

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

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Central Decatur Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Mike Frost	President	2005
Nick Morrell	Vice-President	2006
Scott Bethards	Board Member	2004
Jerry Parsons	Board Member	2005
Rose Saxton	Board Member	2006

Board of Education
(After September 2004 Election)

Mike Frost	President	2005
Nick Morrell	Vice President	2006
Scott Bethards	Board Member	2007
Jerry Parsons	Board Member	2005
Rose Saxton	Board Member	2006

School Officials

Tucker Lillis	Superintendent	2005
Marlys Percy	District Secretary/Treasurer	2005
Hoffman Law Firm	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Central Decatur Community School District:

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Central Decatur Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated November 18, 2005 on our consideration of Central Decatur 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 these reports are 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 37 through 39 are not required parts of the basic financial statements, but are supplementary

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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 Central Decatur Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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.


NOLTE, CORNMAN & JOHNSON, P.C.

November 18, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Central Decatur Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,548,643 in fiscal 2004 to \$6,488,835 in fiscal 2005, while General Fund expenditures increased from \$6,298,616 in fiscal 2004 to \$6,350,929 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$773,060 in fiscal 2004 to a balance of \$911,152 in fiscal 2005, a 17.86% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local and federal sources in fiscal 2005. The increase in expenditures was due primarily to an increase in the support services functional area.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

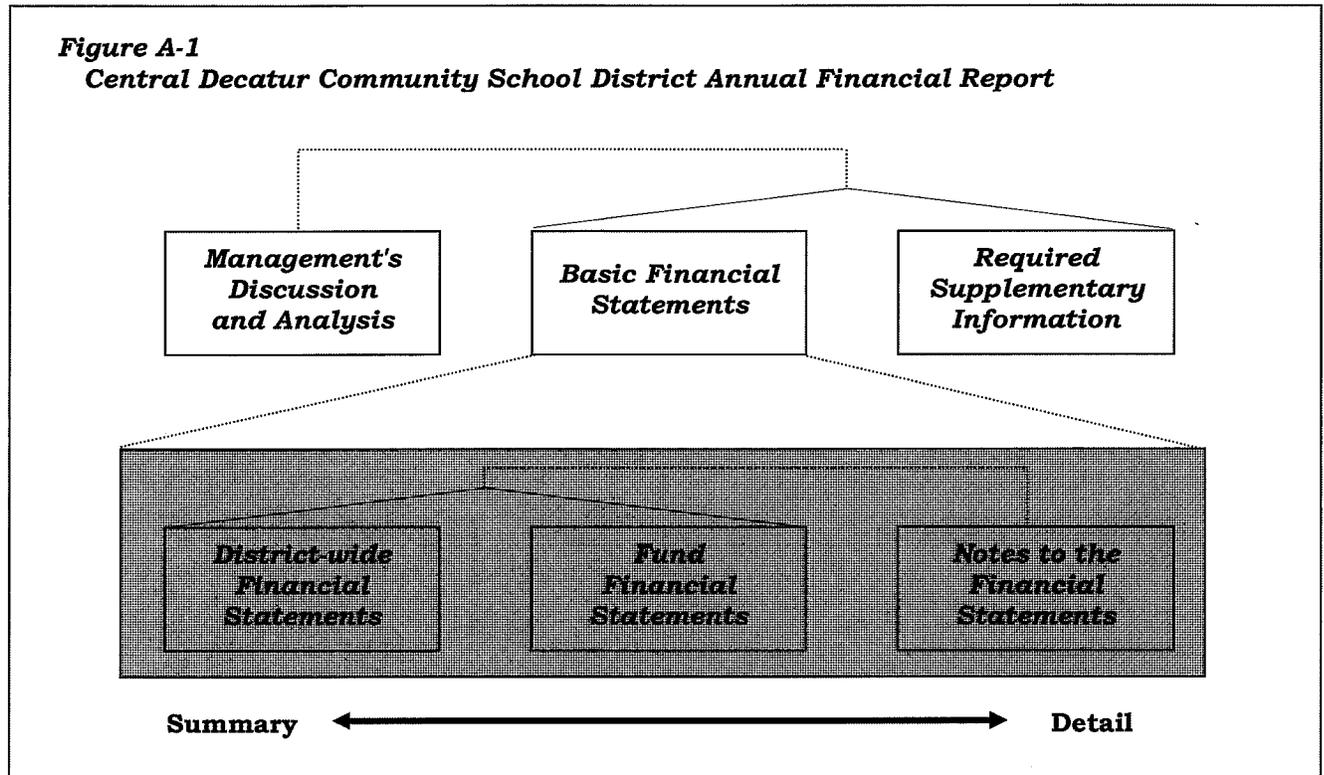


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • 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 revenues, expenses and changes in 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, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

