

ST. FRANCIS SCHOOL DISTRICT

Milwaukee County, Wisconsin

FINANCIAL STATEMENTS

June 30, 2006

ST. FRANCIS SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Education
St. Francis School District
Milwaukee County, Wisconsin

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the St. Francis School District ("District") as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's School Board and management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards 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 the District's School Board and management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2006, on our consideration of the St. Francis 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.

The budgetary comparison schedules on pages 32 through 34 are not a required part 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. However, we did not audit the information and express no opinion on it.

To the Board of Education
St. Francis School District
Milwaukee County, Wisconsin

The St. Francis School District has not presented the management's discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the St. Francis School District's basic financial statements. The combining fund financial statements and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vicklow, Krause + Company, LLP

Milwaukee, Wisconsin
September 15, 2006

BASIC FINANCIAL STATEMENTS

ST. FRANCIS SCHOOL DISTRICT

STATEMENT OF NET ASSETS June 30, 2006

ASSETS

Cash and investments	\$ 7,581,012
Accounts receivable	7,644
Due from other governments	775,268
Inventories and other assets	13,235
Capital Assets	
Land	15,000
Other capital assets, net of depreciation	<u>7,086,059</u>
Total Assets	<u>15,478,218</u>

LIABILITIES

Short term notes payable	3,300,000
Accounts payable and accrued liabilities	2,212,221
Unearned revenues	70,724
Noncurrent liabilities	
Due within one year	708,441
Due in more than one year	<u>3,167,761</u>
Total Liabilities	<u>9,459,147</u>

NET ASSETS

Invested in capital assets, net of related debt	4,900,839
Restricted for debt service	397,127
Unrestricted	<u>721,105</u>

TOTAL NET ASSETS \$ 6,019,071

ST. FRANCIS SCHOOL DISTRICT

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes In Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Instruction				
Regular	\$ 5,236,177	\$ 1,778,700	\$ 234,831	\$ (3,222,646)
Vocational	277,480	-	-	(277,480)
Special education	1,816,822	86,210	588,662	(1,141,950)
Other	669,433	40,363	-	(629,070)
Total Instruction	<u>7,999,911</u>	<u>1,905,273</u>	<u>823,493</u>	<u>(5,271,145)</u>
Support Services				
Pupil services	469,518	-	4,192	(465,326)
Instructional support services	393,266	-	245,116	(148,150)
Administration	1,185,212	3,320	-	(1,181,892)
Buildings and grounds	1,795,426	-	-	(1,795,426)
Pupil transportation	170,857	-	-	(170,857)
Other support services	412,625	-	-	(412,625)
Interest and fees	332,582	-	-	(332,582)
Food service	465,040	290,150	129,029	(45,861)
Total Support Services	<u>5,224,526</u>	<u>293,470</u>	<u>378,337</u>	<u>(4,552,719)</u>
Community services	<u>167,526</u>	<u>10,830</u>	<u>-</u>	<u>(156,696)</u>
Total Activities	<u>\$ 13,391,963</u>	<u>\$ 2,209,573</u>	<u>\$ 1,201,830</u>	<u>(9,980,560)</u>
General Revenues				
Taxes				
Property taxes, levied for general purposes				3,032,843
Property taxes, levied for debt service				1,160,000
Property taxes, levied for community service				460,000
Intergovernmental revenue not restricted to specific program				6,423,424
Investment Income				149,469
Miscellaneous				46,403
Total General Revenues				<u>11,272,139</u>
Change in Net Assets				1,291,579
NET ASSETS - Beginning of Year				<u>4,727,492</u>
NET ASSETS - END OF YEAR				<u>\$ 6,019,071</u>

ST. FRANCIS SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General Fund	Special Revenue Special Education Fund	Debt Service Fund	Nonmajor Governmental Funds	Totals
ASSETS					
Cash and investments	\$ 6,687,315	\$ 71,276	\$ 424,799	\$ 397,622	\$ 7,581,012
Accounts receivable	7,533	-	-	-	7,533
Due from other governments	337,031	422,794	-	15,443	775,268
Due from other funds	9,441	-	-	-	9,441
Inventory	-	-	-	3,235	3,235
Other current assets	10,000	-	-	-	10,000
TOTAL ASSETS	\$ 7,051,320	\$ 494,070	\$ 424,799	\$ 416,300	\$ 8,386,489
LIABILITIES AND FUND BALANCES					
Liabilities					
Short term notes payable	\$ 3,300,000	\$ -	\$ -	\$ -	\$ 3,300,000
Accounts payable	121,011	4,684	-	9,065	134,760
Accrued salaries and wages	355,158	86,707	-	-	441,865
Payroll taxes and withholdings	296,722	45,980	-	2,876	345,578
Due to other governments	-	320,239	-	-	320,239
Due to other funds	-	-	-	9,330	9,330
Accrued interest payable	74,479	-	-	-	74,479
Deferred revenues	66,634	-	-	4,090	70,724
Other current liabilities	828,821	36,460	-	2,347	867,628
Total Liabilities	<u>5,042,825</u>	<u>494,070</u>	<u>-</u>	<u>27,708</u>	<u>5,564,603</u>
Fund Balances					
Reserved for debt service	-	-	424,799	-	424,799
Unreserved, reported in:					
General fund undesignated	2,008,495	-	-	-	2,008,495
Special revenue funds	-	-	-	388,592	388,592
Total Fund Balances	<u>2,008,495</u>	<u>-</u>	<u>424,799</u>	<u>388,592</u>	<u>2,821,886</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,051,320	\$ 494,070	\$ 424,799	\$ 416,300	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds.					7,101,059
Some liabilities, including long-term debt, are not due and payable in the current period and therefore are not reported in the funds.					(3,876,202)
Accrued interest on long-term debt is not due and payable in the current period and therefore is not reported in the funds.					<u>(27,672)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES					\$ 6,019,071

