

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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Central Decatur Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Mike Frost	President	2005
Nick Morrell	Vice President	2006
Scott Bethards	Board Member	2007
Jerry Parsons	Board Member	2005
Rose Saxton	Board Member	2006
Board of Education (After September 2005 Election)		
Mike Frost	President	2008
Nick Morrell	Vice President	2006
Scott Bethards	Board Member (Resigned)	2007
Igor Takacs	Board Member (Appointed)	2006
Jerry Parsons	Board Member	2008
Rose Saxton	Board Member	2006
School Officials		
Tom Dannen	Superintendent	2006
Marlys Pearcy	District Secretary/Treasurer	2006
Pam DeLong	Business Manager	2006
Hoffman Law Firm	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
Central Decatur Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Central Decatur Community School District, Leon, Iowa as of and for the year ended June 30, 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 our audit provides a reasonable basis for our opinions.

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

In accordance with Government Auditing Standards, we have also issued our report dated October 16, 2006 on our consideration of Central Decatur Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Decatur Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations; is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 16, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$6,488,835 in fiscal 2005 to \$6,122,159 in fiscal 2006, while General Fund expenditures decreased from \$6,350,929 in fiscal 2005 to \$6,294,375 in fiscal 2006. This resulted in a decrease in the District's General Fund balance from \$911,152 in fiscal 2005 to a balance of \$739,911 in fiscal 2006, an 18.87% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local and federal sources in fiscal 2006. The decrease in revenues for the year outpaced the decrease in expenditures guaranteeing the decline in General Fund balance.

