Asset Class | Estimated Useful Lives (In Years) |
|----------------------------|-----------------------------------|
| Buildings and improvements | 20-50 years |
| Equipment | 10 years |

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

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 income surtax, succeeding year property tax and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or 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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the non-instructional programs function exceeded the amount budgeted.

(2) Cash and Pooled Investments

The District’s deposits in banks at June 30, 2005 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, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | |
|-----------------------|-----------------------|
| | <u>Amortized Cost</u> |
| Diversified Portfolio | <u>\$ 8,111,065</u> |

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

At June 30, 2005, the District also had the following investment:

| Type | Fair Value | Maturity |
|------------------------|------------------|-----------|
| Stock | <u>\$ 18,090</u> | N/A |
| Federal Home Loan Note | <u>\$ 49,240</u> | June 2011 |

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the District.

Credit risk. The investments in the Iowa Schools Joint Investment Trust and the Federal Home Loan Note were rated Aaa by Moody's Investors Service.

Concentration of credit risk. The District's Private Purpose Trust Fund investments consist of 73% in a Federal Home Loan Note and 27% in stock.

(3) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2005 is as follows:

| Receivable Fund | Payable Fund | Amount |
|-----------------|-------------------------------------|-----------------|
| General | Special Revenue: Management Levy | <u>\$ 8,738</u> |

The Management Levy Fund borrowed from the General Fund to cover a deficit cash balance at June 30, 2005. The balance will be repaid in subsequent years.

(4) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

| Transfer to | Transfer from | Amount |
|--------------|---|---------------------|
| Debt Service | Capital Projects | \$ 974,360 |
| Debt Service | Special Revenue: Physical Plant and Equipment Levy | <u>230,945</u> |
| Total | | <u>\$ 1,205,305</u> |

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

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

| Series | Warrant Date | Final Warrant Maturity | Investments | Accrued Interest Receivable | Warrants Payable | Accrued Interest Payable | Unamortized Premium |
|----------|--------------|------------------------|---------------------|-----------------------------|------------------|--------------------------|---------------------|
| 2004-05A | 6/30/04 | 6/30/05 | \$ 357 | - | - | - | - |
| 2004-05B | 1/28/05 | 1/27/06 | 1,504,335 | 17,745 | 1,500,000 | 22,006 | 8,918 |
| 2005-06A | 6/30/05 | 6/30/06 | 3,515,505 | - | 3,500,000 | 671 | 47,005 |
| Total | | | <u>\$ 5,020,197</u> | <u>17,745</u> | <u>5,000,000</u> | <u>22,677</u> | <u>55,923</u> |

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005 is as follows:

| Series | Balance | | | Balance End of Year |
|----------|----------------------|----------------------|--------------------|---------------------------|
| | Beginning of Year | Advances Received | Advances Repaid | |
| 2004-05A | \$ - | 1,000,000 | 1,000,000 | - |
| 2004-05B | - | 750,000 | 750,000 | - |
| Total | \$ - | 1,750,000 | 1,750,000 | - |

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|----------|----------------------------------|-------------------------------------|
| 2004-05A | 3.000% | 2.463% |
| 2004-05B | 3.500 | 3.232 |
| 2005-06A | 4.000 | 3.903 |

(6) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

| | Balance | | | Balance End of Year |
|--|--------------------------------------|-----------|-----------|---------------------------|
| | Beginning of Year, as Restated | Increases | Decreases | |
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 319,432 | - | - | 319,432 |
| Construction in progress | - | 4,885,338 | - | 4,885,338 |
| Total capital assets not being depreciated | 319,432 | 4,885,338 | - | 5,204,770 |
| Capital assets being depreciated: | | | | |
| Buildings | 14,508,040 | - | (104,610) | 14,403,430 |
| Equipment | 858,916 | 83,999 | (111,400) | 831,515 |
| Total capital assets being depreciated | 15,366,956 | 83,999 | (216,010) | 15,234,945 |
| Less accumulated depreciation for: | | | | |
| Buildings | 8,789,246 | 206,339 | (104,610) | 8,890,975 |
| Equipment | 590,198 | 55,332 | (77,980) | 567,550 |
| Total accumulated depreciation | 9,379,444 | 261,671 | (182,590) | 9,458,525 |
| Total capital assets being depreciated, net | 5,987,512 | (177,672) | (33,420) | 5,776,420 |
| Governmental activities capital assets, net | \$ 6,306,944 | 4,707,666 | (33,420) | 10,981,190 |
| Business type activities: | | | | |
| Equipment | \$ 82,345 | 13,168 | - | 95,513 |
| Less accumulated depreciation | 52,863 | 8,614 | - | 61,477 |
| Business type activities capital assets, net | \$ 29,482 | 4,554 | - | 34,036 |

Depreciation expense was charged to the following functions:

| | | |
|------------------------------------|--|------------|
| Governmental activities: | | |
| Instruction: | | |
| Regular | | \$ 10,423 |
| Other | | 4,427 |
| Support services: | | |
| Administration | | 3,976 |
| Operation and maintenance of plant | | 4,665 |
| Transportation | | 33,960 |
| | | 57,451 |
| Unallocated | | 204,220 |
| | | \$ 261,671 |
| Business type activities: | | |
| Food service operations | | \$ 8,614 |

(7) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

| | Balance Beginning of Year, as restated | Additions | Reductions | Balance End of Year | Due Within One Year |
|---------------------------------------|---|-----------|------------|---------------------------|---------------------------|
| General obligation bonds | \$ 12,950,000 | - | 370,000 | 12,580,000 | 470,000 |
| General obligation capital loan notes | 1,065,000 | - | 200,000 | 865,000 | 210,000 |
| Early retirement | 72,109 | 75,861 | 72,109 | 75,861 | 75,861 |
| | | | | 13,520,861 | 755,861 |
| Total | \$ 14,087,109 | 75,861 | 642,109 | 13,520,861 | 755,861 |