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

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the 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 that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 3,626,259	3,814,883	38,161	49,918	3,664,420	3,864,801	-5.18%
Capital assets	7,472,114	7,549,310	15,084	16,498	7,487,198	7,565,808	-1.04%
Total assets	11,098,373	11,364,193	53,245	66,416	11,151,618	11,430,609	-2.44%
Long-term obligations	3,236,760	3,371,840	0	0	3,236,760	3,371,840	-4.01%
Other liabilities	2,114,750	2,426,151	2,821	1,119	2,117,571	2,427,270	-12.76%
Total liabilities	5,351,510	5,797,991	2,821	1,119	5,354,331	5,799,110	-7.67%
Net assets:							
Invested in capital assets, net of related debt	4,518,360	4,406,792	15,084	16,498	4,533,444	4,423,290	2.49%
Restricted	291,295	363,592	0	0	291,295	363,592	-19.88%
Unrestricted	937,208	795,818	35,340	48,799	972,548	844,617	15.15%
Total net assets	\$ 5,746,863	5,566,202	50,424	65,297	5,797,287	5,631,499	2.94%

The District's combined net assets increased by 2.94%, or \$165,788, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's

restricted net assets decreased \$72,297, or 19.88% over the prior year. The decrease was primarily a result of the District's decrease in fund balances in the Special Revenue Funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$127,931, or 15.15%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 499,068	619,577	163,860	135,834	662,928	755,411	-12.24%
Operating grants and contributions and restricted interest	1,363,408	1,503,151	190,315	178,778	1,553,723	1,681,929	-7.62%
Capital grants and contributions and restricted interest	283,597	165,076	0	0	283,597	165,076	71.80%
General revenues:							
Property tax	1,845,444	2,049,172	0	0	1,845,444	2,049,172	-9.94%
Local option sales and services tax	369,055	80,104	0	0	369,055	80,104	360.72%
Unrestricted state grants	3,168,067	3,065,415	0	0	3,168,067	3,065,415	3.35%
Other	8,278	6,779	372	173	8,650	6,952	24.42%
Total revenues	7,536,917	7,489,274	354,547	314,785	7,891,464	7,804,059	1.12%
Program expenses:							
Governmental activities:							
Instructional	4,241,263	4,269,216	0	0	4,241,263	4,269,216	-0.65%
Support services	1,942,946	1,719,945	0	0	1,942,946	1,719,945	12.97%
Non-instructional programs	355,901	443,482	369,420	343,841	725,321	787,323	-7.88%
Other expenses	816,146	572,383	0	0	816,146	572,383	42.59%
Total expenses	7,356,256	7,005,026	369,420	343,841	7,725,676	7,348,867	5.13%
Changes in net assets	180,661	484,248	(14,873)	(29,056)	165,788	455,192	-63.58%
Beginning net assets	5,566,202	5,081,954	65,297	94,353	5,631,499	5,176,307	8.79%
Ending net assets	\$ 5,746,863	5,566,202	50,424	65,297	5,797,287	5,631,499	2.94%

Property tax and unrestricted state grants account for 64% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 80% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in property tax monies. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and

constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. The District saw an overall greater increase in revenues than the increase in expenditures, demonstrating an increase in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$7,891,464 and expenses were \$7,725,676. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,241,263	2,604,948
Support services	1,942,946	1,942,946
Non-instructional programs	355,901	355,901
Other expenses	816,146	306,388
Totals	<u>\$ 7,356,256</u>	<u>5,210,183</u>

- The cost financed by users of the District’s programs was \$499,068.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,647,005.
- The net cost of governmental activities was financed with \$1,845,444 in property tax, \$369,055 in local option sales and services tax, \$3,168,067 in state foundation aid, \$8,092 in interest income and \$186 from the sale of equipment.

Business-Type Activities

Revenues of the District’s business-type activities were \$354,547 and expenses were \$369,420. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,433,257, above last year’s ending fund balances of a \$1,309,938. However, the primary reason for the increase in combined fund balances in fiscal 2005 is because of the increase in the General and Capital Projects fund balances.

Governmental Fund Highlights

- The District's growing General Fund financial position from is the product of many factors:
 - Increase in state aid grants during the year resulted in an increase in revenues.
 - The increase in support services expenditures, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
- The Capital Projects Fund balance increased from \$46,444 in fiscal 2004 to \$81,560 in fiscal 2005. This was partially due to the District receiving more in local option sales and services tax monies.

Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$65,297 at June 30, 2004 to \$50,424 at June 30, 2005, representing a decrease of 22.78%. For fiscal 2005, the District had an increase in supplies expenditures.

BUDGETARY HIGHLIGHTS

The District's revenues were \$297,955 more than budgeted revenues, a variance of 3.92%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$7.49 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.04% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$457,130.

The original cost of the District's capital assets was \$12.06 million. Governmental funds account for \$11.79 million with the remainder of \$.27 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$6,570,129 at June 30, 2005, compared to \$6,387,324 reported at June 30, 2004. This increase resulted from the District finishing up a construction project in fiscal year 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change 2003-04
	2005	2004	2005	2004	2005	2004	
	Land	\$ 29,300	29,300	0	0	29,300	
Construction in progress	0	168,885	0	0	0	168,885	-100.00%
Buildings	6,570,129	6,387,324	0	0	6,570,129	6,387,324	2.78%
Land improvements	60,640	66,919	0	0	60,640	66,919	-10.35%
Machinery and equipment	812,045	896,882	15,084	16,498	827,129	913,380	-10.43%
Total	\$ 7,472,114	7,549,310	15,084	16,498	7,487,198	7,565,808	-1.05%

Long-Term Debt

At June 30, 2005, the District had \$3,236,760 in general obligation and other long-term debt outstanding. This represents a decrease of 4.01% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$3,125,000 at June 30, 2005.