USING THIS ANNUAL REPORT

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

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

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

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

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

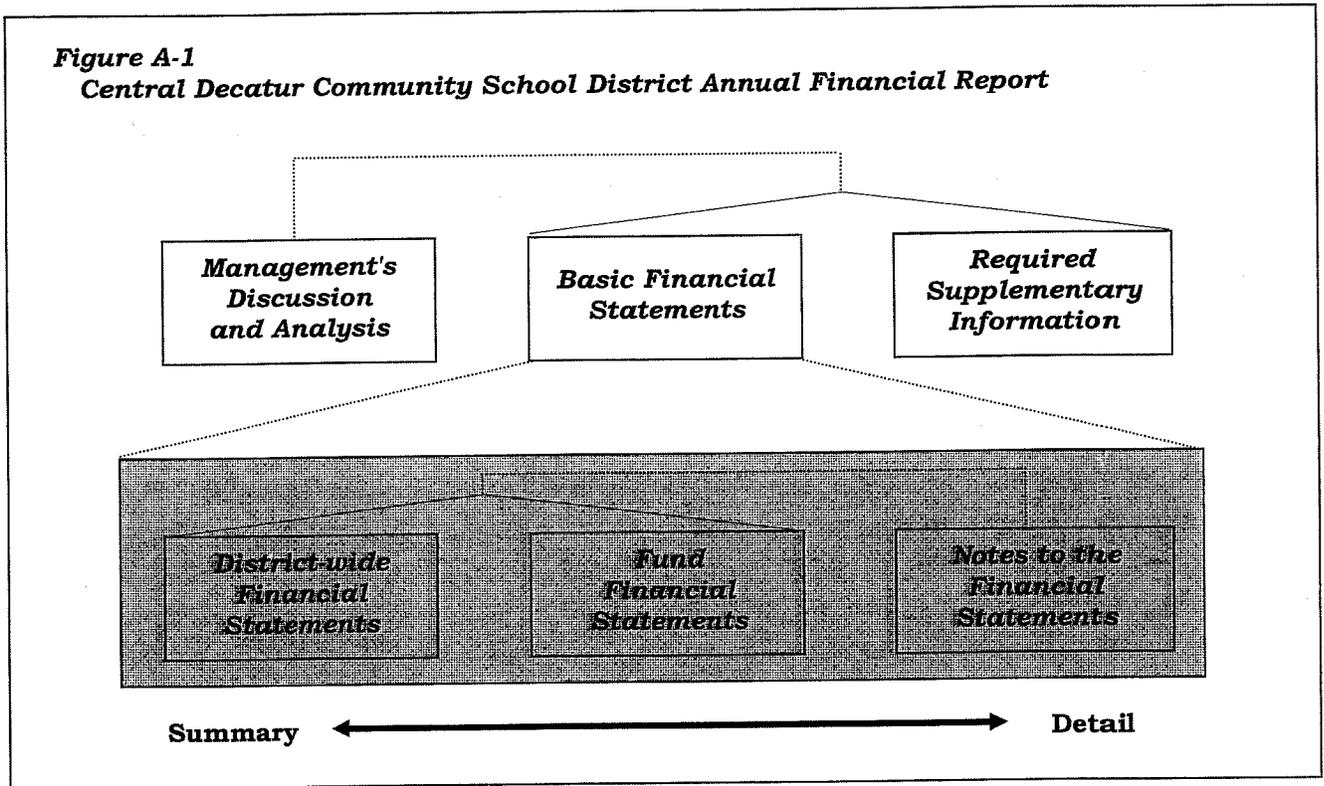


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

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

Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 3,739,684	3,626,259	29,167	38,161	3,768,851	3,664,420	2.85%
Capital assets	7,118,154	7,472,114	30,998	15,084	7,149,152	7,487,198	-4.51%
Total assets	10,857,838	11,098,373	60,165	53,245	10,918,003	11,151,618	-2.09%
Long-term obligations	3,106,840	3,236,760	0	0	3,106,840	3,236,760	-4.01%
Other liabilities	2,426,344	2,114,750	1,985	2,821	2,428,329	2,117,571	14.68%
Total liabilities	5,533,184	5,351,510	1,985	2,821	5,535,169	5,354,331	3.38%
Net assets:							
Invested in capital assets, net of related debt	4,386,253	4,518,360	30,998	15,084	4,417,251	4,533,444	-2.56%
Restricted	279,557	291,295	0	0	279,557	291,295	-4.03%
Unrestricted	658,844	937,208	27,182	35,340	686,026	972,548	-29.46%
Total net assets	\$ 5,324,654	5,746,863	58,180	50,424	5,382,834	5,797,287	-7.15%

The District's combined net assets decreased by 7.15%, or \$414,453, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets decreased \$11,738, or 4.03% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$286,522, or 29.46%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 523,210	499,068	187,571	163,860	710,781	662,928	7.22%
Operating grants and contributions and restricted interest	1,040,420	1,363,408	205,992	190,315	1,246,412	1,553,723	-19.78%
Capital grants and contributions and restricted interest	0	283,597	0	0	0	283,597	-100.00%
General revenues:							
Property tax	1,856,516	1,845,444	0	0	1,856,516	1,845,444	0.60%
Local option sales and services tax	327,286	369,055	0	0	327,286	369,055	-11.32%
Unrestricted state grants	3,216,987	3,168,067	0	0	3,216,987	3,168,067	1.54%
Other	28,834	8,278	140	372	28,974	8,650	234.96%
Total revenues	6,993,253	7,536,917	393,703	354,547	7,386,956	7,891,464	-6.39%
Program expenses:							
Governmental activities:							
Instructional	4,655,196	4,241,263	0	0	4,655,196	4,241,263	9.76%
Support services	2,026,927	1,942,946	0	0	2,026,927	1,942,946	4.32%
Non-instructional programs	24,190	355,901	385,947	369,420	410,137	725,321	-43.45%
Other expenses	709,149	816,146	0	0	709,149	816,146	-13.11%
Total expenses	7,415,462	7,356,256	385,947	369,420	7,801,409	7,725,676	0.98%
Changes in net assets	(422,209)	180,661	7,756	(14,873)	(414,453)	165,788	-349.99%
Beginning net assets	5,746,863	5,566,202	50,424	65,297	5,797,287	5,631,499	2.94%
Ending net assets	\$ 5,324,654	5,746,863	58,180	50,424	5,382,834	5,797,287	-7.15%

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

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

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With a declining enrollment comes lesser ability to fund various programs required by the state and constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

The District makes a continual effort to be a good steward of public funds and maintains a philosophy of providing the best education possible, exploring every avenue available to fund the programs, while making certain to keep watch for services that could be merged with other programs. Overall, the District saw a decrease in revenues in fiscal 2006, but the District's decrease in expenditures during the year resulted in an increase in the financial position for the year.

Governmental Activities

Revenues for governmental activities were \$6,997,419 and expenses were \$7,419,628. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,655,196	3,328,882
Support services	2,026,927	2,022,512
Non-instructional programs	24,190	24,190
Other expenses	709,149	476,248
Totals	<u>\$ 7,415,462</u>	<u>5,851,832</u>

- The cost financed by users of the District's programs was \$523,210.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,040,420.
- The net cost of governmental activities was financed with \$1,856,516 in property tax, \$327,286 in local option sales and services tax, \$3,216,987 in state foundation aid, \$28,834 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$393,703 and expenses were \$385,947. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,325,221, below last year's ending fund balances of a \$1,433,257.