General Obligation Bonds

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

| Year Ending June 30, | Bond Issue of November 1, 2003 | | | Bond Issue of May 1, 2004 Series 2004A | | | Total | |
|----------------------------|--------------------------------|--------------|-----------|---|--------------|-----------|---------------|-----------|
| | Interest Rates | Principal | Interest | Interest Rates | Principal | Interest | Principal | Interest |
| 2006 | 4.00-4.50% | \$ - | 216,120 | 3.50-4.50% | \$ 470,000 | 284,440 | \$ 470,000 | 500,560 |
| 2007 | 4.00-4.50 | - | 216,120 | 3.50-4.50 | 485,000 | 267,990 | 485,000 | 484,110 |
| 2008 | 4.00-4.50 | - | 216,120 | 3.50-4.50 | 510,000 | 251,016 | 510,000 | 467,136 |
| 2009 | 4.00-4.50 | - | 216,120 | 3.50-4.50 | 525,000 | 233,166 | 525,000 | 449,286 |
| 2010 | 4.00-4.50 | - | 216,120 | 3.50-4.50 | 545,000 | 214,790 | 545,000 | 430,910 |
| 2011-2015 | 4.00-4.50 | - | 1,080,600 | 3.50-4.50 | 3,010,000 | 773,734 | 3,010,000 | 1,854,334 |
| 2016-2020 | 4.00-4.50 | 2,930,000 | 849,950 | 3.875-4.50 | 650,000 | 392,400 | 3,580,000 | 1,242,350 |
| 2021-2024 | 4.45-4.50 | 2,070,000 | 188,670 | 4.35-4.50 | 1,385,000 | 207,126 | 3,455,000 | 395,796 |
| Total | | \$ 5,000,000 | 3,199,820 | | \$ 7,580,000 | 2,624,662 | \$ 12,580,000 | 5,824,482 |

Notes Payable

Details of the District's June 30, 2005 general obligation capital loan note indebtedness is as follows:

| Year Ending June 30, | PPEL Note Issue of May 1, 2004 Series 2004B | | |
|----------------------------|--|-------------------|---------------|
| | Interest Rates | Principal | Interest |
| 2006 | 2.75-3.25% | \$ 210,000 | 25,046 |
| 2007 | 2.75-3.25 | 210,000 | 19,270 |
| 2008 | 2.80-3.25 | 215,000 | 13,496 |
| 2009 | 3.25 | 230,000 | 7,476 |
| | | <u>\$ 865,000</u> | <u>65,288</u> |

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the District and must meet the rule of "74", the employee's age plus years of service equals at least 74. The employee must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application is subject to approval by the Board of Education. Early retirement benefits are equal to 30% of the employee's regular contractual salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$21,000. Early retirement expenditures for the year ended June 30, 2005 totaled \$72,109.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$732,800, \$728,043 and \$718,178, respectively, equal to the required contributions for each year.

(9) Risk Management

The District is a member in the Iowa School Employee Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed in July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$33,536, of which \$15,682 was paid with the 2004-2005 premiums and \$17,854 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$944,077.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

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.

(10) 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 \$643,892 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Construction Commitments

The District entered into two contracts totaling \$11,975,894 for the construction of a new middle school. As of June 30, 2005, costs of \$4,229,071 had been incurred against the contracts. The balance of \$7,746,823 remaining at June 30, 2005 will be paid as work on the project progresses. The project will be funded with local option sales and services tax.

(12) Deficit Balances

The General and Special Revenue, Management Levy Funds had deficit balances at June 30, 2005 of \$230,393 and \$4,014, respectively. The District plans to eliminate the deficits through increases in revenues and decreases in expenditures.

(13) Restatements/Change in Accounting Principle

During the year ended June 30, 2005, the District increased the capitalization threshold for reporting capital assets to \$5,000. The District also corrected errors for reporting the income surtax receivable, early retirement payable, the inventories balance for the school nutrition program and the investment balance for the Private Purpose Trust Fund. The restatements resulted in adjustments to the beginning balances, as follows:

| | Governmental Activities | Business Type Activities | Private Purpose Trust |
|---|----------------------------|-----------------------------|--------------------------|
| Net assets June 30, 2004, as previously reported | \$ 7,841,572 | 178,441 | 114,530 |
| Adjustment to capital assets due to the increase in the capitalization threshold and error corrections | (2,028,719) | - | - |
| Income surtax receivable incorrectly deferred in prior year | 702,500 | - | - |
| Early retirement payable not reported in prior year | (72,109) | - | - |
| Inventories overstated in prior year | - | (36,706) | - |
| Investments understated in prior year | - | - | 24,342 |
| Net assets July 1, 2004, as restated | \$ 6,443,244 | 141,735 | 138,872 |

The details of the adjustment to capital assets due to the new capitalization policy and error corrections are as follows:

| | Balance Beginning of Year | Adjustments | Restated Balance |
|-------------------------------------|---------------------------------|-------------|---------------------|
| Equipment | \$ 6,127,735 | (5,268,819) | 858,916 |
| Accumulated depreciation, buildings | 8,583,967 | 205,279 | 8,789,246 |
| Accumulated depreciation, equipment | 4,035,577 | (3,445,379) | 590,198 |
| Total adjustment | | (2,028,719) | |

(14) Special Investigations

Boone Community School District requested the Office of Auditor of State to perform a special investigation of the District as a result of concerns identified with disbursements made by the District's former Business Manager. The Auditor of State's special investigation identified improper disbursements of \$208,649 between July 1, 2001 and November 30, 2005. Of the \$208,649, approximately \$94,144 of the improper disbursements apply to the year ended June 30, 2005.

The District also requested the Office of Auditor of State to perform a special investigation of the District's Nutrition Department as a result of concerns identified with certain deposits prepared by the District's former Kitchen Manager. The Auditor of State's special investigation estimated \$33,500 of collections undeposited between August 30, 2004 and March 31, 2006. Of the \$33,500 of estimated undeposited collections, approximately \$25,600 apply to the year ended June 30, 2005.

Copies of the Auditor of State's special investigation reports were filed with the City of Boone Police Department, the Boone County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office.

