

ATLANTIC COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
District-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	24
Statement of Changes in Fiduciary Net Assets	K	25
Notes to Financial Statements		26-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		36-37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	41
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	43
Schedule of Expenditures of Federal Awards	6	44
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		45-46
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		47-48
Schedule of Findings and Questioned Costs		49-53

Atlantic Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 election)		
Dennis Davis	President	2007
Glen Smith	Vice President	2006
Jody Lorence	Board Member	2006
Steven Jacobs	Board Member	2005
Phil Hascall	Board Member	2005
Board of Education (After September 2005 election)		
Glen Smith	President	2006
Phil Hascall	Vice President	2008
Jody Lorence	Board Member	2006
Jon Martens	Board Member	2008
Dennis Davis	Board Member	2007
School Officials		
Dr. Wendy Prigge	Superintendent	2006
Barbara Nelson	District Secretary and Business Manager	2006
Amy Groom	District Treasurer	2006
Dave Chase	Attorney	2006
Brian Gruhn	Attorney	2006

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
Atlantic 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 Atlantic Community School District, Atlantic, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 that our audit provides a reasonable basis for our opinions.

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

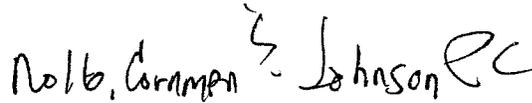
In accordance with Government Auditing Standards, we have also issued our reports dated October 24, 2006 on our consideration of the Atlantic Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those 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 36 through 38 are not required

Members American Institute & Iowa Society of Certified Public Accountants

parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Atlantic 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 three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the 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.

October 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$10,585,632 in fiscal year 2005 to \$11,568,880 in fiscal year 2006, while General Fund expenditures increased from \$10,708,061 in fiscal 2005 to \$11,625,776 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$2,999,035 in fiscal 2005 to \$2,942,139 in fiscal 2006, a 1.9% decrease from prior year.
- The increase in General fund revenues was attributed to an increase in state funding. The increase in expenditures was attributed to more expenses in the instruction and support service areas. This was due to an increase in negotiated salaries and benefits, the addition of staff and increased utility costs.
- Overall, the District net assets in the governmental activities and the business type activities increased \$390,020 and \$44,932, respectively.

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 Atlantic 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 Atlantic 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 Atlantic Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