The District had total outstanding Early Retirement payable of \$111,760 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 3,125,000	3,255,000	-4.0%
Early Retirement	111,760	116,840	-4.3%
Totals	\$ 3,236,760	3,371,840	-4.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- In the Fall of 2005, the Instructional Support Levy vote failed.
- The District had an error in the enrollment count, which will decrease funding for the next few years.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marlys Percy, District Secretary/Treasurer, Central Decatur Community School District, 1201 NE Poplar Street, Leon, Iowa, 50144.

BASIC FINANCIAL STATEMENTS

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,101,327	27,783	1,129,110
Receivables:			
Property tax:			
Delinquent	41,399	0	41,399
Succeeding year	1,850,152	0	1,850,152
Income surtax	90,611	0	90,611
Interfund	231,027	0	231,027
Accounts	3,738	0	3,738
Due from other governments	308,005	0	308,005
Inventories	0	10,378	10,378
Capital assets, net of accumulated depreciation (Note 5)	7,472,114	15,084	7,487,198
TOTAL ASSETS	11,098,373	53,245	11,151,618
LIABILITIES			
Interfund payable	231,027	0	231,027
Accounts payable	21,212	0	21,212
Accrued interest payable	12,359	0	12,359
Deferred revenue:			
Succeeding year property tax	1,850,152	0	1,850,152
Other	0	2,821	2,821
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	135,000	0	135,000
Early retirement payable	35,560	0	35,560
Portion due after one year:			
General obligation bonds payable	2,990,000	0	2,990,000
Early retirement payable	76,200	0	76,200
TOTAL LIABILITIES	5,351,510	2,821	5,354,331
NET ASSETS			
Investment in capital assets, net of related debt	4,518,360	15,084	4,533,444
Restricted for:			
Talented and gifted	11,088	0	11,088
Physical plant and equipment levy	72,640	0	72,640
Other special revenue purposes	207,567	0	207,567
Unrestricted	937,208	35,340	972,548
TOTAL NET ASSETS	\$ 5,746,863	50,424	5,797,287

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,043,151	433,889	1,137,247	0
Special instruction	1,183,551	65,179	0	0
Other instruction	1,014,561	0	0	0
	<u>4,241,263</u>	<u>499,068</u>	<u>1,137,247</u>	<u>0</u>
Support services:				
Student services	211,297	0	0	0
Instructional staff services	148,074	0	0	0
Administration services	669,547	0	0	0
Operation and maintenance of plant services	501,428	0	0	0
Transportation services	412,600	0	0	0
	<u>1,942,946</u>	<u>0</u>	<u>0</u>	<u>0</u>
Non-instructional programs:				
Food service operations	355,901	0	0	0
Other expenditures:				
Facilities and acquisitions	240,820	0	0	283,597
Long-term debt interest	153,777	0	0	0
AEA flowthrough	226,161	0	226,161	0
Depreciation(unallocated)*	195,388	0	0	0
	<u>816,146</u>	<u>0</u>	<u>226,161</u>	<u>283,597</u>
Total governmental activities	7,356,256	499,068	1,363,408	283,597
Business-Type activities:				
Non-instructional programs:				
Nutrition services	369,420	163,860	190,315	0
Total business-type activities	<u>369,420</u>	<u>163,860</u>	<u>190,315</u>	<u>0</u>
Total	\$ 7,725,676	662,928	1,553,723	283,597

General Revenues:

Local tax for:
 General purposes
 Debt Service
 Capital outlay
 Local option sales and services tax
 Unrestricted state grants
 Unrestricted investment earnings
 Sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(472,015)	0	(472,015)
(1,118,372)	0	(1,118,372)
(1,014,561)	0	(1,014,561)
(2,604,948)	0	(2,604,948)
(211,297)	0	(211,297)
(148,074)	0	(148,074)
(669,547)	0	(669,547)
(501,428)	0	(501,428)
(412,600)	0	(412,600)
(1,942,946)	0	(1,942,946)
(355,901)	0	(355,901)
42,777	0	42,777
(153,777)	0	(153,777)
0	0	0
(195,388)	0	(195,388)
(306,388)	0	(306,388)
(5,210,183)	0	(5,210,183)
0	(15,245)	(15,245)
0	(15,245)	(15,245)
(5,210,183)	(15,245)	(5,225,428)
\$ 1,766,354	0	1,766,354
43,887	0	43,887
35,203	0	35,203
369,055	0	369,055
3,168,067	0	3,168,067
8,092	372	8,464
186	0	186
5,390,844	372	5,391,216
180,661	(14,873)	165,788
5,566,202	65,297	5,631,499
\$ 5,746,863	50,424	5,797,287