Required Supplementary Information

Boone Community School District

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances –
Budget and Actual – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts | | Final to Actual Variance |
|---|---------------------------------|-------------------------------|-----------------|------------------|--------------|--------------------------------|
| | | | | Original | Final | |
| Revenues: | | | | | | |
| Local sources | \$ 10,626,878 | 411,739 | 11,038,617 | 10,550,535 | 10,550,535 | 488,082 |
| Intermediate sources | 445 | - | 445 | 5,000 | 5,000 | (4,555) |
| State sources | 10,393,096 | 9,441 | 10,402,537 | 10,468,462 | 10,468,462 | (65,925) |
| Federal sources | 562,138 | 284,631 | 846,769 | 612,000 | 612,000 | 234,769 |
| Total revenues | 21,582,557 | 705,811 | 22,288,368 | 21,635,997 | 21,635,997 | 652,371 |
| Expenditures/Expenses: | | | | | | |
| Instruction | 13,740,354 | - | 13,740,354 | 13,583,575 | 14,000,000 | 259,646 |
| Support services | 5,352,968 | - | 5,352,968 | 5,510,545 | 5,550,000 | 197,032 |
| Non-instructional programs | 10,260 | 692,294 | 702,554 | 535,793 | 675,000 | (27,554) |
| Other expenditures | 6,748,044 | - | 6,748,044 | 14,154,349 | 14,200,000 | 7,451,956 |
| Total expenditures/expenses | 25,851,626 | 692,294 | 26,543,920 | 33,784,262 | 34,425,000 | 7,881,080 |
| Excess (deficiency) of revenues over (under) expenditures/expenses | (4,269,069) | 13,517 | (4,255,552) | (12,148,265) | (12,789,003) | 8,533,451 |
| Balances beginning of year, as restated | 13,701,635 | 141,735 | 13,843,370 | 12,677,470 | 12,677,470 | 1,165,900 |
| Balances end of year | \$ 9,432,566 | 155,252 | 9,587,818 | 529,205 | (111,533) | 9,699,351 |

See accompanying independent auditor's report.

Boone Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a 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. 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 function 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 \$640,738.

During the year ended June 30, 2005, expenditures in the non-instructional programs function exceeded the amount budgeted.

Boone Community School District

Other Supplementary Information

Schedule 1

Boone Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

| | Special Revenue | | | | |
|--|-------------------------|---------------------|--|-----------------|------------------|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service | Total |
| Assets | | | | | |
| Cash and pooled investments | \$ - | 58,738 | 854,167 | 189,318 | 1,102,223 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 4,724 | - | 7,740 | 721 | 13,185 |
| Succeeding year | 338,000 | - | 546,000 | 49,000 | 933,000 |
| Total assets | \$ 342,724 | 58,738 | 1,407,907 | 239,039 | 2,048,408 |
| Liabilities and Fund Equity | | | | | |
| Liabilities: | | | | | |
| Due to other funds | \$ 8,738 | - | - | - | 8,738 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 338,000 | - | 546,000 | 49,000 | 933,000 |
| Total liabilities | 346,738 | - | 546,000 | 49,000 | 941,738 |
| Fund equity: | | | | | |
| Fund balances: | | | | | |
| Reserved for debt service | - | - | - | 190,039 | 190,039 |
| Unreserved | (4,014) | 58,738 | 861,907 | - | 916,631 |
| Total fund equity | (4,014) | 58,738 | 861,907 | 190,039 | 1,106,670 |
| Total liabilities and fund equity | \$ 342,724 | 58,738 | 1,407,907 | 239,039 | 2,048,408 |

See accompanying independent auditor's report.

Boone Community School District

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

| | Special Revenue | | | | Total |
|--|-------------------------|---------------------|--|-----------------|-----------|
| | Manage- ment Levy | Student Activity | Physical Plant and Equipment Levy | Debt Service | |
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 354,806 | - | 592,242 | 55,140 | 1,002,188 |
| Other | 2,051 | 329,118 | 21,119 | 2,039 | 354,327 |
| State sources | 386 | - | 606 | 56 | 1,048 |
| Total revenues | 357,243 | 329,118 | 613,967 | 57,235 | 1,357,563 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | 342,369 | 168 | - | - | 342,537 |
| Other instruction | - | 332,291 | - | - | 332,291 |
| Support services: | | | | | |
| Student services | - | 895 | - | - | 895 |
| Instructional staff services | - | 640 | - | - | 640 |
| Administration services | - | 15,535 | - | - | 15,535 |
| Operation and maintenance of plant services | 9,944 | - | 83,446 | - | 93,390 |
| Transportation services | - | - | 64,779 | - | 64,779 |
| Other expenditures: | | | | | |
| Facilities acquisition | - | - | 13,509 | - | 13,509 |
| Long term debt: | | | | | |
| Principal | - | - | - | 570,000 | 570,000 |
| Interest and other charges | - | - | - | 635,305 | 635,305 |
| Total expenditures | 352,313 | 349,529 | 161,734 | 1,205,305 | 2,068,881 |
| Excess (deficiency) of revenues over (under) expenditures | 4,930 | (20,411) | 452,233 | (1,148,070) | (711,318) |
| Other financing sources (uses): | | | | | |
| Operating transfers in | - | - | - | 1,205,305 | 1,205,305 |
| Operating transfers out | - | - | (230,945) | - | (230,945) |
| Total operating financing sources (uses) | - | - | (230,945) | 1,205,305 | 974,360 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 4,930 | (20,411) | 221,288 | 57,235 | 263,042 |
| Fund balances beginning of year | (8,944) | 79,149 | 640,619 | 132,804 | 843,628 |
| Fund balances end of year | \$ (4,014) | 58,738 | 861,907 | 190,039 | 1,106,670 |

See accompanying independent auditor's report.