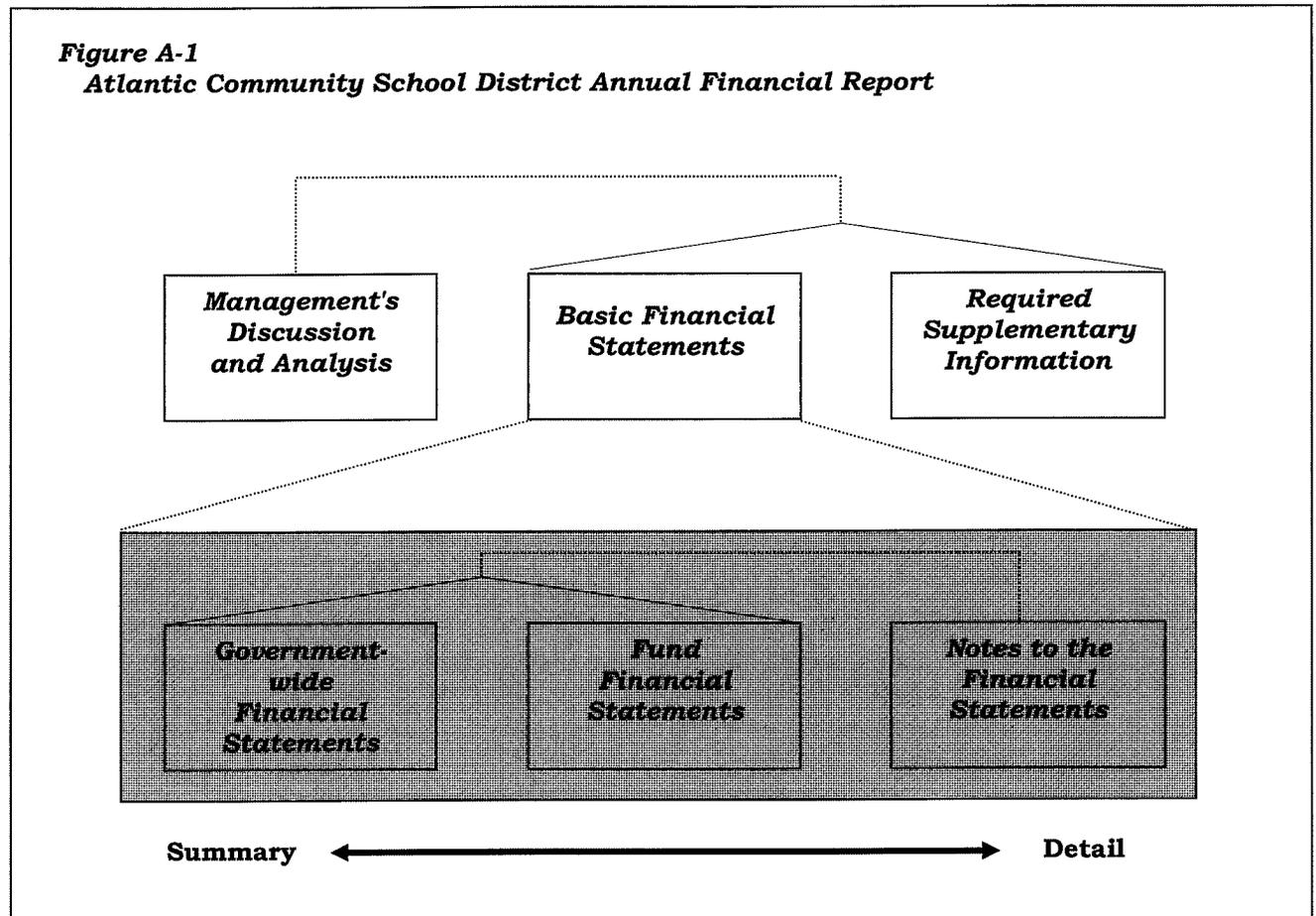


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund
- Agency Fund – These are funds for which the District administers and accounts for parent prom, SWIA honor band, Ag Ed Advisory and Medicaid.

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 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, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental		Business type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 9,809,896	9,272,887	134,412	92,213	9,944,308	9,365,100	6.18%
Capital assets	11,747,805	11,661,036	63,350	60,412	11,811,155	11,721,448	0.77%
Total assets	21,557,701	20,933,923	197,762	152,625	21,755,463	21,086,548	3.17%
Long-term obligations	4,126,530	4,650,000	0	0	4,126,530	4,650,000	-11.26%
Other liabilities	4,275,529	4,150,927	5,533	5,328	4,281,062	4,156,255	3.00%
Total liabilities	8,402,059	8,800,927	5,533	5,328	8,407,592	8,806,255	-4.53%
Net assets:							
Invested in capital assets, net of related debt	7,696,955	7,129,254	63,350	60,412	7,760,305	7,189,666	7.94%
Restricted	1,918,384	1,464,701	0	0	1,918,384	1,464,701	30.97%
Unrestricted	3,540,303	3,539,041	128,879	86,885	3,669,182	3,625,926	1.19%
Total net assets	\$ 13,155,642	12,132,996	192,229	147,297	13,347,871	12,280,293	8.69%

The District's combined net assets increased by 8.69%, or \$1,067,578, 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 increased \$453,683, or 30.97% over the prior year. The increase was primarily a result of the District increase in Capital Projects fund balance due to the collection of local option sales and services tax from Cass and Audubon Counties.

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 \$43,256, or 1.19%. This increase in unrestricted net assets was primarily a result of the increase in the Nutrition fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,575,857	1,157,277	370,308	337,092	1,946,165	1,494,369	30.23%
Operating grants and contributions and restricted interest	1,270,555	1,327,721	296,379	263,513	1,566,934	1,591,234	-1.53%
Capital grants and contributions and restricted interest	39,313	61,611	0	0	39,313	61,611	-36.19%
General revenues:							
Property tax	4,725,629	4,764,632	0	0	4,725,629	4,764,632	-0.82%
Local option sales and services tax	796,920	353,889	0	0	796,920	353,889	125.19%
Unrestricted state grants	5,509,369	5,216,119	0	0	5,509,369	5,216,119	5.62%
Other	188,172	76,686	2,621	630	190,793	77,316	146.77%
Total revenues	14,105,815	12,957,935	669,308	601,235	14,775,123	13,559,170	8.97%
Program expenses:							
Governmental activities:							
Instruction	8,233,440	7,600,065	0	0	8,233,440	7,600,065	8.33%
Support services	3,677,284	3,274,425	0	0	3,677,284	3,274,425	12.30%
Non-instructional programs	8,681	20,778	642,662	634,718	651,343	655,496	-0.63%
Other expenditures	1,163,764	1,102,472	0	0	1,163,764	1,102,472	5.56%
Total expenses	13,083,169	11,997,740	642,662	634,718	13,725,831	12,632,458	8.66%
Net income(loss) before capital contributions	1,022,646	960,195	26,646	(33,483)	1,049,292	926,712	13.23%
Capital contributions	0	0	18,286	4,798	18,286	4,798	281.12%
Changes in net assets	1,022,646	960,195	44,932	(28,685)	1,067,578	931,510	14.61%
Beginning Net Assets	12,132,996	11,172,801	147,297	175,982	12,280,293	11,348,783	8.21%
Ending Net Assets	\$ 13,155,642	12,132,996	192,229	147,297	13,347,871	12,280,293	8.69%

The FY 06 total revenues net increase of 8.97% is reflective of the increase of local option sales and services tax revenues, unrestricted state grants interest.

The largest program expenditure area change was in the instruction function area, which was primarily due to increases in negotiated salaries and benefits and additional staff.

Governmental Activities

Revenues for governmental activities were \$14,105,815 and expenses were \$13,083,169.