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 759,199	29,244	312,884	1,101,327
Receivables:				
Property tax:				
Delinquent	37,157	0	4,242	41,399
Succeeding year	1,529,922	0	320,230	1,850,152
Income surtax	90,611	0	0	90,611
Interfund	107,608	0	123,419	231,027
Accounts	3,738	0	0	3,738
Due from other governments	148,081	159,924	0	308,005
TOTAL ASSETS	\$ 2,676,316	189,168	760,775	3,626,259
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 123,419	107,608	0	231,027
Accounts payable	21,212	0	0	21,212
Deferred revenue:				
Succeeding year property tax	1,529,922	0	320,230	1,850,152
Income surtax	90,611	0	0	90,611
Total liabilities	1,765,164	107,608	320,230	2,193,002
Fund balances:				
Reserved for:				
Talented and gifted	11,088	0	0	11,088
Debt service	0	0	102,045	102,045
Unreserved:				
General	900,064	0	0	900,064
Management	0	0	58,293	58,293
Capital Projects	0	81,560	0	81,560
Physical plant and equipment levy	0	0	72,640	72,640
Other special revenue purposes	0	0	207,567	207,567
Total fund balances	911,152	81,560	440,545	1,433,257
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,676,316	189,168	760,775	3,626,259

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR 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 17)	\$ 1,433,257
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	7,472,114
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	90,611
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.	(12,359)
Long-term liabilities, including early retirement and general obligation bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,236,760)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 5,746,863</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax:				
Local tax:	\$ 1,667,246	369,055	179,201	2,215,502
Tuition	211,635	0	0	211,635
Other	75,179	832	216,014	292,025
Intermediate sources	3,500	0	0	3,500
State sources	3,823,980	0	200	3,824,180
Federal sources	707,295	266,706	16,891	990,892
Total revenues	<u>6,488,835</u>	<u>636,593</u>	<u>412,306</u>	<u>7,537,734</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,010,728	0	706	2,011,434
Special instruction	1,183,551	0	0	1,183,551
Other instruction	791,287	0	219,433	1,010,720
	<u>3,985,566</u>	<u>0</u>	<u>220,139</u>	<u>4,205,705</u>
Support services:				
Student services	185,335	0	0	185,335
Instructional staff services	148,074	0	0	148,074
Administration services	628,310	2,950	42,729	673,989
Operation and maintenance of plant services	431,110	0	69,767	500,877
Transportation services	390,472	0	0	390,472
	<u>1,783,301</u>	<u>2,950</u>	<u>112,496</u>	<u>1,898,747</u>
Non-instructional programs:				
Community service operations	355,901	0	0	355,901
Other expenditures:				
Facilities acquisitions	0	381,812	62,037	443,849
Long-term debt:				
Principal	0	0	130,000	130,000
Interest and fiscal charges	0	0	154,238	154,238
AEA flowthrough	226,161	0	0	226,161
	<u>226,161</u>	<u>381,812</u>	<u>346,275</u>	<u>954,248</u>
Total expenditures	<u>6,350,929</u>	<u>384,762</u>	<u>678,910</u>	<u>7,414,601</u>
Excess(deficiency) of revenues over(under) expenditures	137,906	251,831	(266,604)	123,133
Other financing sources(uses):				
Operating transfers in	0	0	216,715	216,715
Operating transfers out	0	(216,715)	0	(216,715)
Sale of equipment	186	0	0	186
Total other financing sources(uses)	<u>186</u>	<u>(216,715)</u>	<u>216,715</u>	<u>186</u>
Net change in fund balances	138,092	35,116	(49,889)	123,319
Fund balance beginning of year	773,060	46,444	490,434	1,309,938
Fund balance end of year	<u>\$ 911,152</u>	<u>81,560</u>	<u>440,545</u>	<u>1,433,257</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 19)	\$	123,319
 Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:		
Capital outlays	\$ 380,137	
Depreciation expense	<u>(457,333)</u>	(77,196)
 Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets		
		130,000
 Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		
		(1,003)
 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.		
		461
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early retirement		<u>5,080</u>
Changes in net assets of governmental activities (page 16)		<u><u>\$ 180,661</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2005

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 27,783
Inventories	10,378
Capital assets, net of accumulated depreciation(Note 5)	<u>15,084</u>
TOTAL ASSETS	<u>53,245</u>
LIABILITIES	
Deferred revenue:	
Other	2,821
TOTAL LIABILITIES	<u>2,821</u>
NET ASSETS	
Investment in capital assets, net of related debt	15,084
Unrestricted	35,340
TOTAL NET ASSETS	<u>\$ 50,424</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 163,860
TOTAL OPERATING REVENUES	163,860
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	131,926
Benefits	68,849
Services	9,698
Supplies	157,533
Depreciation	1,414
TOTAL OPERATING EXPENSES	369,420
OPERATING LOSS	(205,560)
NON-OPERATING REVENUES:	
State sources	4,088
Federal sources	186,227
Interest on investments	372
TOTAL NON-OPERATING REVENUES	190,687
Change in net assets	(14,873)
Net assets beginning of year	65,297
Net assets end of year	\$ 50,424

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 152,669
Cash received from miscellaneous	12,893
Cash payments to employees for services	(200,775)
Cash payments to suppliers for goods or services	(147,183)
Net cash used in operating activities	(182,396)
Cash flows from non-capital financing activities:	
State grants received	4,088
Federal grants received	166,754
Net cash provided by non-capital financing activities	170,842
Cash flows from investing activities:	
Interest on investments	372
Net cash provided by investing activities	372
Net decrease in cash and cash equivalents	(11,182)
Cash and cash equivalents at beginning of year	38,965
Cash and cash equivalents at end of year	\$ 27,783
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (205,560)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	19,473
Depreciation	1,414
Decrease in inventories	575
Increase in deferred revenue	1,702
Net cash provided by(used in) operating activities	\$ (182,396)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 27,783

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at \$19,473.