Schedule 3

Boone Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|--------------------------------------|---------------------------------|----------|--------------|---------------------------|
| Activity Fund | \$ (331) | - | - | (331) |
| Activity Miscellaneous | (12,212) | 1,178 | 1,402 | (12,436) |
| Art Club | 441 | - | - | 441 |
| Athletics Miscellaneous | (25,114) | 34,337 | 54,812 | (45,589) |
| Athletic State Sponsored Tournaments | 7,564 | 15,493 | 13,780 | 9,277 |
| Athletic Cheerleading | 10,796 | 5,587 | 11,921 | 4,462 |
| Band Uniforms | 3,430 | 560 | - | 3,990 |
| Baseball | (11,200) | 4,726 | 15,109 | (21,583) |
| Boys Basketball | 8,064 | 6,098 | 4,377 | 9,785 |
| Boys Cross Country | (1,570) | - | 395 | (1,965) |
| Boys Golf | (3,643) | 1,968 | 2,170 | (3,845) |
| Boys Swimming | (128) | 2,127 | 3,014 | (1,015) |
| Boys Tennis | (2,543) | 565 | 1,326 | (3,304) |
| Boys Track | (1,239) | 2,891 | 1,912 | (260) |
| Bryant | 425 | - | - | 425 |
| Chess Club | 159 | - | - | 159 |
| Class Day | 250 | - | - | 250 |
| Class of 2001 | 12 | - | - | 12 |
| Class of 2004 | 34 | - | - | 34 |
| Class of 2005 | 2 | 100 | - | 102 |
| Class of 2006 | 42 | - | - | 42 |
| Class of 2007 | 42 | - | - | 42 |
| Construction Tech | 760 | 300 | 820 | 240 |
| Dolphins | 1,689 | - | - | 1,689 |
| Donations - Middle School | 736 | 30 | - | 766 |
| Drama/Musical | 2,500 | 9,550 | 5,085 | 6,965 |
| Drill Team | 3,654 | 2,998 | 1,932 | 4,720 |
| Elementary Library | 634 | - | 30 | 604 |
| FFA Vending | (2,829) | 5,919 | 5,492 | (2,402) |
| Football | 22,490 | 19,313 | 16,215 | 25,588 |
| Foreign Language Club | 6,983 | 25,059 | 27,620 | 4,422 |
| Franklin - Jump Rope | 367 | 2,081 | 2,098 | 350 |
| Franklin - Box Tops | 6,983 | 5,433 | 7,800 | 4,616 |
| Future Farmers | (1,110) | 42,772 | 44,308 | (2,646) |
| Future Homemakers | 95 | - | - | 95 |
| Futures | - | 218 | 15 | 203 |
| Girls Basketball | 924 | 4,555 | 4,880 | 599 |
| Girls Cross Country | (1,747) | 18 | 390 | (2,119) |
| Girls Golf | (1,822) | - | 1,653 | (3,475) |
| Girls Swimming | (1,218) | 6,538 | 6,320 | (1,000) |
| Girls Tennis | (3,064) | 145 | 1,481 | (4,400) |
| Girls Track | 3,219 | 3,450 | 2,698 | 3,971 |
| ID Cards | 25,519 | 8,033 | - | 33,552 |

Boone Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 Year ended June 30, 2005

| Account | Balance Beginning of Year | Revenues | Expenditures | Balance End of Year |
|----------------------------------|---------------------------------|----------|--------------|---------------------------|
| Interest | 4,412 | 1,779 | - | 6,191 |
| Intramurals | 1,022 | - | - | 1,022 |
| Iowa Games | 3 | 500 | 497 | 6 |
| Journalism - Scroll | 16,380 | 25,368 | 22,031 | 19,717 |
| Junior Achievement | 468 | 3,369 | 3,378 | 459 |
| LEGO League | - | 190 | 168 | 22 |
| Library | 2,490 | 2,422 | 640 | 4,272 |
| Life Connections Club | - | 75 | - | 75 |
| Lincoln/Garfield | 858 | 767 | 767 | 858 |
| Lockers | 731 | - | - | 731 |
| Lowell | 1,033 | 1,065 | 558 | 1,540 |
| MOC | 1,738 | 858 | 1,086 | 1,510 |
| Musicals | 396 | - | - | 396 |
| National Honor Society | 672 | 978 | 617 | 1,033 |
| Page | 581 | - | - | 581 |
| Page/Bryant Art Fundraiser | 892 | - | - | 892 |
| Peer Helpers | 3,263 | 1,047 | 1,651 | 2,659 |
| Pottery Club | - | 135 | 85 | 50 |
| Principal Activity Miscellaneous | 5,100 | 10,927 | 15,535 | 492 |
| Prom | 5,456 | 4,204 | 5,001 | 4,659 |
| RC Woodworking | (6,427) | - | - | (6,427) |
| RC Recycle | 67 | - | - | 67 |
| SADD | 224 | 212 | 299 | 137 |
| SADD MS | 622 | - | - | 622 |
| Softball | 500 | 13,371 | 9,133 | 4,738 |
| Speech/Debate | 1,033 | 22 | 471 | 584 |
| Spotlight | 1,336 | 10,141 | 7,669 | 3,808 |
| Student Congress | 1,464 | 4,135 | 4,394 | 1,205 |
| Student Council | 1,254 | 8,668 | 8,429 | 1,493 |
| Swimsuits | 1,655 | 649 | - | 2,304 |
| Thespians | 1,197 | 8,283 | 7,818 | 1,662 |
| Volleyball | (8,520) | 2,654 | 5,431 | (11,297) |
| Wrestling | (471) | 11,786 | 11,096 | 219 |
| Yearbook MS | 1,676 | 3,471 | 3,720 | 1,427 |
| Total | \$ 79,149 | 329,118 | 349,529 | 58,738 |

See accompanying independent auditor's report.

Schedule 4

Boone Community School District

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

| | Modified Accrual Basis | | | |
|---|------------------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 7,707,034 | 6,631,614 | 6,350,196 | 5,922,364 |
| Tuition | 2,019,484 | 1,898,477 | 1,857,346 | 1,956,011 |
| Other | 900,360 | 659,339 | 607,496 | 511,899 |
| Total local sources | 10,626,878 | 9,189,430 | 8,815,038 | 8,390,274 |
| Intermediate sources | 445 | - | - | 11,155 |
| State sources | 10,393,096 | 10,133,983 | 10,032,788 | 9,932,883 |
| Federal sources | 562,138 | 571,332 | 533,702 | 430,388 |
| Total | \$ 21,582,557 | 19,894,745 | 19,381,528 | 18,764,700 |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 8,741,351 | 8,845,202 | 8,596,814 | 8,580,297 |
| Special instruction | 3,793,311 | 3,592,001 | 3,834,525 | 2,929,359 |
| Other instruction | 1,205,692 | 939,236 | 683,782 | 1,653,639 |
| Total instruction | 13,740,354 | 13,376,439 | 13,115,121 | 13,163,295 |
| Support services: | | | | |
| Student services | 676,438 | 687,109 | 645,688 | 620,758 |
| Instructional staff services | 998,199 | 732,980 | 730,926 | 775,333 |
| Administration services | 1,638,021 | 1,614,488 | 1,577,581 | 1,394,570 |
| Operation and maintenance of plant services | 1,606,234 | 1,628,454 | 1,360,637 | 1,325,830 |
| Transportation services | 416,222 | 303,199 | 313,703 | 296,049 |
| Total support services | 5,335,114 | 4,966,230 | 4,628,535 | 4,412,540 |
| Non-instructional programs | 10,260 | 9,831 | 10,582 | 7,988 |
| Other expenditures: | | | | |
| Facilities acquisition | 4,898,847 | 486,289 | - | 4,594 |
| Long-term debt: | | | | |
| Principal | 570,000 | 185,000 | 175,000 | 170,000 |
| Interest and other charges | 635,305 | 46,198 | 61,576 | 69,955 |
| Total long-term debt | 1,205,305 | 231,198 | 236,576 | 239,955 |
| AEA flowthrough | 643,892 | 652,690 | 681,312 | 678,748 |
| Total | \$ 25,833,772 | 19,722,677 | 18,672,126 | 18,507,120 |