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	\$ 8,233,440	5,808,282
Support services	3,677,284	3,666,219
Non-instructional programs	8,681	8,681
Other expenses	1,163,764	714,262
Totals	<u>\$ 13,083,169</u>	<u>10,197,444</u>

- The cost financed by users of the District's programs was \$1,575,857.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,270,555.
- The net cost of governmental activities was financed with \$4,725,629 in local property tax, \$5,509,369 in unrestricted state grants, \$175,587 in interest income and \$12,585 in gain on sale of equipment.

Business type Activities

Revenues of the District's business type activities were \$669,308 and expenses were \$642,662. 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 Atlantic 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 balances of \$4,904,724, above last year's ending fund balances of \$4,514,704. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to increased local option sales and services tax revenues in the Capital Projects Fund and income surtax revenues in the General Fund.

Governmental Fund Highlights

- The District's decrease in General Fund financial position from \$2,999,035 in fiscal 2005 to \$2,942,139 in fiscal 2006 is a product of many factors. Revenues increased due to the increase in state grants and income surtax. The District's increase in General Fund expenditures was primarily due the increase in negotiated salaries and benefits, additional staff and increased energy costs.

- The Physical Plant and Equipment Levy Fund balance decreased from \$730,577 in fiscal 2005 to \$443,180 in fiscal 2006 due to more capital improvements expenditures. The District follows a five-year capital improvement plan that is reviewed annually.
- The Capital Projects Fund balance increased from \$358,582 in fiscal 2005 to \$1,181,651 in fiscal 2006 due to the increase in local option sales and services tax received to be used for capital improvements.
- The Management Fund balance increased from \$87,325 in fiscal 2005 to \$88,290 in fiscal 2006. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits. The increase in Management Fund expenditures was primarily due to increased insurance rates.
- The Student Activity Fund balance decreased from \$157,900 in fiscal 2005 to \$133,984 in fiscal 2006 due to the variance of student activities from year to year.
- The Expendable Trust Fund balance increased from \$29,583 in fiscal 2005 to \$31,593 in fiscal 2006 due to increased interest income to fund scholarships.
- The Debt Service Fund balance decreased from \$151,702 in fiscal 2005 to \$83,887 in fiscal 2006 due to normal operations of paying debt principal and interest.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$147,297 at June 30, 2005 to \$192,229 at June 30, 2006, representing an increase of 30.5%. The District had an increase in expenditures and a greater increase in revenues resulting in an increase of net assets.

BUDGETARY HIGHLIGHTS

The District's revenues were \$1,071,918 more than budgeted revenues, a variance of 7.83%. The most significant variance resulted from the District receiving more in local sources than originally anticipated, more specifically local option sales and service tax.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to the changes in account codes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$11.8 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 increase of nearly one percent from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$528,403.

The original cost of the District's capital assets was \$18.9 million. Governmental funds account for \$18.7 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$9,587,785 at June 30, 2005, compared to \$9,717,941 reported at June 30, 2006. This significant increase resulted from construction completed during the fiscal year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 928,419	928,419	0	0	928,419	928,419	0.00%
Construction in progress	0	13,234	0	0	0	13,234	-100.00%
Buildings	9,717,941	9,587,785	0	0	9,717,941	9,587,785	1.36%
Land improvements	732,675	793,585	0	0	732,675	793,585	-7.68%
Machinery and equipment	368,770	338,013	63,350	60,412	432,120	398,425	8.46%
Total	\$ 11,747,805	11,661,036	63,350	60,412	11,811,155	11,721,448	0.77%

Long-Term Debt

At June 30, 2006, the District had \$4,126,530 in early retirement benefits and general obligation long-term debt outstanding. This represents a decrease of 11.26% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$4,105,000 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 4,105,000	4,650,000	-11.72%
Early retirement	21,530	0	100.00%
Totals	\$ 4,126,530	4,650,000	-11.26%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District will negotiate a new agreement during fiscal 2006 with the Atlantic Education Association (AEA) and the Atlantic School District Employees' Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- During 2006, a Super Walmart opened within the District. In the future, an increase in local option sales and service tax is expected.
- The District has experienced declining enrollment for a few years and expects the trend to continue.

- Barbara Nelson, Business Manager will be retiring during the 2006-07 fiscal year. Lori Robertson will be taking the position.
- There has been discussion and planning of a new ethanol plant in the area.

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 Barbara Nelson, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

BASIC FINANCIAL STATEMENTS

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and pooled investments:	\$ 4,563,695	122,501	4,686,196
Receivables:			
Property tax:			
Delinquent	68,260	0	68,260
Succeeding year	4,082,222	0	4,082,222
Income surtax	659,380	0	659,380
Accounts	36,240	0	36,240
Due from other governments	400,099	0	400,099
Inventories	0	11,911	11,911
Capital assets, net of accumulated depreciation(Note 4)	11,747,805	63,350	11,811,155
TOTAL ASSETS	21,557,701	197,762	21,755,463
LIABILITIES			
Accounts payable	132,774	13	132,787
Salaries and benefits payable	30,796	0	30,796
Accrued interest payable	29,737	0	29,737
Deferred revenue:			
Succeeding year property tax	4,082,222	0	4,082,222
Unearned revenues	0	5,520	5,520
Long-term liabilities(Note 5):			
Portion due within one year:			
Bonds payable	565,000	0	565,000
Early retirement	21,530	0	21,530
Portion due after one year:			
Bonds payable	3,540,000	0	3,540,000
TOTAL LIABILITIES	8,402,059	5,533	8,407,592
NET ASSETS			
Investment in capital assets, net of related debt	7,696,955	63,350	7,760,305
Restricted for:			
Talented and gifted	52,252	0	52,252
Salary improvement program	130	0	130
At risk	8,834	0	8,834
Capital projects	1,181,651	0	1,181,651
Physical plant and equipment levy	443,180	0	443,180
Management levy	66,760	0	66,760
Other special revenue purposes	165,577	0	165,577
Unrestricted	3,540,303	128,879	3,669,182
TOTAL NET ASSETS	\$ 13,155,642	192,229	13,347,871