ST. FRANCIS SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2006

	General Fund	Special Revenue Special Education Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local	\$ 3,266,761	\$ -	\$ 1,169,070	\$ 760,980	\$ 5,196,811
Interdistrict	1,678,442	86,210	-	-	1,764,652
Intermediate	50,422	28,358	-	-	78,780
State	6,458,523	463,692	-	5,202	6,927,417
Federal	239,667	305,985	-	123,827	669,479
Other	46,403	-	-	-	46,403
Total Revenues	<u>11,740,218</u>	<u>884,245</u>	<u>1,169,070</u>	<u>890,009</u>	<u>14,683,542</u>
EXPENDITURES					
Instruction					
Regular	5,275,351	-	-	-	5,275,351
Special education	173	1,839,719	-	-	1,839,892
Vocational	281,003	-	-	-	281,003
Other	677,933	-	-	-	677,933
Total instruction	<u>6,234,460</u>	<u>1,839,719</u>	<u>-</u>	<u>-</u>	<u>8,074,179</u>
Support Services					
Pupil services	298,588	176,892	-	-	475,480
Instructional support services	265,842	126,277	-	-	392,119
Administration	1,251,898	-	-	-	1,251,898
Buildings and grounds	1,449,227	-	-	-	1,449,227
Pupil transportation	57,939	115,087	-	-	173,026
Other support services	417,864	-	-	-	417,864
Debt service					
Principal	30,257	-	910,421	-	940,678
Interest and fees	122,778	-	214,015	-	336,793
Food service	-	-	-	446,504	446,504
Total support services	<u>3,894,393</u>	<u>418,256</u>	<u>1,124,436</u>	<u>446,504</u>	<u>5,883,589</u>
Community service	-	-	-	169,653	169,653
Total Expenditures	<u>10,128,853</u>	<u>2,257,975</u>	<u>1,124,436</u>	<u>616,157</u>	<u>14,127,421</u>
Excess (deficiency) of revenues over expenditures	1,611,365	(1,373,730)	44,634	273,852	556,121
OTHER FINANCING SOURCES (USES)					
Transfers in	-	1,373,730	50,000	27,325	1,451,055
Transfers out	(1,451,055)	-	-	-	(1,451,055)
Sale of Property	500	-	-	-	500
Total Other Financing Sources (Uses)	<u>(1,450,555)</u>	<u>1,373,730</u>	<u>50,000</u>	<u>27,325</u>	<u>500</u>
Net Change in Fund Balance	160,810	-	94,634	301,177	556,621
FUND BALANCES - Beginning of Year	<u>1,847,685</u>	<u>-</u>	<u>330,165</u>	<u>87,415</u>	<u>2,265,265</u>
FUND BALANCES - END OF YEAR	<u>\$ 2,008,495</u>	<u>\$ -</u>	<u>\$ 424,799</u>	<u>\$ 388,592</u>	<u>\$ 2,821,886</u>

ST. FRANCIS SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 556,621
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of net assets the cost of these assets is capitalized and they are depreciated over their estimated useful lives and reported as depreciation expense in the statement of activities.

Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements	668,980
Depreciation is reported in the government-wide statements	(344,678)
Net book value of assets retired	(522,361)

Debt issued provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Principal repaid	940,678
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(16,227)
Accrued interest on debt	<u>8,566</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 1,291,579</u>
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ST. FRANCIS SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2006

	Private Purpose Trust	Agency Funds
ASSETS		
Cash and investments	\$ 9,965	\$ 82,488
LIABILITIES		
Due to student organizations	-	82,377
Due to other funds	-	111
Total Liabilities	-	\$ 82,488
TOTAL NET ASSETS	<u>\$ 9,965</u>	

ST. FRANCIS SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2006

	<u>Private Purpose Trust</u>
ADDITIONS	\$ -
DEDUCTIONS	<u>-</u>
Change in Net Assets	-
NET ASSETS - Beginning	<u>9,965</u>
NET ASSETS - END	<u>\$ 9,965</u>

ST. FRANCIS SCHOOL DISTRICT

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ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the St. Francis School District, Wisconsin conform to generally accepted accounting principles as applicable to governmental units.

A. REPORTING ENTITY

This report includes all of the funds of the St. Francis School District. The reporting entity for the District consists of a) the primary government, b) organizations for which the primary government is financially accountable, and c) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the reporting entity's financial statements to be misleading or incomplete. A legally separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and 1) it is able to impose its will on that organization or 2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government.

A legally separate, tax exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: 1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents; 2) the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; 3) the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. Blended component units, although legally separate entities, are, in substance, part of the government's operations and are reported with similar funds of the primary government. This report does not contain any component units.

B. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS

District-Wide Financial Statements

The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the District except for fiduciary funds. All of the District's activities are reported as governmental activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. The District does not report any business type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include 1) charges to students or others who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported as general revenues. Internally dedicated resources are reported as general revenues.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, net assets/fund equity, revenues, and expenditure/expenses.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or nonmajor funds within the governmental statement. An emphasis is placed on major funds within the governmental categories. A fund is considered major if it is the primary operating fund of the District or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures of that individual governmental fund are at least 10 percent of the corresponding total for all funds, and
- b. The same element of the individual governmental fund that met the 10% test is at least 5% of the corresponding total for all funds combined.
- c. In addition, any other fund that the District believes is particularly important to financial statement users may be reported as a major fund.

The District reports the following major governmental funds:

General Fund – accounts for the District's primary operating activities. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - Special Education Fund – accounts for resources used to provide special education services to District students.

Debt Service Fund – accounts for resources accumulated and payments made for principal and interest on long-term debt.

The District reports the following nonmajor governmental funds:

Special Revenue Funds – used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Food Service Fund
Community Service Fund

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. DISTRICT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

In addition, the District reports the following fund types:

Private-purpose trust funds are used to report any trust arrangement not properly reported in a pension trust fund under which principal and income benefit individuals, private organizations, or other governments.

Scholarship Fund

Agency funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, and/or other governmental units.

Student Activity Fund

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

District-Wide Financial Statements

The District-wide statement of net assets and statement of activities are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider are met.

As a general rule, the effect of interfund activity has been eliminated from the District-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (continued)

Fund Financial Statements (continued)

The aggregate amount of property taxes to be levied for school purposes is determined according to the provisions of Chapter 120 of the Wisconsin Statutes. Property taxes levied by the District are certified to local taxing Districts for collection. Property taxes attach as an enforceable lien as of January 1.

Property tax calendar – 2005 tax roll:

Lien date and levy date	December 2005
Tax bills mailed	December 2005
Payment in full, or	January 31, 2006
First installment due	January 31, 2006
Second installment due	March 31, 2006
Final installment due	May 31, 2006
Tax sale 2005 delinquent real estate taxes	October, 2008

Property taxes are recognized in the fiscal year levied. The District considers all taxes as due prior to the end of the fiscal year even though taxpayers have an option to pay their taxes in installments up to July 31. The full amount of the tax levy is paid the District by the county prior to August 20 regardless of whether or not the taxpayers have made the required installment payments.

Property taxes are collected by the local town, village, or city until January 31. Real estate tax collections after that date are made by the applicable county, which assumes all responsibility for delinquent real estate taxes.

Intergovernmental aids and grants are recognized as revenues in the period the District is entitled the resources and the amounts are available. Amounts owed to the District which are not available are recorded as receivables and deferred revenues. Amounts received prior to the entitlement period are recorded as deferred revenues.