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Private Purpose Trust Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 10,000
NET ASSETS	
Reserved for scholarships	\$ 10,000

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2005

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Interest and dividends	\$ 500
Total additions	<u>500</u>
Deductions:	
Non-instructional programs:	
Scholarships awarded	500
Total deductions	<u>500</u>
Change in net assets	0
Net assets beginning of year	<u>10,000</u>
Net assets end of year	<u><u>\$ 10,000</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Central Decatur 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. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Leon, Iowa, and the predominate agricultural territory in Decatur 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, Central Decatur Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Central Decatur Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do 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 Decatur County Assessors' 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 support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes 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.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2005 balances of interfund accounts receivable or payable have been recorded.

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

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

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue

consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the other expenditures functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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 and the Treasurer of the State of Iowa; 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 as follows:

	<u>Amortized Cost</u>
Certificates of deposit	<u>\$ 25,983</u>

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

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 216,715</u>

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

(4) Interfund Receivables and Payables

At June 30, 2005 the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Capital Projects	\$ 107,608
Management	General	18,724
Special Revenue - Expendable Trust	General	<u>104,695</u>
Total		<u>\$ 231,027</u>

(5) Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 29,300	0	0	29,300
Construction in progress	168,885	0	168,885	0
Total capital assets not being depreciated	<u>198,185</u>	<u>0</u>	<u>168,885</u>	<u>29,300</u>
Capital assets being depreciated:				
Buildings	8,147,562	370,574	0	8,518,136
Land improvements	235,502	1,340	0	236,842
Machinery and equipment	2,840,356	177,108	10,351	3,007,113
Total capital assets being depreciated	<u>11,223,420</u>	<u>549,022</u>	<u>10,351</u>	<u>11,762,091</u>
Less accumulated depreciation for:				
Buildings	1,760,238	187,769	0	1,948,007
Land improvements	168,583	7,619	0	176,202
Machinery and equipment	1,943,474	260,328	8,734	2,195,068
Total accumulated depreciation	<u>3,872,295</u>	<u>455,716</u>	<u>8,734</u>	<u>4,319,277</u>
Total capital assets being depreciated, net	<u>7,351,125</u>	<u>93,306</u>	<u>1,617</u>	<u>7,442,814</u>
Governmental activities capital assets, net	<u>\$ 7,549,310</u>	<u>93,306</u>	<u>170,502</u>	<u>7,472,114</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 264,297	0	0	264,297
Less accumulated depreciation	247,799	1,414	0	249,213
Business-type activities capital assets, net	\$ 16,498	(1,414)	0	15,084

Depreciation expense was charged by the District as follows:

Governmental activities:			
Instruction:			
Regular			\$ 136,627
Other			3,841
Support services:			
Student			1,740
Administration			1,435
Operation and maintenance of plant			551
Transportation			116,134
			<u>260,328</u>
Unallocated depreciation			<u>195,388</u>
Total governmental activities depreciation expense			<u>\$ 455,716</u>
Business-type activities:			
Food services			\$ 1,414
Total business-type activities depreciation expense			<u>\$ 1,414</u>

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 3,255,000	0	130,000	3,125,000	135,000
Early Retirement	116,840	30,480	35,560	111,760	35,560
Total	\$ 3,371,840	30,480	165,560	3,236,760	170,560

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

Year		Bond Issue dated August 1, 2001			
Ending	Interest				
June 30,	Rates	Principal	Interest	Total	
2006	4.25 %	\$ 135,000	148,313	283,313	
2007	4.25	140,000	142,575	282,575	
2008	4.25	145,000	136,625	281,625	
2009	4.25	155,000	130,462	285,462	
2010	4.35	160,000	123,875	283,875	
2011	4.45	165,000	116,915	281,915	
2012	4.60	175,000	109,573	284,573	
2013	4.70	185,000	101,523	286,523	
2014	4.80	195,000	92,827	287,827	
2015	4.85	205,000	83,468	288,468	
2016	5.00	215,000	73,525	288,525	
2017	5.00	225,000	62,775	287,775	
2018	5.00	235,000	51,525	286,525	
2019	5.00	250,000	39,775	289,775	
2020	5.00	265,000	27,275	292,275	
2021	5.10	275,000	14,025	289,025	
Total		\$ 3,125,000	1,455,056	4,580,056	

Early Retirement

The District offers a voluntary early retirement plan to its certified and support staff employees. Eligible employees must be at least age fifty-five and employees must have completed twelve years of service to the District. Employees complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is \$5,080 per year with a maximum of five years or until the employee reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2005, totaled \$35,560. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual 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 contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$204,221, \$204,776, and \$204,199 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees 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-funded to fully-insured coverage. ISEBA is recovering shortfall through a combination of assessments, deficit recovery charges and administration 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 \$18,552, paid with the 2004-2005 premiums and 2% of the 2005-2006 premium will be paid along with the 2005-2006 premium, an amount that is unknown at this time. 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 \$927,591.