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

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	\$ 5,480,193	1,218,890	782,033	0
Special instruction	1,921,407	345,902	78,333	0
Other instruction	831,840	0	0	0
	<u>8,233,440</u>	<u>1,564,792</u>	<u>860,366</u>	<u>0</u>
Support services:				
Student services	365,578	0	0	0
Instructional staff services	573,113	0	0	0
Administration services	1,085,418	0	0	0
Operation and maintenance of plant services	1,186,395	0	0	0
Transportation services	466,780	11,065	0	0
	<u>3,677,284</u>	<u>11,065</u>	<u>0</u>	<u>0</u>
Non-instructional programs	<u>8,681</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisition and construction	147,217	0	0	39,313
Long-term debt interest	197,157	0	0	0
AEA flowthrough	410,189	0	410,189	0
Depreciation(unallocated)*	409,201	0	0	0
	<u>1,163,764</u>	<u>0</u>	<u>410,189</u>	<u>39,313</u>
Total governmental activities	<u>13,083,169</u>	<u>1,575,857</u>	<u>1,270,555</u>	<u>39,313</u>
Business type activities:				
Non-instructional programs:				
Food service operations	<u>642,662</u>	<u>370,308</u>	<u>296,379</u>	<u>0</u>
Total	<u>\$ 13,725,831</u>	<u>1,946,165</u>	<u>1,566,934</u>	<u>39,313</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of equipment

Total general revenues

Net income before capital contributions

Capital contributions

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
(3,479,270)	0	(3,479,270)
(1,497,172)	0	(1,497,172)
(831,840)	0	(831,840)
(5,808,282)	0	(5,808,282)
(365,578)	0	(365,578)
(573,113)	0	(573,113)
(1,085,418)	0	(1,085,418)
(1,186,395)	0	(1,186,395)
(455,715)	0	(455,715)
(3,666,219)	0	(3,666,219)
(8,681)	0	(8,681)
(107,904)	0	(107,904)
(197,157)	0	(197,157)
0	0	0
(409,201)	0	(409,201)
(714,262)	0	(714,262)
(10,197,444)	0	(10,197,444)
0	24,025	24,025
(10,197,444)	24,025	(10,173,419)
\$ 3,711,964	0	3,711,964
668,850	0	668,850
344,815	0	344,815
796,920	0	796,920
5,509,369	0	5,509,369
175,587	2,621	178,208
12,585	0	12,585
11,220,090	2,621	11,222,711
1,022,646	26,646	1,049,292
0	18,286	18,286
1,022,646	44,932	1,067,578
12,132,996	147,297	12,280,293
\$ 13,155,642	192,229	13,347,871

ATLANTIC COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:	\$ 2,644,525	1,107,821	811,349	4,563,695
Receivables:				
Property tax:				
Delinquent	52,079	0	16,181	68,260
Succeeding year	3,044,900	0	1,037,322	4,082,222
Income surtax	470,986	0	188,394	659,380
Accounts	29,393	0	6,847	36,240
Due from other governments	326,269	73,830	0	400,099
TOTAL ASSETS	\$ 6,568,152	1,181,651	2,060,093	9,809,896
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 79,331	0	53,443	132,774
Salaries and benefits payable	30,796	0	0	30,796
Deferred revenue:				
Succeeding year property tax	3,044,900	0	1,037,322	4,082,222
Income surtax	470,986	0	188,394	659,380
Total liabilities	3,626,013	0	1,279,159	4,905,172
Fund balances:				
Reserved for:				
Debt service	0	0	83,887	83,887
Talented and gifted	52,252	0	0	52,252
At-risk	8,834	0	0	8,834
Salary improvement program	130	0	0	130
Unreserved:				
Designated:				
Special purposes by the board	95,465	0	0	95,465
Cash flow	850,000	0	0	850,000
Undesignated:				
General	1,935,458	0	0	1,935,458
Capital projects	0	1,181,651	0	1,181,651
Management levy	0	0	88,290	88,290
Physical plant and equipment levy	0	0	443,180	443,180
Other special revenue purposes	0	0	165,577	165,577
Total fund balances	2,942,139	1,181,651	780,934	4,904,724
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,568,152	1,181,651	2,060,093	9,809,896