Revenues susceptible to accrual include property taxes, miscellaneous taxes, investment income, and public charges for services that meet the availability criteria described above. Other general revenues such as student fees and miscellaneous revenues are recognized when received in cash or when measurable and available under the criteria described above. Charges for special educational services are not reduced by anticipated state special education aid entitlements.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described previously in this note. Agency funds follow the accrual basis of accounting, and do not have a measurement focus.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING,
AND FINANCIAL STATEMENT PRESENTATION (continued)**

All Financial Statements

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

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Deposits and Investments

Investment of District funds is restricted by state statutes. Available investments are limited to:

1. Time deposits in any credit union, bank, savings bank or trust company maturing in three years or less.
2. Bonds or securities of any county, city, drainage district, technical college district, village, town, or school district of the state. Also, bonds issued by a local exposition district, a local professional baseball park district, a local professional football stadium district, a local cultural arts district, or by the University of Wisconsin Hospitals and Clinics Authority.
3. Bonds or securities issued or guaranteed by the federal government.
4. The local government investment pool.
5. Any security maturing in seven years or less and having the highest or second highest rating category of a nationally recognized rating agency.
6. Securities of an open-end management investment company or investment trust, subject to various conditions and investment options.
7. Repurchase agreements with public depositories, with certain conditions.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Investment income on commingled investments of district accounting funds is allocated to the general fund.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

1. Deposits and Investments (continued)

PMA Financial Network, Inc. is the administrator for the Wisconsin Investment Series Cooperative (WISC). The investment manager for WISC is PMA Financial Network, Inc. The WISC is not registered with the Securities and Exchange Commission, but invests its funds in accordance with applicable Wisconsin statutes. The WISC has the characteristics of a mutual fund and accordingly, reports the value of its underlying assets at fair value. At June 30, 2006, the District's share of the WISC's assets was substantially equal to the amount reported.

The District has adopted an investment policy but that policy does not address certain investment risks. The policy contains the following guidelines:

The fiscal affairs manager with the advice of superintendent and school district treasurer shall act for the school board and its officers in managing investments of district monies, may execute investment documents in the district's name, and may confer when necessary with consultants regarding investment decisions. District monies shall be deposited as investments in any institution or security specified in Wisconsin Statutes 66.04(2), except that no more than \$500,000 shall be invested in any one bank, credit union, or savings institution. District monies without limit may be deposited as investments in the Local Government Investment Pool and/or Wisconsin School District Liquid Asset Fund operated by the State Treasurer of Wisconsin as a service to local municipalities. Twice each year, and upon demand by any school board member, the fiscal affairs manager shall report on monies earned through investing.

The general fund and debt service fund checking accounts shall be placed at a board-designated depository.

Once each year in the months of September or October a short-term loan to meet current fiscal year expenditures of the district shall be effected in anticipation of property taxes and state aids to be received by the district. The total amount borrowed shall not exceed one-half the estimated receipts for the operation and maintenance of the school district for the fiscal year in which the borrowing occurs. The interest rate for such loan shall be formally bid among banks and financial institutions in Wisconsin and other states.

See Note III.A. for further information.

2. Receivables

Accounts receivable have been adjusted for all known uncollectible accounts. No allowance is necessary at year end.

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

3. Inventories

The District has recorded certain food service fund items as inventory. All other governmental fund inventories are charged to expenditure accounts when purchased. Year-end inventory was not significant.

4. Capital Assets

District –Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. Capital assets are defined by the District as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost or estimated historical cost if actual amounts are unavailable. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over assets' estimated useful lives by type of asset as follows:

Buildings	50 Years
Land improvements	20 Years
Furniture and equipment	5 – 20 Years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

5. Other Assets

Other assets consist of a deposit made with Employee Benefits Corporation for the District's flexible spending program.

6. Compensated Absences

The District's policy allows certain full-time employees, excluding teachers, to earn varying amounts of vacation pay for each year employed, accumulating to a maximum vested amount of 25 days. These employees also earn varying amounts of sick pay accumulating to a maximum amount of 70 days. Accumulated sick pay vests at age 55 for custodial employees with at least 10 years of service and at age 62 for clerical employees with at least 10 years of service. Upon retirement or termination of employment, the employee is entitled to a cash payment for one-half of vested vacation or sick pay. The value of this benefit payable in future fiscal periods amounting to \$96,627 is recorded in the statement of net assets.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

7. Long-Term Obligations

All long-term obligations to be repaid from District resources are reported as liabilities in the District-wide statements. The long-term obligations consist primarily of notes and bonds payable and accrued compensated absences.

Long-term obligations for governmental funds are not reported as liabilities in the fund financial statements. The face value of debts (plus any premiums) are reported as other financing sources, and payments of principal and interest are reported as expenditures.

8. Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to be liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the District-wide statements as expenses when the related liabilities are incurred. There were no significant claims or judgments at year end.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (continued)

9. Equity Classifications

District–Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets less any unspent debt proceeds.
- b. Restricted net assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or, 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Reserved fund balance includes funds which have been legally segregated for specific purposes or are unavailable to finance current expenditures. Unreserved fund balance includes funds set aside by management for specific uses, which are labeled “designated”. The balance of unreserved fund balance is labeled “undesignated”, which indicates it is available for appropriation.

Fiduciary fund equity is classified as held in trust for scholarships on the statement of fiduciary net assets. Various donor restrictions apply, including authorizing and spending trust income, and the District believes it is compliance for all significant restrictions.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE II – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS EXPENDITURES OVER APPROPRIATIONS

The following General Fund functions had an excess of actual expenditures over budget for the year ended June 30, 2006.

Function	Excess Expenditures
Regular instruction	\$ 48,068
Vocational instruction	3,873
Other instruction	9,262
Administration	65,607
Pupil services	8,454
Buildings and grounds	12,600
Interest and fees	22,778

The following individual fund had an excess of actual expenditures and other uses over appropriations for the year ended June 30, 2006:

Fund	Excess Expenditures
Debt Service Fund	\$ 278,804

B. LIMITATION OF SCHOOL DISTRICT REVENUES

Wisconsin statutes limit the amount of revenues that school districts may derive from general school aids and property taxes. The annual revenue increase from these sources is limited to an allowable per member increase that is determined by the legislature.

This limitation does not apply to revenues needed for the payment of any general obligation debt service (including refinanced debt) authorized by either of the following:

- A resolution of the school board or by a referendum prior to August 12, 1993.
- A referendum on or after August 12, 1993.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS

The District's cash and investments at year end were comprised of the following:

	<u>Carrying Value</u>	<u>Bank Balance</u>	<u>Associated Risk</u>
Federal Home Loan Bank Discount Note	\$ 3,399,323	\$ 3,399,823	Credit risk, custodial credit risk, concentration of credit risk and interest rate risk
Wisconsin Investment Series Cooperative (WISC)	<u>4,274,142</u>	<u>4,609,137</u>	Credit, Interest rate
Total Cash and Investments	<u>\$ 7,673,465</u>	<u>\$ 8,008,960</u>	
Reconciliation to financial statements			
Per statement of net assets			
Unrestricted cash and investments	\$ 7,581,012		
Per statement of net assets - Fiduciary Funds	<u>92,453</u>		
Total Cash and Investments	<u>\$ 7,673,465</u>		

Custodial Credit Risk

Deposits and Investments—

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to the District.

As of June 30, 2006, \$3.4 million of the District's total bank balances was exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investments in an issuer.