Governmental Fund Highlights

- The Capital Projects Fund balance increased from \$81,560 in fiscal 2005 to \$262,676 in fiscal 2006. This was partially due to the District decreasing expenditures as compared to the previous year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$50,424 at June 30, 2005 to \$58,180 at June 30, 2006, representing an increase of 15.4%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$109,263 less than budgeted revenues, a variance of 1.4%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction and support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$7.15 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.73% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$388,278.

The original cost of the District's capital assets was \$11,778,385. Governmental funds account for \$11,715,336 with the remainder of \$63,049 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$639,791 at June 30, 2006, compared to \$812,045 reported at June 30, 2005. This represents a 23.31% decrease.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 29,300	29,300	0	0	29,300	29,300	0.00%
Buildings	6,391,980	6,570,129	0	0	6,391,980	6,570,129	-2.79%
Land improvements	57,083	60,640	0	0	57,083	60,640	-6.23%
Machinery and equipment	639,791	812,045	30,998	15,084	670,789	827,129	-23.31%
Total	\$ 7,118,154	7,472,114	30,998	15,084	7,149,152	7,487,198	-4.73%

Long-Term Debt

At June 30, 2006, the District had \$3,106,840 in general obligation and other long-term debt outstanding. This represents a decrease of 4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$2,990,000 at June 30, 2006.

The District had total outstanding Early Retirement payable of \$116,840 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General obligation bonds	\$ 2,990,000	3,125,000	-4.3%
Early Retirement	116,840	111,760	4.5%
Totals	<u>\$ 3,106,840</u>	<u>3,236,760</u>	<u>-4.0%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The error in enrollment count from the 2005 fiscal year will continue to decrease funding over the next few years.
- With the decreasing revenues the District saw in fiscal 2006, it is imperative that the District is able to reinstate the instructional support levy to maintain the quality of education the students of the District receive.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at the state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 5)	\$ 496,309	0	496,309
Other	1,094,137	16,492	1,110,629
Receivables:			
Property tax:			
Delinquent	49,274	0	49,274
Succeeding year	1,854,066	0	1,854,066
Accrued ISCAP interest (Note 5)	154	0	154
Due from other governments	245,744	0	245,744
Inventories	0	12,675	12,675
Capital assets, net of accumulated depreciation (Note 6)	7,118,154	30,998	7,149,152
TOTAL ASSETS	10,857,838	60,165	10,918,003
LIABILITIES			
Accounts payable	57,630	0	57,630
Salaries and benefits payable	1,862	0	1,862
ISCAP warrants payable (Note 5)	497,000	0	497,000
ISCAP accrued interest payable (Note 5)	123	0	123
ISCAP premiums payable	3,782	0	3,782
Accrued interest payable	11,881	0	11,881
Deferred revenue:			
Succeeding year property tax	1,854,066	0	1,854,066
Other	0	1,985	1,985
Long-term liabilities (Note 7):			
Portion due within one year:			
General obligation bonds payable	140,000	0	140,000
Early retirement payable	40,640	0	40,640
Portion due after one year:			
General obligation bonds payable	2,850,000	0	2,850,000
Early retirement payable	76,200	0	76,200
TOTAL LIABILITIES	5,533,184	1,985	5,535,169
NET ASSETS			
Investment in capital assets, net of related debt	4,386,253	30,998	4,417,251
Restricted for:			
Talented and gifted	15,298	0	15,298
Physical plant and equipment levy	43,959	0	43,959
Other special revenue purposes	220,300	0	220,300
Unrestricted	658,844	27,182	686,026
TOTAL NET ASSETS	\$ 5,324,654	58,180	5,382,834