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2006

Total fund balances of governmental funds (page 17)	\$ 4,904,724
 Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	11,747,805
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	659,380
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.	(29,737)
Long-term liabilities, including bonds payable and early retirement , are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,126,530)</u>
Net assets of governmental activites (page 14)	<u>\$ 13,155,642</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,559,333	796,920	1,163,128	5,519,381
Tuition	905,598	0	0	905,598
Other	312,230	198,819	334,797	845,846
State sources	6,380,078	0	790	6,380,868
Federal sources	399,056	0	39,313	438,369
Total revenues	<u>11,556,295</u>	<u>995,739</u>	<u>1,538,028</u>	<u>14,090,062</u>
EXPENDITURES:				
Current:				
Instruction				
Regular instruction	5,382,414	0	28,252	5,410,666
Special instruction	1,921,407	0	0	1,921,407
Other instruction	539,427	0	292,413	831,840
	<u>7,843,248</u>	<u>0</u>	<u>320,665</u>	<u>8,163,913</u>
Support services:				
Student services	387,154	0	0	387,154
Instructional staff services	482,811	0	96,110	578,921
Administration services	1,073,806	0	26,284	1,100,090
Operation and maintenance of plant services	1,060,866	0	132,341	1,193,207
Transportation services	367,702	0	144,436	512,138
	<u>3,372,339</u>	<u>0</u>	<u>399,171</u>	<u>3,771,510</u>
Non-instructional programs	0	0	8,681	8,681
Other expenditures:				
Facilities acquisitions	0	360,457	251,973	612,430
Long-term debt:				
Principal	0	0	545,000	545,000
Interest and fiscal charges	0	0	200,904	200,904
AEA flowthrough	410,189	0	0	410,189
	<u>410,189</u>	<u>360,457</u>	<u>997,877</u>	<u>1,768,523</u>
Total expenditures	<u>11,625,776</u>	<u>360,457</u>	<u>1,726,394</u>	<u>13,712,627</u>
Excess(deficiency) of revenues over(under) expenditures	(69,481)	635,282	(188,366)	377,435
OTHER FINANCING SOURCES(USES):				
Gain on sale of equipment	12,585	0	0	12,585
Transfers in	0	187,787	0	187,787
Transfers out	0	0	(187,787)	(187,787)
Total other financing sources(uses)	<u>12,585</u>	<u>187,787</u>	<u>(187,787)</u>	<u>12,585</u>
Net change in fund balances	(56,896)	823,069	(376,153)	390,020
Fund balances beginning of year	<u>2,999,035</u>	<u>358,582</u>	<u>1,157,087</u>	<u>4,514,704</u>
Fund balances end of year	<u>\$ 2,942,139</u>	<u>1,181,651</u>	<u>780,934</u>	<u>4,904,724</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 19) \$ 390,020

*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. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 636,501	
Depreciation expense	<u>(549,732)</u>	86,769

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 3,168

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. 15,472

ISEBA assessment

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. 545,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,747

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, as follows:

Early retirement		<u>(21,530)</u>
------------------	--	-----------------

Changes in net assets of governmental activities (page 16) \$ 1,022,646

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	School Nutrition
ASSETS	
Cash and cash equivalents:	\$ 122,501
Inventories	11,911
Capital assets, net of accumulated depreciation(Note 4)	63,350
TOTAL ASSETS	197,762
LIABILITIES	
Accounts payable	13
Unearned revenues	5,520
TOTAL LIABILITIES	5,533
NET ASSETS	
Investment in capital assets, net of related debt	63,350
Unrestricted	128,879
TOTAL NET ASSETS	\$ 192,229

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 370,308
TOTAL OPERATING REVENUES	370,308
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	233,231
Benefits	35,460
Services	1,680
Supplies	356,943
Depreciation	15,348
TOTAL OPERATING EXPENSES	642,662
OPERATING LOSS	(272,354)
NON-OPERATING REVENUES:	
State sources	7,425
Federal sources	288,954
Interest income	2,621
TOTAL NON-OPERATING REVENUES	299,000
Net income before capital contributions	26,646
Capital contributions	18,286
Change in net assets	44,932
Net assets beginning of year	147,297
Net assets end of year	\$ 192,229

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 370,365
Cash received from miscellaneous sources	135
Cash paid to employees for services	(268,691)
Cash paid to suppliers for goods or services	(323,958)
Net cash used in operating activities	(222,149)
Cash flows from non-capital financing activities:	
State grants received	7,425
Federal grants received	261,580
Net cash provided by non-capital financing activities	269,005
Cash flows from investing activities:	
Interest on investments	2,621
Net cash provided by investing activities	2,621
Net increase in cash and cash equivalents	49,477
Cash and cash equivalents at beginning of year	73,024
Cash and cash equivalents at end of year	\$ 122,501
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (272,354)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	27,374
Depreciation	15,348
Decrease in inventories	7,278
Increase in accounts payable	13
Increase in unearned revenue	192
Net cash used in operating activities	\$ (222,149)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 122,501

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$27,374.