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

Central Decatur Community School 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.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$226,161 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,719,162	164,232
Intermediate sources	3,500	0
State sources	3,824,180	4,088
Federal sources	990,892	186,227
Total revenues	<u>7,537,734</u>	<u>354,547</u>
Disbursements:		
Instruction	4,205,705	0
Support services	1,898,747	0
Non-instructional programs	355,901	369,420
Other expenditures	954,248	0
Total expenditures	<u>7,414,601</u>	<u>369,420</u>
Excess(deficiency) of receipts over(under) disbursements	123,133	(14,873)
Other financing sources, net	<u>186</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	123,319	(14,873)
Balance beginning of year	<u>1,309,938</u>	<u>65,297</u>
Balance end of year	<u>\$ 1,433,257</u>	<u>50,424</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,883,394	2,899,181	2,899,181	(15,787)
3,500	5,500	5,500	(2,000)
3,828,268	3,924,304	3,924,304	(96,036)
1,177,119	765,341	765,341	411,778
<u>7,892,281</u>	<u>7,594,326</u>	<u>7,594,326</u>	<u>297,955</u>
4,205,705	4,651,147	4,651,147	445,442
1,898,747	2,286,240	2,286,240	387,493
725,321	1,167,760	1,167,760	442,439
954,248	565,190	565,190	(389,058)
<u>7,784,021</u>	<u>8,670,337</u>	<u>8,670,337</u>	<u>886,316</u>
108,260	(1,076,011)	(1,076,011)	(1,184,271)
<u>186</u>	<u>0</u>	<u>0</u>	<u>(186)</u>
108,446	(1,076,011)	(1,076,011)	(1,184,457)
<u>1,375,235</u>	<u>1,848,274</u>	<u>1,848,274</u>	<u>(473,039)</u>
<u>1,483,681</u>	<u>772,263</u>	<u>772,263</u>	<u>711,418</u>

CENTRAL DECATUR 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 comparison for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2005, disbursements in the other expenditures functions exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2005

	Special Revenue Funds						Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 37,199	68,104	71,807	34,768	211,878	101,006	312,884
Receivables:							
Property tax:							
Current year delinquent	2,370	0	833	0	3,203	1,039	4,242
Succeeding year	110,000	0	35,155	0	145,155	175,075	320,230
Interfund	18,724	0	0	104,695	123,419	0	123,419
TOTAL ASSETS	\$ 168,293	68,104	107,795	139,463	483,655	277,120	760,775
LIABILITIES AND FUND EQUITY							
Liabilities:							
Deferred revenue:							
Succeeding year property tax	\$ 110,000	0	35,155	0	145,155	175,075	320,230
	110,000	0	35,155	0	145,155	175,075	320,230
Fund equity:							
Fund balances:							
Reserved for:							
Debt Service	0	0	0	0	0	102,045	102,045
Unreserved:							
Undesignated	58,293	68,104	72,640	139,463	338,500	0	338,500
Total fund balances	58,293	68,104	72,640	139,463	338,500	102,045	440,545
TOTAL LIABILITIES AND FUND EQUITY	\$ 168,293	68,104	107,795	139,463	483,655	277,120	760,775

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds		
REVENUES:							
Local sources:							
Local tax	\$ 100,111	0	35,203	0	135,314	43,887	179,201
Other	2,773	211,001	0	1,910	215,684	330	216,014
State sources	112	0	39	0	151	49	200
Federal sources	0	0	16,891	0	16,891	0	16,891
TOTAL REVENUES	102,996	211,001	52,133	1,910	368,040	44,266	412,306
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction		0	0	706	706	0	706
Other instruction		0	219,433	0	219,433	0	219,433
Support services:							
Administration services	42,729	0	0	0	42,729	0	42,729
Operation and maintenance of plant services	69,767	0	0	0	69,767	0	69,767
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	130,000	130,000
Interest and fiscal charges	0	0	0	0	0	154,238	154,238
Facilities acquisitions	0	0	62,037	0	62,037	0	62,037
TOTAL EXPENDITURES	112,496	219,433	62,037	706	394,672	284,238	678,910
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(9,500)	(8,432)	(9,904)	1,204	(26,632)	(239,972)	(266,604)
OTHER FINANCING SOURCES:							
Operating transfers in	0	0	0	0	0	216,715	216,715
TOTAL OTHER FINANCING SOURCES	0	0	0	0	0	216,715	216,715
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(9,500)	(8,432)	(9,904)	1,204	(26,632)	(23,257)	(49,889)
FUND BALANCE BEGINNING OF YEAR	67,793	76,536	82,544	138,259	365,132	125,302	490,434
FUND BALANCE END OF YEAR	\$ 58,293	68,104	72,640	139,463	338,500	102,045	440,545