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Operating Grants, Charges Contributions for and Restricted		Governmental Activities	Business-Type Activities	Total
		Services	Interest			
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,178,956	465,974	763,519	(949,463)	0	(949,463)
Special instruction	1,375,313	52,821	44,000	(1,278,492)	0	(1,278,492)
Other instruction	1,100,927	0	0	(1,100,927)	0	(1,100,927)
	<u>4,655,196</u>	<u>518,795</u>	<u>807,519</u>	<u>(3,328,882)</u>	<u>0</u>	<u>(3,328,882)</u>
Support services:						
Student services	139,104	0	0	(139,104)	0	(139,104)
Instructional staff services	174,416	0	0	(174,416)	0	(174,416)
Administration services	657,997	0	0	(657,997)	0	(657,997)
Operation and maintenance of plant services	570,804	0	0	(570,804)	0	(570,804)
Transportation services	484,606	4,415	0	(480,191)	0	(480,191)
	<u>2,026,927</u>	<u>4,415</u>	<u>0</u>	<u>(2,022,512)</u>	<u>0</u>	<u>(2,022,512)</u>
Non-instructional programs	24,190	0	0	(24,190)	0	(24,190)
Other expenditures:						
Facilities and acquisitions	146,308	0	0	(146,308)	0	(146,308)
Long-term debt interest	148,234	0	0	(148,234)	0	(148,234)
AEA flowthrough	232,901	0	232,901	0	0	0
Depreciation(unallocated)*	181,706	0	0	(181,706)	0	(181,706)
	<u>709,149</u>	<u>0</u>	<u>232,901</u>	<u>(476,248)</u>	<u>0</u>	<u>(476,248)</u>
Total governmental activities	7,415,462	523,210	1,040,420	(5,851,832)	0	(5,851,832)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	385,947	187,571	205,992	0	7,616	7,616
Total business-type activities	<u>385,947</u>	<u>187,571</u>	<u>205,992</u>	<u>0</u>	<u>7,616</u>	<u>7,616</u>
Total	<u>\$ 7,801,409</u>	<u>710,781</u>	<u>1,246,412</u>	<u>(5,851,832)</u>	<u>7,616</u>	<u>(5,844,216)</u>
General Revenues:						
Local tax for:						
General purposes				\$ 1,647,012	0	1,647,012
Debt Service				174,483	0	174,483
Capital outlay				35,021	0	35,021
Local option sales and services tax				327,286	0	327,286
Unrestricted state grants				3,216,987	0	3,216,987
Unrestricted investment earnings				28,834	140	28,974
Total general revenues				<u>5,429,623</u>	<u>140</u>	<u>5,429,763</u>
Changes in net assets				(422,209)	7,756	(414,453)
Net assets beginning of year				5,746,863	50,424	5,797,287
Net assets end of year				<u>\$ 5,324,654</u>	<u>58,180</u>	<u>5,382,834</u>

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

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 5)	\$ 496,309	0	0	496,309
Other	750,192	110,262	233,683	1,094,137
Receivables:				
Property tax:				
Delinquent	40,747	0	8,527	49,274
Succeeding year	1,396,273	0	457,793	1,854,066
Interfund	0	0	82,195	82,195
Accrued ISCAP interest (Note 5)	154	0	0	154
Due from other governments	93,330	152,414	0	245,744
TOTAL ASSETS	\$ 2,777,005	262,676	782,198	3,821,879
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 82,195	0	0	82,195
Accounts payable	56,559	0	1,071	57,630
Salaries and benefits payable	1,862	0	0	1,862
ISCAP warrants payable (Note 5)	497,000	0	0	497,000
ISCAP accrued interest payable (Note 5)	123	0	0	123
ISCAP premiums payable	3,782	0	0	3,782
Deferred revenue:				
Succeeding year property tax	1,396,273	0	457,793	1,854,066
Total liabilities	2,037,794	0	458,864	2,496,658
Fund balances:				
Reserved for:				
Talented and gifted	15,298	0	0	15,298
Debt service	0	0	7,304	7,304
Unreserved	723,913	262,676	316,030	1,302,619
Total fund balances	739,211	262,676	323,334	1,325,221
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,777,005	262,676	782,198	3,821,879

SEE NOTES TO FINANCIAL STATEMENTS.