At June 30, 2006, the investment portfolio was concentrated as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>% of Portfolio</u>
Federal Home Loan Bank Discount Note	U.S. Agency	<u>42.6%</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

A. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

As of June 30, 2006, the District's investments were as follows:

<u>Specific Investment</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Federal Home Loan		
Bank Discount Note	20	\$ 3,399,823
WISC	13.17	4,609,137
		<u>\$ 8,008,960</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

As of June 30, 2006, the District's investments were rated as follows:

<u>Investment Type</u>	<u>Standard & Poor's</u>
Federal Home Loan	
Bank Discount Note	A-1+
WISC	Not rated

See Note I D. 1. for further information on deposits and investments.

B. RECEIVABLES

All receivables as of year end are expected to be collected within one year.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

C. CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	109,249	-	(109,249)	-
Total Capital Assets Being Not Being Depreciated	<u>124,249</u>	<u>-</u>	<u>(109,249)</u>	<u>15,000</u>
Capital Assets Being Depreciated:				
Buildings	12,060,493	-	(323,084)	11,737,409
Land improvements	1,099,155	161,120	-	1,260,275
Furniture and equipment	487,382	507,860	(182,816)	812,426
Total Capital Assets Being Depreciated	<u>13,647,030</u>	<u>668,980</u>	<u>(505,900)</u>	<u>13,810,110</u>
Total capital assets	<u>13,771,279</u>	<u>668,980</u>	<u>(615,149)</u>	<u>13,825,110</u>
Less: Accumulated Depreciation for:				
Buildings	(5,005,980)	(234,749)	-	(5,240,729)
Land improvements	(1,116,030)	9,622	-	(1,106,408)
Furniture and equipment	(350,151)	(119,551)	92,788	(376,914)
Total Accumulated Depreciation	<u>(6,472,161)</u>	<u>(344,678)</u>	<u>92,788</u>	<u>(6,724,051)</u>
Net Capital Assets Being Depreciated	<u>7,174,869</u>	<u>324,302</u>	<u>(413,112)</u>	<u>7,086,059</u>
Total Capital Assets, Net of Depreciation	<u>\$ 7,299,118</u>	<u>\$ 324,302</u>	<u>\$ (522,361)</u>	<u>\$ 7,101,059</u>

Depreciation expense was charged to functions as follows:

Instruction	
Regular	\$ 23,024
Support services	
Instructional	2,224
Building and grounds	299,621
Administration	12,747
Food services	7,062
	<u>324,678</u>
Total Depreciation Expense	<u>\$ 344,678</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

D. INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables including any overdrafts on pooled cash and investment accounts. These amounts are all due within one year.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Agency Fund- Student Activity Fund	\$ 111
General Fund	Special Revenue - Special Education Fund	9,330
Total		<u>\$ 9,441</u>

The principal purpose of the interfund amounts was to finance an overdraft of cash.

For the Statement of Net Assets, interfund balances which are owed within the governmental activities are netted and eliminated.

The following is a schedule of interfund transfers:

<u>Fund Transferred To</u>	<u>Fund Transferred From</u>	<u>Amount</u>	<u>Principl Purpose</u>
Special Education Fund	General Fund	\$ 1,373,730	To eliminate deficit fund balance
Debt Service Fund	General Fund	50,000	To finance debt service expenditures
Food Service Fund	General Fund	<u>27,325</u>	To eliminate deficit fund balance
	Total Transfers	<u>\$ 1,451,055</u>	

Generally, transfers use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations and Wisconsin Department of Public Instruction directives.

For the Statement of Activities, interfund transfers between governmental activities are netted and eliminated.

E. SHORT TERM NOTES PAYABLE

The District issues short term notes payable in advance of property tax collections. The fiscal year begins July 1, but tax collections from the municipalities are received beginning the following January. The District's short-term debt activity for the year ending June 30, 2006, is as follows:

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax and Revenue Anticipation Note	<u>\$ 3,150,000</u>	<u>\$ 3,300,000</u>	<u>\$ 3,150,000</u>	<u>\$ 3,300,000</u>

The current tax and revenue anticipation note is due on October 20, 2006 and has an interest rate of 3.13%. Total short-term interest expended during the year was \$96,186.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

F. LONG-TERM OBLIGATIONS

Long-term obligations activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
General obligation debt	\$ 2,680,000	\$ -	\$ 775,000	\$ 1,905,000	\$ 440,000
Promissory note	210,000	-	105,000	105,000	105,000
Taxable variable rate anticipation note	1,575,000	-	-	1,575,000	-
EPA bonds	167,340	-	30,421	136,919	30,421
Sub-totals	<u>4,632,340</u>	<u>-</u>	<u>910,421</u>	<u>3,721,919</u>	<u>575,421</u>
Other Liabilities					
Capital leases	83,558	-	30,257	53,301	32,038
Vested compensated absences	84,755	16,227	-	100,982	100,982
Sub-totals	<u>168,313</u>	<u>16,227</u>	<u>30,257</u>	<u>154,283</u>	<u>133,020</u>
Total Long-Term Liabilities	<u>\$ 4,800,653</u>	<u>\$ 16,227</u>	<u>\$ 940,678</u>	<u>\$ 3,876,202</u>	<u>\$ 708,441</u>

General Obligation Debt

All general obligation notes and bonds payable are backed by the full faith and credit of the District. Notes and bonds will be retired by future property tax levies.

In accordance with Wisconsin Statutes, total general obligation indebtedness of the District may not exceed 10% of the equalized value of taxable property within the District's jurisdiction. The debt limit as of June 30, 2006, was \$54,154,750. Total general obligation debt outstanding at year end was \$3,721,919.

<u>Type</u>	<u>Date of Issue</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Indebtness</u>	<u>Balance 6/30/06</u>
Refunding bonds	10/1/95	4/1/11	4.00-5.55%	\$ 3,855,000	\$ 960,000
	12/15/02	4/1/15	1.55-4.30	1,555,000	945,000
EPA bonds	6/1/91	5/30/10	n/a	547,572	136,919
Promissory notes	12/15/02	4/1/07	1.55-3.00	515,000	105,000
Taxable variable rate anticipation note	12/19/02	8/1/07	Variable	1,725,000	1,575,000
Total General Obligation Debt					<u>\$ 3,721,919</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

F. LONG-TERM OBLIGATIONS (continued)

General Obligation Debt (continued)

Total interest expense on the District-wide statement of activities is \$332,582. Interest and fiscal charges paid during the year on general obligation long-term debt were \$218,370. This is included in the debt service function in the fund financial statements.

Debt service requirements to maturity are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 575,421	\$ 82,411	\$ 657,832
2008	2,065,421	57,070	2,122,491
2009	366,066	37,360	403,426
2010	134,776	27,330	162,106
2011	120,235	23,530	143,765
2012-2016	<u>460,000</u>	<u>49,300</u>	<u>509,300</u>
Totals	<u>\$ 3,721,919</u>	<u>\$ 277,001</u>	<u>\$ 3,998,920</u>

The above interest maturity schedule does not include the interest on the taxable variable rate anticipation note.

Estimated payments of compensated absences and capital leases are not included in the debt service requirement schedules. The compensated absences and capital leases liabilities are attributable to governmental activities and will be liquidated primarily by the General Fund.