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics:				
All Athletics	\$ 0	3,415	2,899	516
District Football Funds	0	950	950	0
Season Passes	30	1,737	1,724	43
Baseball	0	4,618	4,386	232
Basketball	6,016	13,742	13,586	6,172
Football	4,955	17,816	22,171	600
Golf	0	1,548	1,548	0
Softball	201	2,417	2,618	0
Track	347	2,072	2,364	55
Volleyball	1,565	3,102	3,155	1,512
Wrestling	14	4,025	4,039	0
	<u>13,128</u>	<u>55,442</u>	<u>59,440</u>	<u>9,130</u>
Athletic Support:				
Cheerleaders	0	30	30	0
Drill Team	12	0	0	12
	<u>12</u>	<u>30</u>	<u>30</u>	<u>12</u>
Clubs:				
Cardinal Athletics	1,321	932	128	2,125
International Club	796	1,449	1,226	1,019
TSA Club	2,504	6,175	7,956	723
Drama/Play Club	2,029	681	235	2,475
Go Ape	2,204	4,920	3,762	3,362
National Honor Society	1,456	0	(503)	1,959
SADD	589	614	222	981
Academic Bowl	0	100	100	0
Little Red Birds Preschool	797	1,299	1,822	274
Weight Club	255	5,613	5,868	0
Music Boosters	1,028	1,965	1,496	1,497
Central Decatur PTO	1,412	1,281	1,159	1,534
	<u>14,391</u>	<u>25,029</u>	<u>23,471</u>	<u>15,949</u>
Graduation Classes:				
Senior Class	373	5,726	5,401	698
Junior Class	2,284	7,953	7,434	2,803
Sophomore Class	985	290	529	746
Freshman Class	362	210	388	184
	<u>4,004</u>	<u>14,179</u>	<u>13,752</u>	<u>4,431</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Vocational Groups:				
FFA	6,910	37,100	38,733	5,277
FCCLA	258	2,538	2,759	37
	<u>7,168</u>	<u>39,638</u>	<u>41,492</u>	<u>5,314</u>
Yearbook:				
Annual	6,006	2,750	4,750	4,006
	<u>6,006</u>	<u>2,750</u>	<u>4,750</u>	<u>4,006</u>
Student Councils:				
HS Student Council	201	994	1,195	0
Middle Student Council	840	256	299	797
	<u>1,041</u>	<u>1,250</u>	<u>1,494</u>	<u>797</u>
JR/SR Awards:				
Awards	1,751	0	562	1,189
Middle School Fund Raiser	371	7,334	5,353	2,352
	<u>2,122</u>	<u>7,334</u>	<u>5,915</u>	<u>3,541</u>
Elementary:				
Elementary Ski Trip	526	625	1,151	0
Decatur Playground Fund	4,850	1,583	6,433	0
	<u>5,376</u>	<u>2,208</u>	<u>7,584</u>	<u>0</u>
Band and Chorus:				
2003 Music Trip	12,819	11,385	7,248	16,956
Elem Music Fund Raiser	796	840	924	712
	<u>13,615</u>	<u>12,225</u>	<u>8,172</u>	<u>17,668</u>
Other Accounts:				
Miscellaneous	6,749	35,514	37,698	4,565
Interest	5	972	920	57
Central Decatur Garage	33	0	0	33
Camps	2,886	14,430	14,715	2,601
	<u>9,673</u>	<u>50,916</u>	<u>53,333</u>	<u>7,256</u>
Total	<u>\$ 76,536</u>	<u>211,001</u>	<u>219,433</u>	<u>68,104</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
McAlwee Scholarship	\$ 116,814	1,276	0	118,090
Johnston Memorial	5,614	200	200	5,614
Logsdon Memorial	6,003	200	200	6,003
Miles Scholarships	3,000	134	100	3,034
Lynch Scholarships	900	0	100	800
Bennett Memorial	1,799	100	100	1,799
All-Weather Track	4,123	0	0	4,123
Softball	6	0	6	0
Total	<u>\$ 138,259</u>	<u>1,910</u>	<u>706</u>	<u>139,463</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 2,215,502	2,128,583	2,135,414	1,848,645
Tuition	211,635	250,447	208,406	198,515
Other	292,025	366,257	443,398	380,969
Intermediate sources	3,500	9,534	5,433	1,000
State sources	3,824,180	3,711,395	3,619,512	4,158,372
Federal sources	990,892	1,022,247	1,134,953	1,842,661
Total	\$ 7,537,734	7,488,463	7,547,116	8,430,162
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,011,434	1,861,672	1,798,033	1,948,391
Special instruction	1,183,551	1,701,382	1,659,528	1,381,372
Other instruction	1,010,720	587,880	600,990	499,752
Support services:				
Student services	185,335	156,971	148,194	131,062
Instructional staff services	148,074	112,165	231,331	156,211
Administration services	673,989	749,866	745,947	666,735
Operation and maintenance of plant services	500,877	442,197	406,763	364,502
Transportation services	390,472	260,144	421,203	337,008
Non-instructional programs	355,901	443,482	627,760	789,603
Other expenditures:				
Facilities acquisitions	443,849	782,391	3,016,192	1,559,369
Long-term debt:				
Principal	130,000	125,000	225,000	290,000
Interest	154,238	159,450	169,133	155,415
AEA flow-through	226,161	229,347	234,564	221,854
Total	\$ 7,414,601	7,611,947	10,284,638	8,501,274