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

Total fund balances of governmental funds (page 15)	\$ 1,325,221
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	7,118,154
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.	(11,881)
Long-term liabilities, including early retirement and general obligation bonds, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,106,840)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 5,324,654</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,627,892	327,286	319,235	2,274,413
Tuition	157,034	0	0	157,034
Other	89,463	23,556	291,402	404,421
State sources	3,881,462	0	226	3,881,688
Federal sources	366,308	0	0	366,308
Total revenues	<u>6,122,159</u>	<u>350,842</u>	<u>610,863</u>	<u>7,083,864</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,072,503	0	39,235	2,111,738
Special instruction	1,375,313	0	0	1,375,313
Other instruction	828,855	0	268,184	1,097,039
	<u>4,276,671</u>	<u>0</u>	<u>307,419</u>	<u>4,584,090</u>
Support services:				
Student services	137,510	0	0	137,510
Instructional staff services	176,916	0	0	176,916
Administration services	608,473	50,247	1,071	659,791
Operation and maintenance of plant services	461,761	4,247	104,796	570,804
Transportation services	375,953	0	0	375,953
	<u>1,760,613</u>	<u>54,494</u>	<u>105,867</u>	<u>1,920,974</u>
Non-instructional programs	24,190	0	0	24,190
Other expenditures:				
Facilities acquisitions	0	101,232	45,076	146,308
Long-term debt:				
Principal	0	0	135,000	135,000
Interest and fiscal charges	0	0	148,712	148,712
AEA flowthrough	232,901	0	0	232,901
	<u>232,901</u>	<u>101,232</u>	<u>328,788</u>	<u>662,921</u>
Total expenditures	<u>6,294,375</u>	<u>155,726</u>	<u>742,074</u>	<u>7,192,175</u>
Excess(deficiency) of revenues over (under) expenditures	(172,216)	195,116	(131,211)	(108,311)
Other financing sources(uses):				
Operating transfers in	0	0	14,000	14,000
Operating transfers out	0	(14,000)	0	(14,000)
Sale of equipment	275	0	0	275
Total other financing sources(uses)	<u>275</u>	<u>(14,000)</u>	<u>14,000</u>	<u>275</u>
Net change in fund balances	(171,941)	181,116	(117,211)	(108,036)
Fund balance beginning of year	911,152	81,560	440,545	1,433,257
Fund balance end of year	<u>\$ 739,211</u>	<u>262,676</u>	<u>323,334</u>	<u>1,325,221</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 17) \$ (108,036)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 37,705	
Depreciation expense	<u>(385,392)</u>	(347,687)

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 135,000

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (90,611)

The proceeds from the sale of equipment (\$275) are reported as revenue in the governmental funds. However, the cost of the equipment as well as the corresponding depreciation (\$5,998) is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (6,273)

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. 478

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.
 Early retirement (5,080)

Changes in net assets of governmental activities (page 14) \$ (422,209)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 16,492
Inventories	12,675
Capital assets, net of accumulated depreciation(Note 6)	30,998
TOTAL ASSETS	60,165
LIABILITIES	
Deferred revenue:	
Other	1,985
TOTAL LIABILITIES	1,985
NET ASSETS	
Investment in capital assets, net of related debt	30,998
Unrestricted	27,182
TOTAL NET ASSETS	\$ 58,180

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 187,571
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	146,284
Benefits	70,911
Services	5,744
Supplies	160,122
Depreciation	2,886
TOTAL OPERATING EXPENSES	385,947
OPERATING LOSS	(198,376)
NON-OPERATING REVENUES:	
State sources	4,301
Federal sources	201,691
Interest on investments	140
TOTAL NON-OPERATING REVENUES	206,132
Change in net assets	7,756
Net assets beginning of year	50,424
Net assets end of year	\$ 58,180

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR 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	\$ 170,529
Cash received from miscellaneous	16,206
Cash payments to employees for services	(217,195)
Cash payments to suppliers for goods or services	(147,420)
Net cash used in operating activities	(177,880)
Cash flows from non-capital financing activities:	
State grants received	4,301
Federal grants received	180,948
Net cash provided by non-capital financing activities	185,249
Cash flows from capital financing activities:	
Purchase of capital assets	(18,800)
Cash flows from investing activities:	
Interest on investments	140
Net decrease in cash and cash equivalents	(11,291)
Cash and cash equivalents at beginning of year	27,783
Cash and cash equivalents at end of year	\$ 16,492
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (198,376)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,743
Depreciation	2,886
Increase in inventories	(2,297)
Decrease in deferred revenue	(836)
Net cash used in operating activities	\$ (177,880)

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:

Current assets:	
Cash and pooled investments	\$ 16,492

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$20,743.

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

SEE NOTES TO FINANCIAL STATEMENTS.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

The Central Decatur Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Leon, Iowa, and the predominate agricultural territory in Decatur County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Central Decatur Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Central Decatur Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Decatur County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

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

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, 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.

Interfund Receivables and Payables - During the course of its operations, the District has numerous transactions between funds. To the extent that certain transactions between funds had not been paid or received as of June 30, 2006 balances of interfund accounts receivable or payable have been recorded.