There are a number of limitations and restrictions contained in the various bond indentures and loan agreements. The District believes it is in compliance with all significant limitations and restrictions, including federal arbitrage regulations.

G. LEASE DISCLOSURES

Lessee – Capital Leases

The District leases office equipment which has been capitalized for financial reporting purposes. The following is a schedule by years of the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2006:

<u>Year Ending June 30</u>	
2007	\$ 34,424
2008	<u>21,821</u>
Sub-Total	56,245
Less: Amount representing interest	<u>(2,944)</u>
Present Value of Minimum Lease Payments	<u>\$ 53,301</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE III – DETAILED NOTES ON ALL FUNDS (continued)

G. LEASE DISCLOSURE (continued)

Lessee – Operating Leases

The District has no material operating leases with a remaining noncancellable term exceeding one year.

H. GOVERNMENTAL ACTIVITIES NET ASSETS/FUND BALANCES

Net assets reported on the District-wide Statement of Net Assets at June 30, 2006 includes the following:

Invested in capital assets, net of related debt	
Capital assets, net of accumulated depreciation	\$ 7,101,059
Less: Related long-term debt outstanding (net of unspent proceeds)	<u>(2,200,220)</u>
Total Invested in Capital Assets, Net of Related Debt	4,900,839
Restricted for debt service	397,127
Unrestricted	<u>721,105</u>
 Total Governmental Activities Net Assets	 <u>\$ 6,019,071</u>

Governmental fund balances reported on the fund financial statements at June 30, 2006 include the following:

Reserved	
Major Funds	
Debt Service Fund	
Reserved for debt service	\$ <u>424,799</u>
Unreserved	
Major Funds	
General Fund	
Unreserved - undesignated	2,008,495
 Nonmajor Funds	
Community Service Fund	
Unreserved - undesignated	<u>388,592</u>
Total Unreserved	<u>2,397,087</u>
 Total Fund Balances	 <u>\$ 2,821,886</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS June 30, 2006

NOTE IV – EXPLANATION OF CERTAIN DIFFERENCES

GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET ASSETS

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds.

Land	\$ 15,000
Buildings	11,737,409
Land improvements	1,260,275
Furniture and equipment	812,426
Less: accumulated depreciation	<u>(6,724,051)</u>
Adjustment for Capital Assets	<u>\$ 7,101,059</u>

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities—both current and long-term—are reported in the Statement of Net Assets.

Long term debt	\$ 3,726,274
Capital leases	53,301
Compensated absences	<u>96,627</u>
Combined Adjustment	<u>\$ 3,876,202</u>

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE V – OTHER INFORMATION

A. EMPLOYEES' RETIREMENT SYSTEM

All eligible District employees participate in the Wisconsin Retirement System (System), a cost-sharing multiple-employer defined benefit public employee retirement system (PERS). All permanent employees expected to work over 600 hours a year (440 hours for teachers) are eligible to participate in the System. Covered employees in the General and Teacher categories are required by statute to contribute 5.4% of their salary to the plan. Employers generally make these contributions to the plan on behalf of employees. Employers are required to contribute an actuarially determined amount necessary to fund the remaining projected cost of future benefits.

The payroll for District employees covered by the system for the year ended June 30, 2006 was \$6.2 million; the employer's total payroll was \$6.6 million. The total required contribution for the year ended June 30, 2006 was \$638,408 or 10.3% of covered payroll. Of this amount, 100% was contributed by the employer for the current year. Total contributions for the years ending June 30, 2005 and 2004 were \$628,975 or 10.0% of covered payroll and \$559,376 or 9.6% of covered payroll, respectively, equal to the required contributions for each year.

Employees who retire at or after age 65 are entitled to receive a retirement benefit. Employees may retire at age 55 and receive actuarially reduced benefits. Retirement benefits are calculated as 1.6% of final average earnings for each year of creditable service. The factors influencing the benefit are: 1) final average earnings, 2) years of creditable service, and 3) a formula factor. Final average earnings is the average of the employee's three highest years earnings. Employees terminating covered employment before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990 and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 are immediately vested.

The System also provides death and disability benefits for employees. Eligibility for and the amount of all benefits is determined under Chapter 40 of Wisconsin Statutes. The System issues an annual financial report which may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

As of June 30, 2006, the District did not have any pension-related debt.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE V – OTHER INFORMATION (continued)

B. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; workers compensation; and health care of its employees. All of these risks are covered through the purchase of commercial insurance, with minimal deductibles. Settled claims have not exceeded the commercial coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

C. COMMITMENTS AND CONTINGENCIES

From time to time, the District becomes party to claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the District's attorney that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the District's financial position.

The District has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grants. Management believes such disallowances, if any, would be immaterial.

The District has been assessed penalties and interest of approximately \$80,000 related to payroll reporting compliance issues during 2004 & 2005. Management is contesting these assessments and has not accrued a provision for these assessments in the District's financial statements.

D. OTHER POST-EMPLOYMENT BENEFITS

The District provides post-employment benefits to teachers and certain administrators who served the District with at least 20 full-time equivalent years of service and are at least 56 years of age when they retire. The benefit is equal to \$1,300 times the number of years of service, not to exceed 30 years, plus one-half of accumulated sick leave paid as a cash payment over 4 years or in health insurance benefits. The entire cost is paid by the District; funding comes from the current year budget. The contributions are funded on a pay as you go basis. The number of participants currently eligible to receive benefits is one hundred fifteen.

Benefits that require payments in future fiscal years though related to current received services are recorded as expenditure in the period or periods in which they are paid or normally payable rather than the period in which they are incurred. The cost of these post-employment benefits was approximately \$300,000 and is expense/expenditure in both the District-wide and fund financial statements. The estimated future liability at current costs for those individuals covered by this benefit is approximately \$2.2 million. This liability is considered an other post-employment benefit and in accordance with generally accepted accounting principals has not been reported as a long-term obligation in the District's Statement of Net Assets.

ST. FRANCIS SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

NOTE V – OTHER INFORMATION (continued)

E. SELF INSURANCE

On January 1, 1990, the District established a self-funded health benefit plan for its employees. The District also established a self-funded dental benefit plan effective July 1, 1993. The Plan Administrators, Beneco and Delta Dental are responsible for the approval, processing and payment of claims, after which they bill the District for reimbursement. The District is responsible for monthly administrative and stop loss insurance fees. The Plans report on a fiscal year ending December 31. Accounting and budgeting requirements for the Plans are established by the Wisconsin Department of Public Instruction. The Plans are accounted for in the General Fund of the District.