See accompanying independent auditor's report.

Boone Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2005

| Grantor/Program | CFDA Number | Grant Number | Expen- ditures |
|---|----------------|-----------------|-------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| Food Distribution (non-cash) | 10.550 | FY05 | \$ 28,501 |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY05 | 31,539 |
| National School Lunch Program | 10.555 | FY05 | 224,183 |
| Special Milk Program for Children | 10.556 | FY05 | 408 |
| | | | <u>256,130</u> |
| U.S. Department of Education: | | | |
| Iowa Department of Education: | | | |
| Title I Grants to Local Educational Agencies | 84.010 | FY05 | 243,111 |
| Vocational Education - Basic Grants to States | 84.048* | FY05 | 15,423 |
| Safe and Drug-Free Schools and Communities - State Grants | 84.186 | FY05 | 11,123 |
| Star Schools | 84.203 | FY05 | 1,488 |
| State Grants for Innovative Programs | 84.298 | FY05 | 8,950 |
| Improving Teacher Quality - State Grants | 84.367 | FY05 | 93,503 |
| Grants for Assessments and Related Activities | 84.369 | FY05 | 13,770 |
| Area Education Agency 8: | | | |
| Special Education - Grants to States | 84.027 | FY05 | 116,826 |
| Madrid Community School District: | | | |
| Vocational Education - Basic Grants to States | 84.048* | FY05 | 30,706 |
| U.S. Department of Health and Human Services: | | | |
| Iowa State University: | | | |
| Consolidated Knowledge Development and Application (KD&A) Program | 93.230 | FY05 | 41,297 |
| Total | | | <u>\$ 860,828</u> |

* - Total Vocational Education - Basic Grants to States (CFDA# 84.048), \$46,129

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

See accompanying independent auditor's report.

Boone Community School District

**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**

Boone Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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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 of
Boone Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Boone Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated June 23, 2006, except for Note 14, as to which the date is July 12, 2006. Our report expressed unqualified opinions on the financial statements of the governmental activities, the discretely presented component unit, each major fund except the School Nutrition Fund and the aggregate remaining fund information. Our report also expressed qualified opinions on the financial statements of the business type activities and the School Nutrition Fund as a result of estimated undeposited collections from the Nutrition Department. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Boone Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-05, II-B-05, II-D-05, II-F-05 and II-I-05 are material weaknesses.

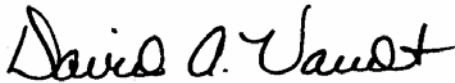
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Boone Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matters that is required to be reported under Government Auditing Standards and is described in Part II of the accompanying Schedule of Findings and Questioned Costs. We also noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

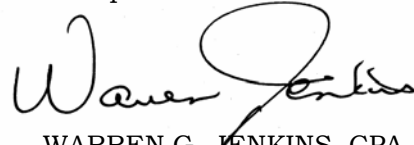
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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



DAVID A. VAUDT, CPA
Auditor of State
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State
Chief Deputy Auditor of State

June 23, 2006, except for
Note 14, as to which the
date is July 12, 2006

**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**

Boone Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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 of
Boone Community School District:

Compliance

We have audited the compliance of Boone Community School District with the types of compliance requirements described in 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, 2005. Boone 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 Boone Community School District's management. Our responsibility is to express an opinion on Boone Community School District's compliance based on our audit.

We conducted our 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 we 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 Boone Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Boone Community School District's compliance with those requirements.

In our opinion, Boone 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, 2005.

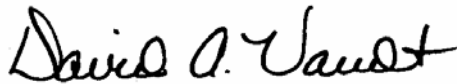
Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Boone Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable conditions are described in Part III 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 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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items III-A-05 and III-B-05 are material weaknesses.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 23, 2006, except for
Note 14, as to which the
date is July 12, 2006

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements, except for those of the business type activities and the School Nutrition Fund, on which the opinions were qualified.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit disclosed non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including material weaknesses.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.556 – Special Milk Program for Children
 - CFDA Number 84.010 – Title I Grants to Local Education Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Boone Community School District did not qualify as a low-risk auditee.

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

A special report dated March 21, 2006 covering the period July 1, 2001 through November 30, 2005 identified improper disbursements of \$208,649 made by the former Business Manager. Of the \$208,649 of improper disbursements, approximately \$94,144 apply to the year ended June 30, 2005.

A special report dated July 12, 2006 covering the period August 30, 2004 through March 31, 2006 estimated \$33,500 of collections undeposited for the Nutrition Department. Of the \$33,500 of undeposited collections, approximately \$25,600 apply to the year ended June 30, 2005.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties – During our review of internal control, the existing control activities are evaluated in order to determine incompatible duties, from a control standpoint, were not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and, therefore, maximizes the accuracy of the District's financial statements. Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Incoming mail is not opened by an employee who is not authorized to make entries to the accounting records. A listing of the cash and checks received is not prepared and later compared, after processing, to the cash receipt records by the person preparing the initial listing.
- (2) Payroll preparation, data entry of pay rates for employees and wire transfers of payroll taxes are performed by the same person. An independent review of the payroll register and bank wire transfers is not performed.
- (3) The person who signs checks is not independent of the person preparing the checks, approving disbursements and recording cash disbursements.
- (4) Investments are not periodically inspected and interest income is not verified by someone other than the person responsible for the custody and record keeping of investments.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

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

Response and Corrective Action Planned –

- (1) Incoming mail is sorted and delivered to appropriate personnel by the Accounting Clerk. Central Office staff open their own mail. All checks received are given to the Business Manager for coding, entered as a receipt by the Accounting Clerk and deposited by the Superintendent's Secretary.
- (2) The Accounting Clerk will begin a monthly review of the payroll pay rates, wire transfers for direct deposits and payroll taxes.
- (3) Checks are prepared by the Accounts Payable Clerk and the Account Clerk after approval by the building Principal, Superintendent and Business Manager. The checks are signed by the Board President and Business Manager.
- (4) The Scholarship accounts will be thoroughly reviewed with a schedule of investments completed during fiscal year 2007. The Scholarship account will be reconciled by the Accounting Clerk.