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

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

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

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

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

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction and support services functional areas 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments as follows:

	<u>Amortized Cost</u>
Certificates of deposit	<u>\$ 1,669</u>

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

(3) **Interfund Transfers**

The detail of transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$ 14,000</u>

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

(4) Due From and Due to Other Funds

At June 30, 2006 the interfund receivables and payables consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Revenue - Expendable Trust	General	<u>\$ 82,195</u>

(5) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Banker's Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Accrued Warrants Payable</u>	<u>Accrued Interest Payable</u>
2006-07A	6/28/06	6/28/07	<u>\$ 496,309</u>	154	497,000	123

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

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

<u>Series</u>	<u>Interest Rate on Warrants</u>	<u>Interest Rates on Investments</u>
2006-07A	4.500%	5.676%

(6) 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	\$ 29,300	0	0	29,300
Total capital assets not being depreciated	<u>29,300</u>	<u>0</u>	<u>0</u>	<u>29,300</u>
Capital assets being depreciated:				
Buildings	8,518,136	0	0	8,518,136
Land improvements	236,842	0	0	236,842
Machinery and equipment	3,007,113	37,705	113,760	2,931,058
Total capital assets being depreciated	<u>11,762,091</u>	<u>37,705</u>	<u>113,760</u>	<u>11,686,036</u>
Less accumulated depreciation for:				
Buildings	1,948,007	178,149	0	2,126,156
Land improvements	176,202	3,557	0	179,759
Machinery and equipment	2,195,068	203,686	107,487	2,291,267
Total accumulated depreciation	<u>4,319,277</u>	<u>385,392</u>	<u>107,487</u>	<u>4,597,182</u>
Total capital assets being depreciated, net	<u>7,442,814</u>	<u>(347,687)</u>	<u>6,273</u>	<u>7,088,854</u>
Governmental activities capital assets, net	<u>\$ 7,472,114</u>	<u>(347,687)</u>	<u>6,273</u>	<u>7,118,154</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 264,297	18,800	56,594	226,503
Less accumulated depreciation	249,213	2,886	56,594	195,505
Business-type activities capital assets, net	<u>\$ 15,084</u>	<u>15,914</u>	<u>0</u>	<u>30,998</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 73,600
Other	3,888
Support services:	
Student	1,594
Administration	959
Transportation	123,645
	<u>203,686</u>
Unallocated depreciation	<u>181,706</u>
Total governmental activities depreciation expense	<u>\$ 385,392</u>
Business-type activities:	
Food services	\$ 2,886
Total business-type activities depreciation expense	<u>\$ 2,886</u>

(7) 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	\$ 3,125,000	0	135,000	2,990,000	140,000
Early Retirement	111,760	40,640	35,560	116,840	40,640
Total	\$ 3,236,760	40,640	170,560	3,106,840	180,640

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonds, which will be paid using Debt Service Funds, are as follows:

Year Ending June 30,	Interest Rates	Bond Issue dated August 1, 2001		
		Principal	Interest	Total
2007	4.25 %	\$ 140,000	142,575	282,575
2008	4.25	145,000	136,625	281,625
2009	4.25	155,000	130,462	285,462
2010	4.35	160,000	123,875	283,875
2011	4.45	165,000	116,915	281,915
2012	4.60	175,000	109,573	284,573
2013	4.70	185,000	101,523	286,523
2014	4.80	195,000	92,827	287,827
2015	4.85	205,000	83,468	288,468
2016	5.00	215,000	73,525	288,525
2017	5.00	225,000	62,775	287,775
2018	5.00	235,000	51,525	286,525
2019	5.00	250,000	39,775	289,775
2020	5.00	265,000	27,275	292,275
2021	5.10	275,000	14,025	289,025
Total		\$ 2,990,000	1,306,743	4,296,743

Early Retirement

The District offers a voluntary early retirement plan to its certified and support staff employees. Eligible employees must be at least age fifty-five and employees must have completed twelve years of service to the District. Employees complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is \$5,080 per year with a maximum of five years or until the employee reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2006, totaled \$35,560. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(8) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by

State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 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 \$209,482, \$204,221, and \$204,776 respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$232,901 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.