As part of the health care coverage of the Plan, the District purchases stop-loss coverage which pays claims in excess of \$50,000 for both 2006 and 2005 per individual and/or 125% of the annual estimated claims as provided by Beneco. The aggregate annual claim limit was \$1,259,121 for 2006 and 2005. The District has no stop-loss coverage for dental care coverage of the Plan. At June 30, 2006, the District has reported a liability of \$796,599 which represents reported and unreported health and dental claims which were incurred on or before June 30, 2006, but were not paid by the District as of that date. This amount is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated. Changes in the claims liability amount in 2006 and 2005 were:

<u>Year</u>	<u>Balance Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance End of Fiscal Year</u>
2005	\$ 1,047,580	\$ 1,363,184	\$ 1,621,374	\$ 789,390
2006	789,390	1,327,841	1,320,632	796,599

F. SUBSEQUENT EVENT

On August 1, 2006, the District issued taxable general obligation refunding bonds in the amount of \$1,590,000 with an interest rate of 5.73 – 6.05% with a final maturity in 2026. This debt issue will refund and provide permanent financing for the District's 2002 taxable variable rate anticipation note.

REQUIRED SUPPLEMENTARY INFORMATION

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Local	\$ 3,242,193	\$ 3,242,193	\$ 3,266,761	\$ 24,568
Interdistrict	1,802,360	1,672,946	1,678,442	5,496
Intermediate	40,000	40,000	50,422	10,422
State	6,495,318	6,492,146	6,458,523	(33,623)
Federal	208,802	263,477	239,667	(23,810)
Other Revenues	2,000	2,000	46,403	44,403
Total Revenues	<u>11,790,673</u>	<u>11,712,762</u>	<u>11,740,218</u>	<u>27,456</u>
EXPENDITURES				
Instruction				
Regular	5,175,467	5,227,283	5,275,351	(48,068)
Special education	3,000	3,000	173	2,827
Vocational	277,130	277,130	281,003	(3,873)
Other	668,671	668,671	677,933	(9,262)
Total instruction	<u>6,124,268</u>	<u>6,176,084</u>	<u>6,234,460</u>	<u>(58,376)</u>
Support Services				
Pupil services	288,734	290,134	298,588	(8,454)
Instructional support services	289,489	290,948	265,842	25,106
Administration	1,296,291	1,186,291	1,251,898	(65,607)
Buildings and grounds	1,459,213	1,436,627	1,449,227	(12,600)
Pupil transportation	60,000	60,000	57,939	2,061
Other support services	564,935	564,935	417,864	147,071
Debt service				
Principal	40,000	40,000	30,257	9,743
Interest and fees	100,000	100,000	122,778	(22,778)
Total support services	<u>4,098,662</u>	<u>3,968,935</u>	<u>3,894,393</u>	<u>74,542</u>
Total Expenditures	<u>10,222,930</u>	<u>10,145,019</u>	<u>10,128,853</u>	<u>16,166</u>
Excess of revenues over expenditures	1,567,743	1,567,743	1,611,365	43,622
OTHER FINANCING SOURCES (USES)				
Transfers out	(1,629,277)	(1,629,277)	(1,451,055)	178,222
Sale of property	500	500	500	-
Total Other Financing Sources (Uses)	<u>(1,628,777)</u>	<u>(1,628,777)</u>	<u>(1,450,555)</u>	<u>178,222</u>
Net Change in Fund Balances	<u>\$ (61,034)</u>	<u>\$ (61,034)</u>	160,810	<u>\$ 221,844</u>
FUND BALANCES - Beginning of Year			<u>1,847,685</u>	
FUND BALANCES - END OF YEAR			<u>\$ 2,008,495</u>	

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND - SPECIAL EDUCATION FUND For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Interdistrict	\$ 80,000	\$ 80,000	\$ 86,210	\$ 6,210
Intermediate	30,000	30,000	28,358	(1,642)
State	466,218	463,692	463,692	-
Federal	287,216	359,582	305,985	(53,597)
Total Revenues	<u>863,434</u>	<u>933,274</u>	<u>884,245</u>	<u>(49,029)</u>
EXPENDITURES				
Instruction				
Special education	<u>1,957,814</u>	<u>1,992,697</u>	<u>1,839,719</u>	<u>152,978</u>
Support Services				
Pupil services	232,891	232,891	176,892	55,999
Instructional support services	133,939	168,896	126,277	42,619
Pupil transportation	<u>125,000</u>	<u>125,000</u>	<u>115,087</u>	<u>9,913</u>
Total support services	<u>491,830</u>	<u>526,787</u>	<u>418,256</u>	<u>108,531</u>
Total Expenditures	<u>2,449,644</u>	<u>2,519,484</u>	<u>2,257,975</u>	<u>261,509</u>
Excess (deficiency) of revenues over expenditures	(1,586,210)	(1,586,210)	(1,373,730)	212,480
OTHER FINANCING SOURCES				
Transfer in	<u>1,586,210</u>	<u>1,586,210</u>	<u>1,373,730</u>	<u>(212,480)</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
FUND BALANCES - Beginning of Year			-	
FUND BALANCES - END OF YEAR			<u>\$ -</u>	

ST. FRANCIS SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

BUDGETARY INFORMATION

Budgetary information is derived from the annual operating budget and is presented using the same basis of accounting for each fund as described in Note I.C.

Operating budgets are adopted each fiscal year for all Governmental Funds in accordance with section 65.90 of the Wisconsin Statutes. The legally adopted budget and budgetary expenditure control is exercised at the function level in the General Fund and at the fund level for all other funds. Reported budget amounts are as amended by School Board resolution. Appropriations lapse at year end unless specifically carried over. There were no carryovers to the following year.

SUPPLEMENTARY INFORMATION

ST. FRANCIS SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
ASSETS			
Cash and investments	\$ -	\$ 397,622	\$ 397,622
Due from other governments	15,443	-	15,443
Inventory	3,235	-	3,235
TOTAL ASSETS	<u>\$ 18,678</u>	<u>\$ 397,622</u>	<u>\$ 416,300</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 8,425	\$ 640	\$ 9,065
Payroll taxes and withholdings	108	2,768	2,876
Deferred revenue	-	4,090	4,090
Due to other funds	9,330	-	9,330
Other current liabilities	815	1,532	2,347
TOTAL LIABILITIES	<u>18,678</u>	<u>9,030</u>	<u>27,708</u>
Fund Balances			
Unreserved			
Undesignated	-	388,592	388,592
Total Fund Balances	-	388,592	388,592
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 18,678</u>	<u>\$ 397,622</u>	<u>\$ 416,300</u>

ST. FRANCIS SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
REVENUES			
Local	\$ 290,150	\$ 470,830	\$ 760,980
State	5,202	-	5,202
Federal	123,827	-	123,827
Total Revenues	419,179	470,830	890,009
EXPENDITURES			
Support Services			
Food service	446,504	-	446,504
Community services	-	169,653	169,653
Total Expenditures	446,504	169,653	616,157
Excess (deficiency) of revenues over expenditures	(27,325)	301,177	273,852
OTHER FINANCING SOURCES			
Transfer in	27,325	-	27,325
Net Change in Fund Balances	-	301,177	301,177
FUND BALANCES - Beginning of Year	-	87,415	87,415
FUND BALANCES - END OF YEAR	\$ -	\$ 388,592	\$ 388,592