During the year ended June 30, 2006, the District received contributed capital of \$18,286 from the Special Revenue - Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2006

	Private Purpose Trust	Agency
	Scholarship	
ASSETS		
Cash and pooled investments	\$ 124,810	6,352
	124,810	6,352
LIABILITIES		
Due to other groups	0	6,352
NET ASSETS		
Reserved for scholarships	\$ 124,810	0

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	\$ 0
Deductions:	0
Change in net assets	0
Net assets beginning of year	124,810
Net assets end of year	\$ 124,810

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Atlantic 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. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Atlantic Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Atlantic 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 Cass 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 are 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 reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School 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.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

Capital Assets - Capital assets, which include property, machinery 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	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July, have been accrued as liabilities.

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support service functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments as of June 30, 2006.

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue: Physical Plant and Equipment Levy	<u>\$ 187,787</u>

The Physical Plant and Equipment Levy Fund paid Capital Projects \$187,787 to cover the remaining expenses on the completed multi-purpose building.

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 928,419	0	0	928,419
Construction in progress	13,234	0	13,234	0
Total capital assets not being depreciated	<u>941,653</u>	<u>0</u>	<u>13,234</u>	<u>928,419</u>
Capital assets being depreciated:				
Buildings	14,144,300	475,182	67,920	14,551,562
Land improvements	1,350,028	3,265	0	1,353,293
Machinery and equipment	1,871,057	171,288	171,083	1,871,262
Total capital assets being depreciated	<u>17,365,385</u>	<u>649,735</u>	<u>239,003</u>	<u>17,776,117</u>
Less accumulated depreciation for:				
Buildings	4,556,515	308,349	31,243	4,833,621
Land improvements	556,443	64,175	0	620,618
Machinery and equipment	1,533,044	140,531	171,083	1,502,492
Total accumulated depreciation	<u>6,646,002</u>	<u>513,055</u>	<u>202,326</u>	<u>6,956,731</u>
Total capital assets being depreciated, net	<u>10,719,383</u>	<u>136,680</u>	<u>36,677</u>	<u>10,819,386</u>
Governmental activities capital assets, net	<u>\$ 11,661,036</u>	<u>136,680</u>	<u>49,911</u>	<u>11,747,805</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 183,010	18,286	0	201,296
Less accumulated depreciation	122,598	15,348	0	137,946
Business type activities capital assets, net	\$ 60,412	2,938	0	63,350

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 47,997
Support services:		
Administration		800
Operation and maintenance of plant		17,250
Transportation		74,946
		<u>140,993</u>
Unallocated depreciation		<u>372,524</u>
Total governmental activities depreciation expense		<u>\$ 513,517</u>
Business type activities:		
Food services		\$ 15,348
Total business type activities depreciation expense		<u>\$ 15,348</u>

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 4,650,000	0	545,000	4,105,000	565,000
Early retirement	0	21,530	0	21,530	21,530
Total	<u>\$ 4,650,000</u>	<u>21,530</u>	<u>545,000</u>	<u>4,126,530</u>	<u>586,530</u>

Bonds Payable

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

Year Ending June 30,	Bond Issue of June 1, 2001			
	Interest Rates	Principal	Interest	Total
2007	4.125 % \$	565,000	178,422	743,422
2008	4.125	595,000	155,116	750,116
2009	4.250	615,000	130,572	745,572
2010	4.350	640,000	104,436	744,436
2011	4.450	660,000	76,596	736,596
2012	4.550	670,000	47,226	717,226
2013	4.650	360,000	16,740	376,740
Total		<u>\$ 4,105,000</u>	<u>709,108</u>	<u>4,814,108</u>

Early Retirement

The District has in place a retirement incentive plan, that provides either a lump sum or two equal payments in the amount that shall equal the lesser of \$10,000 or the difference between the employee's 2005-06 salary and the 2005-06 salary schedule excluding payments not included in the salary schedule. A employee is deemed eligible if they have completed at least fifteen years of full-time contracted service and will have attained at least fifty-seven years of age on or before August 15, 2006. Written resignation and an application for participation must be obtained by the Board of Education by February 28, 2006 for qualification into the program. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$446,147, \$413,958 and \$395,294 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and 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 July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions 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, 2006 were \$44,986.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect

against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2006, no liability has been recorded in the District's financial statements. As of June 30, 2006, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Atlantic 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.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$410,189 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual
Revenues:		
Local sources	\$ 7,270,825	372,929
State sources	6,380,868	7,425
Federal sources	438,369	288,954
Total revenues	<u>14,090,062</u>	<u>669,308</u>
Expenditures:		
Instruction	8,163,913	0
Support services	3,771,510	0
Non-instructional programs	8,681	642,662
Other expenditures	1,768,523	0
Total expenditures	<u>13,712,627</u>	<u>642,662</u>
Excess(deficiency) of revenues over(under) expenditures	377,435	26,646
Other financing sources, net	<u>12,585</u>	<u>18,286</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	390,020	44,932
Balance beginning of year	<u>4,514,704</u>	<u>147,297</u>
Balance end of year	<u>\$ 4,904,724</u>	<u>192,229</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
7,643,754	6,736,887	6,736,887	906,867
6,388,293	6,268,565	6,268,565	119,728
727,323	682,000	682,000	45,323
<u>14,759,370</u>	<u>13,687,452</u>	<u>13,687,452</u>	<u>1,071,918</u>
8,163,913	8,682,226	8,682,226	518,313
3,771,510	3,693,650	3,693,650	(77,860)
651,343	987,500	987,500	336,157
1,768,523	1,941,778	1,941,778	173,255
<u>14,355,289</u>	<u>15,305,154</u>	<u>15,305,154</u>	<u>949,865</u>
404,081	(1,617,702)	(1,617,702)	2,021,783
30,871	0	0	30,871
434,952	(1,617,702)	(1,617,702)	2,052,654
4,662,001	3,833,778	3,833,778	828,223
<u>5,096,953</u>	<u>2,216,076</u>	<u>2,216,076</u>	<u>2,880,877</u>