(11) 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, disbursements in the instruction and support services functional program areas exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN BALANCES
 BUDGET AND ACTUAL - ALL GOVERNMENTAL FUND
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006

	Governmental		Proprietary	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Fund Types	Fund Type			Original	Final	
	Actual	Actual	Actual				
Revenues:							
Local sources	\$ 2,835,868	187,711	3,023,579	3,007,362	3,007,362	16,217	
Intermediate sources	0	0	0	9,000	9,000	(9,000)	
State sources	3,881,688	4,301	3,885,989	4,124,634	4,124,634	(238,645)	
Federal sources	366,308	201,691	567,999	450,000	450,000	117,999	
Total revenues	<u>7,083,864</u>	<u>393,703</u>	<u>7,477,567</u>	<u>7,590,996</u>	<u>7,590,996</u>	<u>(113,429)</u>	
Expenditures:							
Instruction	4,584,090	0	4,584,090	4,193,312	4,193,312	(390,778)	
Support services	1,925,140	0	1,925,140	1,905,000	1,905,000	(20,140)	
Non-instructional programs	24,190	385,947	410,137	871,797	871,797	461,660	
Other expenditures	662,921	0	662,921	946,321	946,321	283,400	
Total expenditures	<u>7,192,175</u>	<u>385,947</u>	<u>7,582,288</u>	<u>7,916,430</u>	<u>7,916,430</u>	<u>334,142</u>	
Excess(deficiency) of revenues over(under) expenditures	(108,311)	7,756	(104,721)	(325,434)	(325,434)	(220,713)	
Other financing sources, net	275	0	275	(106,000)	(106,000)	(106,275)	
Excess(deficiency) of revenues over(under) expenditures	(108,036)	7,756	(104,446)	(431,434)	(431,434)	(326,988)	
Balance beginning of year	1,433,257	50,424	1,483,681	1,446,115	1,446,115	37,566	
Balance end of year	<u>\$ 1,325,221</u>	<u>58,180</u>	<u>1,379,235</u>	<u>1,014,681</u>	<u>1,014,681</u>	<u>364,554</u>	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR 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 Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

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

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

During the year ended June 30, 2006, expenditures in the instruction and support services functions exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

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

	Special Revenue Funds						Total
	Management	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 49,912	82,320	43,023	55,785	231,040	2,643	233,683
Receivables:							
Property tax:							
Current year delinquent	2,930	0	936	0	3,866	4,661	8,527
Succeeding year	150,000	0	35,218	0	185,218	272,575	457,793
Interfund	0	0	0	82,195	82,195	0	82,195
TOTAL ASSETS	\$ 202,842	82,320	79,177	137,980	502,319	279,879	782,198
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 1,071	0	0	0	1,071	0	1,071
Deferred revenue:							
Succeeding year property tax	150,000	0	35,218	0	185,218	272,575	457,793
Total liabilities	151,071	0	35,218	0	186,289	272,575	458,864
Fund balances:							
Reserved for:							
Debt Service	0	0	0	0	0	7,304	7,304
Unreserved fund balances	51,771	82,320	43,959	137,980	316,030	0	316,030
Total fund balances	51,771	82,320	43,959	137,980	316,030	7,304	323,334
TOTAL LIABILITIES AND FUND BALANCES	\$ 202,842	82,320	79,177	137,980	502,319	279,879	782,198

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds					Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds		
REVENUES:							
Local sources:							
Local tax	\$ 109,731	0	35,021	0	144,752	174,483	319,235
Other	6,502	282,400	0	2,192	291,094	308	291,402
State sources	10	0	36	0	46	180	226
TOTAL REVENUES	116,243	282,400	35,057	2,192	435,892	174,971	610,863
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	35,560	0	0	3,675	39,235	0	39,235
Other instruction	0	268,184	0	0	268,184	0	268,184
Support services:							
Administration services	1,071	0	0	0	1,071	0	1,071
Operation and maintenance of plant services	86,134	0	18,662	0	104,796	0	104,796
Other expenditures:							
Long-term debt:							
Principal	0	0	0	0	0	135,000	135,000
Interest and fiscal charges	0	0	0	0	0	148,712	148,712
Facilities acquisitions	0	0	45,076	0	45,076	0	45,076
TOTAL EXPENDITURES	122,765	268,184	63,738	3,675	458,362	283,712	742,074
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(6,522)	14,216	(28,681)	(1,483)	(22,470)	(108,741)	(131,211)
OTHER FINANCING SOURCES:							
Operating transfers in	0	0	0	0	0	14,000	14,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(6,522)	14,216	(28,681)	(1,483)	(22,470)	(94,741)	(117,211)
FUND BALANCE BEGINNING OF YEAR	58,293	68,104	72,640	139,463	338,500	102,045	440,545
FUND BALANCE END OF YEAR	\$ 51,771	82,320	43,959	137,980	316,030	7,304	323,334