ST. FRANCIS SCHOOL DISTRICT

AGENCY FUNDS
SCHEDULE OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended June 30, 2006

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2006</u>
ASSETS				
Cash and investments	<u>\$ 84,950</u>	<u>\$ 237,010</u>	<u>\$ 239,472</u>	<u>\$ 82,488</u>
LIABILITIES				
Due to student organizations	\$ 83,265	\$ 237,010	\$ 237,898	\$ 82,377
Due to other funds	<u>1,685</u>	<u>-</u>	<u>1,574</u>	<u>111</u>
Total Liabilities	<u>\$ 84,950</u>	<u>\$ 237,010</u>	<u>\$ 239,472</u>	<u>\$ 82,488</u>

**EXPENDITURES OF FEDERAL AND STATE AWARDS
AND RELATED AUDITOR'S REPORTS**



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
St. Francis School District
Milwaukee County, Wisconsin

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the St. Francis School District as of and for the year ended June 30, 2006, which collectively comprise the St. Francis School District's basic financial statements and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 06-01, 06-02, 06-03 and 06-04.

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, the reportable conditions described above are believed to be material weaknesses.

To the Board of Education
St. Francis School District
Milwaukee County, Wisconsin

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Francis 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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that were reported to management of St. Francis School District in a separate letter dated September 15, 2006.

This report is intended for the information and use of the Board of Education, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Virchow, Krause & Company, LLP

Milwaukee, Wisconsin
September 15, 2006



REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES

To the Board of Education
St. Francis School District
Milwaukee County, Wisconsin

Compliance

We have audited the compliance of St. Francis School District ("District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *State Single Audit Guidelines* that are applicable to each of its major federal and major state programs for the year ended June 30, 2006. The District's major federal and major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, and contracts and grants applicable to each of its major federal and major state programs is the responsibility of St. Francis School District's management. Our responsibility is to express an opinion on St. Francis School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the *State Single Audit Guidelines*. Those standards, OMB Circular A-133 and *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or major state programs occurred. An audit includes examining, on a test basis, evidence about St. Francis School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on St. Francis School District's compliance with those requirements.

Qualifications – Federal Programs

As described in the Finding 06-05 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs that are applicable to the (federal) IDEA Special Education Cluster. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

Qualifications – Federal Programs and State Programs

As described in the Finding 06-01 in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with requirements regarding allowable costs that are applicable to the Federal and State Programs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the District complied, in all material respects, with the requirements referred to above that are applicable to each major federal and major state program for the year ended June 30, 2006.

To the Board of Education
St. Francis School District
Milwaukee County, Wisconsin

Internal Control Over Compliance

The management of St. Francis School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal and major state programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal and major state 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 and the *State Single Audit Guidelines*.

We noted certain matters involving 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 internal control over compliance that, in our judgment, could adversely affect the District's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 06-01, 06-02 and 06-03.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants 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 over compliance 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 identified above, we are believed to be material weaknesses.

Schedule of Expenditures of Federal and State Awards

We have audited the basic financial statements of School District of St. Francis as of and for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by *OMB Circular A-133* and the *State Single Audit Guidelines* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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.

This report is intended for the information and use of the Board of Education, management, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Viclow, Krause + Company, LLP

Milwaukee, Wisconsin
September 15, 2006

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Awarding Agency/Pass-Through Agency/Award Description	Federal Catalog Number	Program or Award Amount	Accrued Receivable 7/1/05	Expenditures		Revenues		Accrued Receivable 6/30/06
				Grantor	Local	Grantor Reimbursements	Local Share	
U.S. DEPARTMENT OF EDUCATION								
<u>21st Century Community Learning Centers/ After School Learning Centers</u>	84.287A							
July 1, 2004 - June 30, 2005		\$ 159,074	\$ 6,547	\$ -	\$ -	\$ 6,547	\$ -	\$ -
July 1, 2005 - June 30, 2006		91,390	-	91,390	-	-	-	91,390
State of Wisconsin								
Wisconsin Department of Public Instruction								
<u>Title I, Part A Grants to Local Educational Agencies</u>	84.010							
July 1, 2004 - June 30, 2005		55,283	12,632	-	-	12,632	-	-
July 1, 2005 - June 30, 2006		94,710	-	94,710	-	-	-	94,710
<u>PL 94-142 Flow Thru</u>	84.027							
July 1, 2004 - June 30, 2005		279,658	219,982	-	-	219,982	-	-
July 1, 2005 - June 30, 2006		347,648	-	300,448	-	-	-	300,448
<u>PL 99-457 Preschool Entitlement</u>	84.173							
July 1, 2004 - June 30, 2005		9,810	3,483	-	-	3,483	-	-
July 1, 2005 - June 30, 2006		11,934	-	5,537	-	-	-	5,537
<u>Title IV - Safe & Drug Free Schools</u>	84.186							
July 1, 2004 - June 30, 2005		7,200	628	-	-	-	-	628
July 1, 2005 - June 30, 2006		6,655	-	645	-	-	-	645
<u>Title II, Part A - Teacher/Principal Training</u>	84.367							
July 1, 2004 - June 30, 2005		68,950	49,344	-	-	49,344	-	-
July 1, 2005 - June 30, 2006		62,025	-	51,423	-	-	-	51,423
<u>Title II, Part D - Education Technology</u>	84.318							
July 1, 2004 - June 30, 2005		1,459	745	-	-	745	-	-
July 1, 2005 - June 30, 2006		2,781	-	1,499	-	-	-	1,499

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

<u>Awarding Agency/Pass-Through Agency/Award Description</u>	<u>Federal Catalog Number</u>	<u>Program or Award Amount</u>	<u>Accrued Receivable 7/1/05</u>	<u>Expenditures</u>		<u>Revenues</u>		<u>Accrued Receivable 6/30/06</u>
				<u>Grantor</u>	<u>Local</u>	<u>Grantor Reimbursements</u>	<u>Local Share</u>	
U.S. DEPARTMENT OF AGRICULTURE								
State of Wisconsin								
Wisconsin Department of Public Instruction								
<u>Food Distribution</u>								
July 1, 2005 - June 30, 2006	10.550	\$ -	\$ -	\$ 21,025	\$ -	\$ 21,025	\$ -	\$ -
<u>National School Lunch Program</u>								
July 1, 2004 - June 30, 2005	10.555	-	15,148	-	-	15,148	-	-
July 1, 2005 - June 30, 2006		-	-	102,802	-	87,359	-	15,443
TOTALS			<u>\$ 308,509</u>	<u>\$ 669,479</u>	<u>\$ -</u>	<u>\$ 416,265</u>	<u>\$ -</u>	<u>\$ 561,723</u>

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended June 30, 2006

<u>Administering Agency/Pass-Through Agency/Award Description</u>	<u>State ID Number</u>	<u>State Revenues</u>
WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION		
Entitlement Programs		
Major Programs		
Handicapped Aid	255.101	\$ 463,692
Equalization Aid	255.201	5,167,897
Integration Aid	255.204	1,222,151
Total Major Programs		<u>6,853,740</u>
Nonmajor Programs		
State Lunch	255.102	5,202
Common School Fund (Library) Aid	255.103	35,099
Total Nonmajor Programs		<u>40,301</u>
TOTALS		<u>\$ 6,894,041</u>