Conclusion – Response acknowledged. An initial listing should be prepared when mail is opened and compared to the cash receipts deposited.

II-B-05 Business Office Receipts –

- (1) The District did not post receipts to the computer system in a timely manner. The receipts for fiscal year 2005 were not posted until after the end of the fiscal year.
- (2) A restrictive endorsement (for deposit only) is not placed on checks upon receipt. The endorsement is placed on checks when deposits are prepared.
- (3) Although prenumbered receipts were issued, the numerical sequence was not properly accounted for.

Recommendation –

- (1) Receipts should be posted on a timely basis.
- (2) Checks should be restrictively endorsed (for deposit only) upon receipt.
- (3) The numerical sequence of receipts should be accounted for to provide additional control over the proper recording of all collections.

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Response –

- (1) Receipts are now deposited and posted daily as received.
- (2) Restrictive endorsement stamps have been distributed to all locations. All checks received will be stamped with the restrictive endorsement upon receipt.
- (3) The numeric sequence of receipts will be logged in a notebook and periodically reviewed.

Conclusion – Response accepted.

II-C-05 Change Funds and Receipts – An office change fund is maintained for petty cash purposes and an events change fund is maintained for making change at various District events. The office collects student and other fees, including admissions from District sponsored events, and prepares bank deposits for the collections. The following items were noted regarding the change funds and office collections:

- (1) The office and events change funds do not have established balances.
- (2) A ledger is not maintained documenting change fund receipts and disbursements.
- (3) Cashing personal checks from cash collections is not prohibited.
- (4) Receipts are not deposited intact.
- (5) A restrictive endorsement (for deposit only) is not placed on checks upon receipt. The endorsement is placed on checks when deposits are prepared.
- (6) Prenumbered tickets are not issued at all events.

Recommendation –

- (1) The change funds should be set at established amounts and the petty cash fund should be replenished at regular intervals to the established amount.
- (2) Change fund receipts and disbursements should be documented on a ledger to aid in reconciling the amount of cash on hand in the office.
- (3) Cashing checks from cash receipts should be prohibited.
- (4) Receipts should be deposited intact.
- (5) Checks should be restrictively endorsed (for deposit only) upon receipt.
- (6) Prenumbered tickets should be issued at all events and issued tickets should be reconciled to the cash collected.

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Response –

- (1) The office and events change funds will have an established beginning balance for the start of the 2006-2007 school year.
- (2) A ledger will be maintained documenting the activity in the change fund beginning in the 2006-2007 school year.
- (3) Cashing personal checks has been stopped by the District.
- (4) Event receipts procedures are being reviewed and changed to ensure proper reconciliations are being performed and documented.
- (5) Restrictive endorsement stamps are being provided to all offices and all checks received will be immediately stamped.
- (6) Pre-numbered tickets will be used at all events and reconciliation procedures will be established during the 2006-2007 school year.

Conclusion – Response accepted.

II-D-05 Disbursements – Prenumbered checks were not issued. Check numbers were printed by the computer, but the numeric sequence of checks was not properly accounted for. Bank wire transfers are not approved by an independent person. One disbursement tested did not include supporting documentation. Invoices and supporting documentation are not marked paid or canceled to help prevent possible duplicate payment.

Recommendation – Prenumbered checks should be issued and the numeric sequence of checks should be accounted for to provide additional control over the proper recording of District disbursements. Bank wire transfers should be reviewed and approved by an independent person. Supporting documentation should be retained for all District disbursements. Invoices and supporting documents should be properly canceled to help prevent possible duplicate payment.

Response and Corrective Action Planned –

- (1) Pre-numbered checks have been used since the conversion to the windows version of Software Unlimited in January 2006
- (2) Check logs are used to document sequence.
- (3) Bank wire transfers will be approved by the Business Manager or Superintendent.
- (4) Supporting documentation will be attached to the invoice.

Conclusion – Response accepted.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

II-E-05 Payment of Bills – The Board has adopted a payment procedures policy in accordance with Chapter 279.30 of the Code of Iowa which allows the Board Secretary to issue warrants when the Board is not in session for certain specified items. We noted 11 instances of bills paid prior to Board approval for purchases which were outside the scope of the specified items listed in the Board policy.

Recommendation – Bills paid prior to Board approval should be limited to the specified items listed in the Board policy.

Response – Bills will be paid as provided by Chapter 279.30 of the Code of Iowa and Board Policy 705.3 and 705.3R1.

Conclusion – Response accepted.

II-F-05 Bank Reconciliations – Bank accounts are not reconciled promptly at the end of each month, including resolving variances between book and bank balances. Bank reconciliations are not reviewed by an independent person.

Recommendation – Bank reconciliations should be prepared on a monthly basis. Variances between book and bank balances should be investigated and resolved in a timely manner. Bank reconciliations should be reviewed by an independent person.

Response – Beginning with the Business Manager staff change, bank reconciliations are prepared by the Business Manager within the first 5 days of the following month and posted to the Board Docs for the Board Members review. The Board President receives bank statements monthly for review and comparison to the monthly bank reconciliation.

Conclusion – Response acknowledged. The review of the bank reconciliation by an independent person should be documented.

II-G-05 Transfers – Transfers to the Debt Service Fund were not properly approved by the Board. The actual transfers to Debt Service exceeded the budgeted transfers by \$655,735.

Recommendation – The Board should approve all fund transfers.

Response –

(1) The appropriate Debt Service transfers were accounted for in the fiscal year 2007 budget.

(2) Debt Service transfers to pay bond principal and interest will be on the Board agenda in April and October for the May and November payments.