ATLANTIC COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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, 2006, expenditures in the support services function exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds						Total
	Manage- ment	Physical Plant and Equipment Levy	Student Activity	Expend- able Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 85,685	486,616	135,067	31,593	738,961	72,388	811,349
Receivables:							
Property tax:							
Current year delinquent	2,605	2,077	0	0	4,682	11,499	16,181
Succeeding year	250,000	143,600	0	0	393,600	643,722	1,037,322
Income surtax	0	188,394	0	0	188,394	0	188,394
Accounts	0	0	6,847	0	6,847	0	6,847
TOTAL ASSETS	\$ 338,290	820,687	141,914	31,593	1,332,484	727,609	2,060,093
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 0	45,513	7,930	0	53,443	0	53,443
Deferred revenue:							
Succeeding year property tax	250,000	143,600	0	0	393,600	643,722	1,037,322
Income surtax	0	188,394	0	0	188,394	0	188,394
	250,000	377,507	7,930	0	635,437	643,722	1,279,159
Fund equity:							
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	83,887	83,887
Unreserved:							
Undesignated	88,290	443,180	133,984	31,593	697,047	0	697,047
Total fund balances	88,290	443,180	133,984	31,593	697,047	83,887	780,934
TOTAL LIABILITIES AND FUND EQUITY	\$ 338,290	820,687	141,914	31,593	1,332,484	727,609	2,060,093

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total Special Revenue Funds	Debt Service	Total Other Nonmajor Governmental Funds
	Physical Plant and Manage- ment	Equipment Levy	Student Activity	Expend- able Trust			
REVENUES:							
Local sources:							
Local tax	\$ 149,463	344,815	0	0	494,278	668,850	1,163,128
Other	8,283	44,080	268,497	5,260	326,120	8,677	334,797
State sources	126	102	0	0	228	562	790
Federal sources	0	39,313	0	0	39,313	0	39,313
TOTAL REVENUES	157,872	428,310	268,497	5,260	859,939	678,089	1,538,028
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	22,351	2,651	0	3,250	28,252	0	28,252
Other instruction	0	0	292,413	0	292,413	0	292,413
Support services:							
Instructional staff support	0	96,110	0	0	96,110	0	96,110
Administration services	26,284	0	0	0	26,284	0	26,284
Operation and maintenance of plant services	75,459	56,882	0	0	132,341	0	132,341
Student transportation	24,132	120,304	0	0	144,436	0	144,436
Non-instructional programs:							
Food service operations	8,681	0	0	0	8,681	0	8,681
Other:							
Facilities acquisition and construction	0	251,973	0	0	251,973	0	251,973
Long-term debt:							
Principal	0	0	0	0	0	545,000	545,000
Interest and fiscal charges	0	0	0	0	0	200,904	200,904
TOTAL EXPENDITURES	156,907	527,920	292,413	3,250	980,490	745,904	1,726,394
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	965	(99,610)	(23,916)	2,010	(120,551)	(67,815)	(188,366)
OTHER FINANCING USES:							
Operating transfers out	0	(187,787)	0	0	(187,787)	0	(187,787)
Net change in fund balances	965	(287,397)	(23,916)	2,010	(308,338)	(67,815)	(376,153)
FUND BALANCES BEGINNING OF YEAR	87,325	730,577	157,900	29,583	1,005,385	151,702	1,157,087
FUND BALANCES END OF YEAR	\$ 88,290	443,180	133,984	31,593	697,047	83,887	780,934

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,300	626	963	963
Speech	0	100	100	0
Debate	0	3,689	3,689	0
Vocal Music	12,127	9,767	12,584	9,310
Show Choir Costume	2,179	3,164	2,122	3,221
High School Band	3,663	12,963	15,740	886
Middle School Band	0	2,338	2,338	0
Color Guard	28	0	28	0
Musical	495	603	809	289
Cross Country	(35)	1,689	1,654	0
Boys Basketball	28,836	24,919	29,946	23,809
Football	38,213	28,618	39,360	27,471
Soccer	0	4,882	4,882	0
Baseball	(729)	7,158	6,916	(487)
Boys Track	1,402	5,352	6,160	594
Boys Tennis	0	1,441	1,479	(38)
Boys Golf	740	2,731	3,471	0
Wrestling	6,855	10,676	7,733	9,798
Girls Basketball	25,857	6,246	9,066	23,037
Volleyball	9,073	6,264	7,383	7,954
Soccer	0	4,078	4,078	0
Softball	210	4,661	5,668	(797)
Girls Track	348	5,988	5,666	670
Girls Tennis	598	1,580	2,230	(52)
Girls Golf	0	1,545	1,545	0
National Honor Society	280	1,228	1,081	427
Student Council	1,935	11,546	12,887	594
FFA	5,981	40,599	47,400	(820)
Prime Time	1,912	2,372	565	3,719
MS Activities	1,140	434	852	722
Javelin	7,907	12,439	9,076	11,270
French Club	267	0	0	267
Spanish Club	111	0	0	111
Cheerleaders	169	1,635	1,804	0
Pride	(110)	12,628	7,684	4,834
Globe Account	62	0	0	62
Schuler Student Council	203	0	0	203
Jr Class Prom	3,821	6,082	6,646	3,257
Coke	0	381	381	0
General Activity	0	17,582	17,666	(84)
Student Connection	1,326	682	1,051	957
Operation Special Kids	1,122	0	745	377
Hosp BD Activity	581	2,823	2,264	1,140
Schuler Resource Activity	33	287	0	320
Insuff. Funds	0	1,803	1,803	0
Interest	0	4,898	4,898	0
Total	\$ 157,900	268,497	292,413	133,984