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

Section I: Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	Unqualified	
Internal control over financial reporting		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Type of auditor's report issued on compliance for major programs	Qualified	
Internal control over compliance		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section 510(a)?	<u> </u> yes	<u> X </u> no

Identification of major federal programs

CFDA NUMBER(S)

84.027/84.173

Name of Federal Program or Cluster

IDEA Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes no

State Awards

Type of auditor's report issued on compliance for major programs	Qualified	
Internal control over compliance		
Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> none reported

Any audit findings disclosed that are required in accordance with State Single Audit Guidelines.

 yes X no

Dollar threshold used to distinguish between Type A and Type B programs

\$100,000

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

State Awards (continued)

Auditee qualified as low-risk auditee? _____ X _____ yes _____ no

Identification of major state programs

ID NUMBER(S)

Name of State Program or Cluster

255.101	Handicapped Aid
255.201	Equalization Aid
255.204	Integration Aid

Section II: Financial Statement Findings

Finding 06-01: Self - Funded Health Insurance

CFDA/ID Number and Program

84.027 PL 94-142 Flow Thru
255.101 Handicapped Aid
255.201 Equalization Aid
255.204 Integration Aid

Condition & Effect

We reviewed the District's self-funded health benefit accrual at June 30, 2006 and determined that the balance of the year end liability was overstated by approximately \$400,000. We discussed this issue with management and determined that the year end accrual did not include an adjustment for the actual savings the District experienced with actual health benefit claims as compared to projected costs under a premium equivalency basis. Consequently, an adjustment for \$400,000 was processed as part of the audit process.

Questioned Costs

Federal - \$4,150
State - Not determinable

Recommendation

In the future, we recommend that management evaluate the year end accrual, and process appropriate adjustments to properly reflect the year end estimated liability for health insurance.

Management Response

Management will continually monitor the activity in the self-funded health benefit accrual account and adjust as needed periodically throughout the year.

Finding 06-02: Bank Account Reconciliation

Condition & Effect

During the audit process we reviewed District personnel's bank account reconciliations that were prepared throughout the year. As of June 30, 2006 it was determined that that a variance of approximately \$60,000 existed between the bank account information reported by the District's bank, and the data recorded in the District's books and records. The bank account balance reported by the bank was higher than the amount reflected in the District's records.

Recommendation

We recommend that the District investigate and resolve this variance during the 2006-2007 fiscal year.

Management Response

Management will investigate and resolve this variance during the 2006-2007 fiscal year.

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2006

Section II: Financial Statement Findings (continued)

Finding 06-03: Internal Control Deficiencies over the Payroll Process

Condition & Effect

During our testing of the internal controls over the payroll process we found the following items. A District supervisor utilizes a payroll signature stamp to document approval of timecards; however, the signature stamp is not maintained in a secure location to prevent unauthorized access. We also selected one payroll period for testing where we found that the payroll timecards could not be located. Finally, documentation was not available to support certain employee pay rates.

Recommendation

We recommend that the District implement proper controls over the access to the signature stamp, and that all accounting records be retained to support the recorded transactions and to allow subsequent independent verification.

Management Response

Management understands that need for proper controls and will implement the proper controls as noted above.

Finding 06-04: Payroll Reporting Issue

Criteria & Effect

The District has been assessed penalties and interest of approximately \$80,000 related to payroll reporting compliance issues during 2004 & 2005.

Recommendation

We would recommend that Management determine that all compliance issues have been corrected. We would also recommend that compliance with the various reporting requirements required by the Internal Revenue Service be monitored throughout the year.

Management Response

Management has, subsequent to yearend, implemented the proper controls to resolve this issue.

ST. FRANCIS SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2006

Section III: Federal Award Findings and Questioned Costs

Finding 06-05: Documentation of Employee Time and Effort

CFDA Number and Program Name

84.027 PL 94-142 Flow Thru (IDEA)

Criteria

OMB Circular A-87 establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that the expenditure be adequately documented. If an employee works solely on one federal program and 100% of their salary or wages are charged to the program, the District must obtain a certification from the employee or their direct supervisor that 100% of their time is spent on the single federal program. This certification must be kept on file and is required to be obtained at least every six months. However, if an employee works on multiple activities, monthly personnel activity reports must be completed and signed by the employee. The personal activity report is required to be an after-the-fact distribution of effort and must account for 100% of the employee's activity.

According to the OMB Circular A-133 Compliance Supplement, dated March 2005:

- a. An employee whose compensation is funded solely from a Single Cost Objective (i.e., consolidated administrative funds or combined schoolwide program) must furnish semi-annual certifications that he/she has been engaged solely in activities supported by the applicable source in accordance with OMB Circular A-87, Attachment B paragraph 11.h.3.
- b. An employee paid in part from a Single Cost Objective, and in part with funds from other revenue sources, must maintain time and effort distribution records in accordance with OMB Circular A-87, Attachment B paragraph 11.h.4 documenting the portion of time and effort dedicated to the Single Cost Objective, and each program or other cost objective supported by the other revenue sources.

Condition

The District does not obtain semi-annual effort certifications from employees who work 100% on a program. Total payroll and fringe benefit expenditures charged to IDEA flow-thru were \$94,799, respectively, during the year ended June 30, 2006.

Questioned Cost

Salaries and benefits charged to the program were \$94,799.

Effect

Inadequate documentation for payroll expenditures costs may result in federal funds being expended for unallowable purposes.

Recommendation

We recommend that the District obtain effort certifications or personal activity reports for all payroll and fringe benefit expenditures charged to its federal programs.

Management's Response

Management agrees with the finding and will develop a system to properly document salaries charged to the IDEA program.

ST. FRANCIS SCHOOL DISTRICT


SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section IV: Other Issues

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? yes X no

2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, reportable condition, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:
Department of Public Instruction X yes no

3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? X yes no

4. Name and signature of partner 
Donald N. Villione, CPA

5. Date of report September 15, 2006

ST. FRANCIS SCHOOL DISTRICT

NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS June 30, 2006

NOTE 1 - The Schedules of Expenditures of Federal and State Awards include all of the funds of St. Francis School District. The reporting entity for the District is based upon criteria established by the Governmental Accounting Standards Board.

State programs reported include only those programs required to be included by the *State Single Audit Guidelines*.

NOTE 2 - The accounting records for the grant programs are maintained on the modified accrual basis of accounting.

NOTE 3 - The District's federal oversight agency for audit is the U.S. Department of Education. The District's state cognizant agency is the Wisconsin Department of Public Instruction.

NOTE 4 - Eligible costs for special education under project 011 were \$1,702,639 for the year ended June 30, 2006.

NOTE 5 - Status of Prior Year Findings - No prior year audit findings existed for 2005.