Conclusion – Response accepted.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

- II-H-05 Change Orders – The Board authorized the Superintendent to sign change orders for the new Middle School project if the cost was under \$10,000 and the change order had been approved by the architect. The change orders signed by the Superintendent were not subsequently approved by the Board at the next Board meeting. One change order for \$256,500 was signed by the Board President but not approved by the Board.

Recommendation – All change orders should be approved by the Board.

Response – The Middle School Construction Project change orders were all presented to the Board and approved at the August 8, 2006 regular meeting.

Conclusion – Response accepted.

- II-I-05 School Nutrition Program –

- (1) Lunch Sales – Sales of lunches paid by cash or check in the meal line are not recorded on the cash register terminals at the time of sale. The sales are manually logged on a sheet and later entered in the computer system by a cashier.
- (2) Breakfast Sales – Sales of breakfast are not recorded on the cash register terminal at the time of sale. The sales are recorded manually and later entered in the computer system by a cashier.
- (3) Snack Bar and Breakfast Cart Sales – A cash register or manual record of sales is not maintained at the point of sale. The collections are remitted uncounted by the cashiers to the Kitchen Manager. The Kitchen Manager counted the cash and checks and recorded the collections on the daily receipt sheet.
- (4) Deposits – The daily receipt total is not compared to the validated deposit slip by an independent person.

Recommendations –

- (1) All collections received in the lunch line should be recorded on the cash register terminal at the time of sale.
- (2) Breakfast sales should be recorded on the cash register terminal at the time of sale.
- (3) The District should maintain a record of snack bar and breakfast cart sales using a cash register or other receipt system at the point of sale. The collections should be counted by the cashier and reconciled to the receipt record.
- (4) An independent person should compare the daily receipt total to the validated deposit slip.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Response –

- (1) Lunch money will no longer be accepted in the lunch line. Students will be directed to pay lunch fees before and after school at the building office.
- (2) Cash will continue to be accepted for single meal purchases and ala-carte items. Ledgers will be kept and reconciled during the cash counting process.
- (3) Breakfast sales will be in the regular lunch rooms of the middle school and high school, respectively.
- (4) A breakfast cart will no longer be prepared and moved outside the lunch room at the high school. An inventory of the ala-carte items will be taken and sales reconciled back to items left.
- (5) The daily deposit will be prepared by the Secretary, deposited by the Director and the receipt will be reviewed upon return by the Secretary.

Conclusion – Response acknowledged. All collections received in the lunch line should be recorded on the cash register terminal at the time of sale.

- II-J-05 Investments – An investment register detailing the District's investment activity including purchase and redemption dates, interest rates and interest revenue is not maintained.

Recommendation – The District should maintain an investment register.

Response – The Scholarship accounts have individual investment registers that are reconciled monthly beginning in 2006-2007. The Accounting Clerk will reconcile the monthly bank statement.

Conclusion – Response accepted.

- II-K-05 Information Systems – During our review of internal control, the existing control activities in the District's computer based systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the District's computer based systems were noted:

The District does not have written policies for:

- information system security.
- maintaining a computer log to document who recorded transactions.
- requiring a time out or log off function for terminals left unattended.
- requiring password changes periodically (at least every 60-90 days).
- preventing a user from using the same password and denying access to the user after several unsuccessful attempts to enter an unauthorized password.
- a complete system backup at month-end and year-end.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Also, the District does not have a written disaster recovery plan and does not require back-up tapes to be stored off site in a fire proof vault or safe.

Recommendation – The District should develop written policies addressing the above items in order to improve the District's control over the computer based systems. Also, a written disaster recovery plan should be developed and back-up tapes should be stored off site in a fireproof vault or safe.

Response –

- (1) Policies will be written and put before the Board during the 2006-2007 school year regarding the following:
 - (a) Security policy
 - (b) Computer log
 - (c) Time out or log off function
 - (d) Password change policy
 - (e) System back-up at month-end and year-end
- (2) A disaster recovery plan will be addressed with the Technology Department during the 2006-2007 school year.
- (3) Off site storage of backup data will be discussed and a policy written during the 2006-2007 school year.

Conclusion – Response accepted.

II-L-05 Capital Assets – A physical observation of capital assets has not been performed periodically and reconciled to the detailed capital asset records by employees having no responsibility for the assets. In addition, capital asset records are not kept up to date. Additions and deletions are not recorded until after year-end.

Recommendation – Capital assets should be observed periodically and reconciled to the detailed capital asset records by employees having no responsibility for the assets. The capital asset records should be maintained currently as addition and deletions occur.

Response –

- (1) Capital assets observation will be taken by the Business Manager and Superintendent annually.
- (2) A capital assets ledger will be maintained semi-annually documenting acquisitions and deletions.

Conclusion – Response accepted.

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

II-M-05 Accounting Policies and Procedures Manual – The District does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

Response –

- (1) A Business Office Procedures manual is under construction and is expected to be complete by October 2006.
- (2) Each position in the Business Office will prepare a job procedures manual during the 2006-2007 school year.

Conclusion – Response accepted.

II-N-05 Scholarship Accounts – The District did not maintain accounting records to separately identify the correct balance of each scholarship account.

Recommendation – The District should determine the ownership of cash and investments by individual scholarship account and adjust the accounting records accordingly.

Response – The Scholarship accounts have individual investment registers that are reconciled monthly beginning in 2006-2007.

Conclusion – Response accepted.

Boone Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2005

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.556: Special Milk Program for Children
CFDA Number 84.010: Title I Grants to Local Educational Agencies

Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties – The District did not properly segregate duties for disbursements and payroll. See item II-A-05.

III-B-05 Disbursements – The District did not issue prenumbered checks and invoices and supporting documentation are not marked paid or cancelled to help prevent possible duplicate payment. See item II-D-05.

III-C-05 Federal Revenues and Expenditures – Federal grant administrators do not receive and review financial reports prepared by the Business Office to ensure the accuracy of grant revenues and expenditures.

Recommendation – Monthly financial reports should be obtained from the Business Office by the federal grant administrators and reviewed for accuracy.

Response and Corrective Action Planned – All Federal grant administrators will receive a monthly and year-to-date statement for their account during the first five days of the following month effective the 2006-2007 school year.