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 3,750	8,506	5,904	6,352
LIABILITIES				
Due to other groups	\$ 3,750	8,506	5,904	6,352

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 5,519,381	4,636,402	4,252,623	4,160,097
Tuition	905,598	804,293	742,794	809,650
Other	858,431	499,693	457,789	502,691
Intermediate sources	0	0	7,121	3,730
State sources	6,380,868	6,015,939	5,956,968	6,062,687
Federal sources	438,369	516,049	378,137	588,072
Total	<u>\$ 14,102,647</u>	<u>12,472,376</u>	<u>11,795,432</u>	<u>12,126,927</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,410,666	5,000,500	4,936,636	4,925,143
Special instruction	1,921,407	1,502,442	1,615,769	1,618,390
Other instruction	831,840	1,123,659	703,959	763,310
Support services:				
Student services	387,154	306,622	340,420	320,077
Instructional staff services	578,921	455,264	326,908	270,765
Administration services	1,100,090	1,011,689	972,797	1,056,236
Operation and maintenance of plant services	1,193,207	1,056,285	976,804	979,580
Transportation services	512,138	431,331	361,088	387,036
Central support services	0	4,745	2,663	2,830
Other support services	0	0	0	974
Non-instructional programs	8,681	20,778	17,284	13,142
Other expenditures:				
Facilities acquisitions	612,430	194,372	133,377	505,098
Long-term debt:				
Principal	545,000	525,000	510,000	420,000
Interest and other charges	200,904	222,560	243,597	330,746
AEA flow-through	410,189	406,718	415,603	444,875
Total	<u>\$ 13,712,627</u>	<u>12,261,965</u>	<u>11,556,905</u>	<u>12,038,202</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 06	\$ 27,374
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	39,646
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	221,934
			<u>261,580</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	0387-G	185,692
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 06	14,999
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 06	6,824
FUND FOR THE IMPROVEMENT OF EDUCATION			
	84.215	FY 06	39,313
STATE GRANTS FOR INNOVATIVE PROGRAMS			
	84.298	FY 06	5,195
IMPROVING TEACHER QUALITY STATE GRANTS			
	84.367	FY 06	67,588
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES(TITLE VI A)			
	84.369	FY 06	8,976
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 06	78,333
TOTAL			<u>\$ 695,874</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Atlantic 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 basic 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
Atlantic 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 Atlantic Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 24, 2006. 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 Atlantic Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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.

Compliance and Other Matters

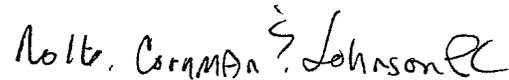
As part of obtaining reasonable assurance about whether Atlantic Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have 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.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during 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 Atlantic Community School District and other parties to whom Atlantic 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 Atlantic 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, P.C.

October 24, 2006

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
Atlantic Community School District:

Compliance

We have audited the compliance of Atlantic 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, 2006. Atlantic 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 grants agreements applicable to each of its major federal programs is the responsibility of Atlantic Community School District's management. Our responsibility is to express an opinion on Atlantic 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 Atlantic 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 Atlantic Community School District's compliance with those requirements.

In our opinion, Atlantic Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

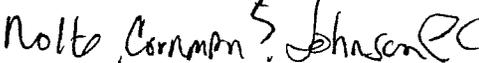
Internal Control Over Compliance

The management of Atlantic 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 Atlantic 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts

and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

October 24, 2006

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose 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:
- Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Atlantic Community School District did qualify as a low-risk auditee.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

ATLANTIC COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

ATLANTIC COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2006

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006 exceeded the amount budgeted in the support services functional program area.

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

Response - The budget was exceeded as a result of account coding changes.

Conclusion - Response accepted.

IV-B-06 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-C-06 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-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Barb Olson, Teacher Spouse owns Olson Fuel Supply, Inc.	Fuel (per bid)	\$64,737
Kathy Henningsen, Teacher Spouse owns Henningsen Construction	Purchased Services	\$321,742

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the teacher and secretary spouses do not appear to represent a conflict of interest.

IV-E-06 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-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 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-I-06 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.