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DIRECT:			
DEPARTMENT OF EDUCATION:			
TWENTY-FIRST CENTURY COMMUNITY			
LEARNING CENTERS	84.287	FY 05	\$ <u>333,061</u>
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	<u>19,473</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	39,628
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	<u>127,126</u>
			<u>166,754</u>
RURAL UTILITIES SERVICE:			
CORNING COMMUNITY SCHOOL DISTRICT:			
DISTANCE LEARNING AND TELEMEDICINE			
LOANS AND GRANTS	10.855	FY 05	<u>16,891</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA-			
TIONAL AGENCIES	84.010	1093-G	<u>194,435</u>
TITLE I SCHOOL IMPROVEMENT			
FOLLOW-UP BUDGET	84.010A	FY 04	2,532
TITLE I SCHOOL IMPROVEMENT			
FOLLOW-UP BUDGET	84.010A	FY 05	<u>17,800</u>
			<u>20,332</u>
INNOVATIVE EDUCATION PROGRAM			
STRATEGIES(TITLE V PROGRAM)	84.151	FY 05	<u>4,284</u>
SAFE AND DRUG-FREE SCHOOLS AND			
COMMUNITIES - STATE GRANTS	84.186	FY 05	<u>3,995</u>
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 05	<u>266,706</u>
RURAL EDUCATION ACHIEVEMENT			
PROGRAM(REAP)	84.358	FY 04	<u>5,887</u>
TITLE IIA - FEDERAL TEACHER QUALITY			
PROGRAM	84.367	FY 04	4,286
TITLE IIA - FEDERAL TEACHER QUALITY			
PROGRAM	84.367	FY 05	<u>51,645</u>
			<u>55,931</u>

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT (CONTINUED):			
DEPARTMENT OF EDUCATION (CONTINUED):			
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 04	4,312
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 05	4,092
			<u>8,404</u>
BEDFORD COMMUNITY SCHOOL DISTRICT:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	<u>14,213</u>
GREEN VALLEY AREA EDUCATION AGENCY 14:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	<u>41,392</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	<u>2,979</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 04	<u>5,527</u>
TOTAL			<u>\$ 1,160,264</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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 the
Central Decatur Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Central Decatur 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 November 18, 2005. 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 Central Decatur Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted 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 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 item II-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Decatur 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 an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we 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 Central Decatur Community School District and other parties to whom Central Decatur 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 Central Decatur 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.

Nolte Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

November 18, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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 the
Central Decatur Community School District:

Compliance

We have audited the compliance of Central Decatur 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. Central Decatur 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 Central Decatur Community School District's management. Our responsibility is to express an opinion on Central Decatur 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 Central Decatur 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 Central Decatur Community School District's compliance with those requirements.

In our opinion, Central Decatur 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 Central Decatur 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 Central Decatur Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Central Decatur 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 condition is described as item III-A-05 in 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, we believe item III-A-05 is a material weakness.

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



NOLTE, CORNMAN & JOHNSON, P.C.

November 18, 2005

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance 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 a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.287 – 21st Century Community Learning Center
 - CFDA Number 84.215 – Fund for the Improvement of Education (Iowa Demonstration Grant)
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Central Decatur Community School District did not qualify as a low-risk auditee.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-05 Free and Reduced Lunch Applications - We noted during our audit that two of the free and reduced lunch applications in our testing were marked as free, but actually should have been marked as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - We will review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The Department of Education will be contacted and the correction will be made.

Conclusion - Response accepted.

II-C-05 Early Retirement Policy - We noted during our audit that an employee was granted early retirement under the District's early retirement policy although the employee did not meet the criteria set forth in the District's early retirement policy.

Recommendation - The District should review its procedures in granting early retirement benefits under its early retirement policy to ensure that the employees meet the criteria set forth in its board policy before being granted early retirement benefits. The District may consider modifying the current policy.

Response - The policy was modified in October of 2005 to prevent discrimination.

Conclusion - Response accepted.

II-D-05 Drug Free Quarterly Reports - We noted during our audit that the Drug Free quarterly reports were not filed, therefore subsequent funding was not received. The District had made expenditures qualifying for the safe and drug free schools and communities grant, however, funding was lost due to not filing the required reports.

Recommendation - The district should file the quarterly reports by the due dates. The district should monitor timelines for grants to ensure that reports are filed timely and therefore grant revenues are received for the programs.

Response - We will monitor timeliness for grants to ensure that reports are filed timely and therefore grant revenues are received for the programs.

Conclusion - Response accepted.

CENTRAL DECATUR 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 reported.

REPORTABLE CONDITIONS:

CFDA Number 84.287: 21st Century Community Learning Centers
Federal Award Year: 2005
U.S. Department of Education
Direct Grant

CFDA Number 84.215: Fund for the Improvement of Education (Iowa Demonstration Grant)
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005, exceeded the certified budget amount in the other expenditures functional area.

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

Response - Year end expenditures will be closely monitored to prevent exceeding the budget.

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

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 – Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Mike Frost, Board President Owner of Leon Napa Auto Parts	Auto Parts	\$2,959

In accordance with the Chapter 279.7A of the code of Iowa, the above transactions with the board member appear to represent a conflict of interest.

Recommendation – The District should contact its legal counsel in regards to this matter.

Response - Legal counsel will be contacted in regards to this matter.

Conclusion - Response accepted.

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 insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-H-05 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were counted as resident students on Line 1 was overstated by 69.20 students.

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

Response - The Iowa Department of Education and Department of Management have been contacted to resolve this matter.

Conclusion - Response accepted.

IV-I-05 Deposits and Investments - We noted 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.

IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.