Conclusion – Response accepted.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
CFDA Number 10.556: Special Milk Program for Children
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-D-05 Verification of Free and Reduced Meal Applications – The District is required to verify the free and reduced price eligibility of households selected from a sample of approved applications on file on October 31. The District indicated a random sampling method was used to select 3% of the total approved applications on file. We noted the following items related to the District's verification process:

(1) Retention of Supporting Documentation – The District did not retain supporting documentation related to the verification process completed by the District including:

- The total number of approved applications on file at October 31.
- List of applications selected by the District for verification.
- Proof of income submitted to District by households selected for verification.

As a result, we were unable to determine if the verification process was properly completed by the District.

(2) Deadline – The Verification Summary Report was not submitted to the Iowa Department of Education by December 15 as required.

Recommendation – The District should retain all supporting documentation related to the District verification of selected free and reduced meal applications and complete the verification process by December 15 as required.

Response and Corrective Action Planned –

- (1) Appropriate documentation will be kept in an organized manner by the Food Service Director.
- (2) The verification summary report will be submitted in a timely manner by the Food Service Director.

Conclusion – Response accepted.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-05 Official Depositories – A resolution naming official depositories has been approved by the Board of Education. The maximum deposit amounts stated in the resolution were not exceeded, except for deposits at Community Bank of Boone. The maximum authorized amount of \$5,000,000 was exceeded for one month during the year ended June 30, 2005.

Recommendation – A new resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the Board.

Response – A depository resolution was passed by the Board at the August 8, 2006 regular meeting with amounts sufficient to cover anticipated balances at all approved depositories

Conclusion – Response accepted.

IV-B-05 Certified Budget – Expenditures during the year ended June 30, 2005 exceeded the certified budgeted amount in the non-instructional programs function.

Recommendation – The certified budget should have been amended as required by Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – A monthly budget versus actual expenditures report will be prepared and analyzed to ensure budget amendments are made appropriately.

Conclusion – Response accepted.

IV-C-05 Questionable Disbursements – Certain expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. These expenditures are detailed as follows:

| <u>Paid to</u> | <u>Purpose</u> | <u>Amount</u> |
|-------------------|---|---------------|
| Dutch Oven Bakery | Donuts and cookies for teacher workshop | \$ 200 |
| HyVee Food Store | Plant for Superintendent’s office | 46 |
| | Flowers for ill employee | 26 |

According to the opinion, it is possible for certain expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation – The District should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, the District should establish written policies and procedures, including the requirement for proper documentation.

Response –

- (1) Education of Administration and Certified staff regarding appropriate disbursements will be conducted during the beginning of school meeting.
- (2) All requisitions will be required to have a public purpose statement.

Conclusion – Response accepted.

IV-D-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions – No business transactions between the District and District officials or employees were noted.

IV-F-05 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 ensure the coverage is adequate for current operations.

IV-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

IV-H-05 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2004 was understated by 10 students. The District understated lines 1 and 3 by 1 and 9 students, respectively.

Recommendation – The District should contact the Iowa Department of Education and the Iowa Department of Management to resolve this matter.

Response – The certified enrollment process is now conducted by new employees with a better grasp of what is required and necessary. The Iowa Department of Education will also be contacted during the 2006-2007 school year.

Conclusion – Response accepted.

IV-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted, except as follows:

The interest rate on three time certificates of deposit did not meet the minimum rate of interest set by the State Rate Setting Committee.

The Private Purpose Trust, Scholarship Fund has investments in common stock which were donated to the District. These investments do not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

Recommendation – Public fund time certificates of deposit, when renewed, shall be renewed at a rate of interest which conforms with current rates for public funds on date of renewal. The District should seek reimbursement of the additional interest due on these certificates of deposit. In addition, the District should be aware of the current allowable rates to insure at least the minimum allowable rate is received for all investments.

The District should consider selling the stock when favorable market conditions exist and in the future ensure all District investments are permitted by the Constitution of the State of Iowa and the Code of Iowa.

Response –

- (1) The District will seek compensation for the interest due from rate being below minimum set by State Rate Setting Committee.
- (2) The District intends to sell the donated stock and deposit the money into an appropriate investment vehicle.

Conclusion – Response accepted.

IV-J-05 Certified Annual Report – The Certified Annual Report (CAR) was not filed with the Iowa Department of Education timely and included significant deficiencies in the amounts reported.

Recommendation – The District should contact the Iowa Department of Education to resolve this matter.

Response –

- (1) The CAR will be filed in a timely manner with accurate data.
- (2) The Iowa Department of Education completed the CAR for the 2004-2005 school year.
- (3) The current Business Manager has been working with the Iowa Department of Education during the 2005-2006 CAR filing process.

Conclusion – Response accepted.

IV-K-05 Disposal of Vehicles – The District did not comply with Chapter 297.22 of the Code of Iowa regarding the disposal of six vehicles by auction since the sale was not published in the newspaper for two consecutive weeks as required.

Recommendation – The District should dispose of property in accordance with Chapter 297.22 of the Code of Iowa.

Response – When auction opportunities arise in the future, the District will follow Chapter 297.27 of the Code of Iowa regarding proper advertising.

Conclusion – Response accepted.

Boone Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

IV-L-05 Financial Condition – The General and Special Revenue, Management Levy Funds had deficit fund balances at June 30, 2005. In addition, several Student Activity Accounts had deficit balances at June 30, 2005.

Recommendation – The District should investigate alternatives to eliminate the deficit balances.

Response –

- (1) The General Fund Accounts with negative balances will be reviewed to determine balance issues and correcting entries will be prepared as determined necessary.
- (2) The Special Revenue, Management Fund levy was \$400,000 for fiscal year 2007 and the property insurance premium declined \$11,000.
- (3) Student Activity Accounts with negative balances will be reviewed to determine balance issues and correcting entries will be prepared as determined necessary.

Conclusion – Response accepted.

IV-M-05 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The District should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The District began receiving images of both front and back of cancelled checks in fiscal year 2006.

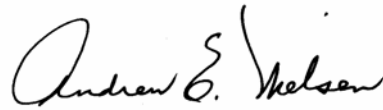
Conclusion – Response accepted.

Boone Community School District

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Sheila M. Jensen, Senior Auditor
Andrew J. Muff, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and a distinct 'E'.

Andrew E. Nielsen, CPA
Deputy Auditor of State