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Athletics:				
All Athletics	\$ 516	8,989	7,791	1,714
Season Passes	43	1,291	1,010	324
Baseball	232	6,654	6,206	680
Basketball	6,172	23,112	23,515	5,769
Football	600	7,758	7,211	1,147
Softball	0	4,129	3,809	320
Track	55	3,748	3,703	100
Volleyball	1,512	3,278	4,790	0
Wrestling	0	2,975	2,857	118
	<u>9,130</u>	<u>61,934</u>	<u>60,892</u>	<u>10,172</u>
Athletic Support:				
Cheerleaders	0	1,076	1,076	0
Drill Team	12	193	0	205
	<u>12</u>	<u>1,269</u>	<u>1,076</u>	<u>205</u>
Clubs:				
Cardinal Athletics	2,125	1,107	1,746	1,486
International Club	1,019	693	906	806
TSA Club	723	25,782	22,106	4,399
Drama/Play Club	2,475	2,412	2,138	2,749
Variety Show	0	1,160	117	1,043
Go Ape	3,362	5,102	5,654	2,810
National Honor Society	1,959	583	433	2,109
SADD	981	190	157	1,014
Spanish Club	0	408	100	308
Little Red Birds Preschool	274	2,353	2,207	420
Weight Club	0	7,610	7,308	302
Music Boosters	1,497	1,417	2,004	910
Central Decatur PTO	1,534	0	908	626
	<u>15,949</u>	<u>48,817</u>	<u>45,784</u>	<u>18,982</u>
Graduation Classes:				
Prior Year's Class	0	1,592	284	1,308
Senior Class	698	11,543	10,983	1,258
Junior Class	2,803	8,682	10,172	1,313
Sophomore Class	746	504	794	456
Freshman Class	184	375	184	375
	<u>4,431</u>	<u>21,104</u>	<u>22,133</u>	<u>4,710</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Vocational Groups:				
FFA	5,277	48,415	48,545	5,147
FCCLA	37	976	1,013	0
	<u>5,314</u>	<u>49,391</u>	<u>49,558</u>	<u>5,147</u>
Yearbook:				
Annual	4,006	5,036	4,765	4,277
	<u>4,006</u>	<u>5,036</u>	<u>4,765</u>	<u>4,277</u>
Student Councils:				
HS Student Council	0	960	950	10
MS Student Council	797	491	655	633
	<u>797</u>	<u>1,451</u>	<u>1,605</u>	<u>643</u>
JR/SR Awards:				
Awards	1,189	2,346	3,535	0
Middle School Fund Raiser	2,352	13,854	16,206	0
	<u>3,541</u>	<u>16,200</u>	<u>19,741</u>	<u>0</u>
Elementary:				
Elementary Field Trip	0	2,065	1,517	548
Decatur Playground Fund	0	500	0	500
	<u>0</u>	<u>2,565</u>	<u>1,517</u>	<u>1,048</u>
Band/Chorus/Art:				
Art Trip	0	89	41	48
Music Trip	16,956	17,691	10,691	23,956
Elem Music Fund Raiser	712	1,644	1,177	1,179
	<u>17,668</u>	<u>19,424</u>	<u>11,909</u>	<u>25,183</u>
Other Accounts:				
Miscellaneous	4,565	36,595	32,677	7,175
Interest	57	564	0	621
Central Decatur Garage	33	0	0	33
Camps	2,601	18,050	16,527	4,124
	<u>7,256</u>	<u>55,209</u>	<u>49,204</u>	<u>11,953</u>
Total	<u>\$ 68,104</u>	<u>282,400</u>	<u>268,184</u>	<u>82,320</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CENTRAL DECATUR COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, EXPENDABLE TRUST ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
McAlwee Scholarship	\$ 118,090	1,334	2,500	116,924
Johnston Memorial	5,614	346	375	5,585
Logsdon Memorial	6,003	358	400	5,961
Miles Scholarships	3,034	12	99	2,947
Lynch Scholarships	800	100	200	700
Bennett Memorial	1,799	42	101	1,740
All-Weather Track	4,123	0	0	4,123
Total	<u>\$ 139,463</u>	<u>2,192</u>	<u>3,675</u>	<u>137,980</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 2,274,413	2,215,502	2,128,583	2,135,414
Tuition	157,034	211,635	250,447	208,406
Other	404,421	292,025	366,257	443,398
Intermediate sources	0	3,500	9,534	5,433
State sources	3,881,688	3,824,180	3,711,395	3,619,512
Federal sources	366,308	990,892	1,022,247	1,134,953
Total	\$ 7,083,864	7,537,734	7,488,463	7,547,116
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,111,738	2,011,434	1,861,672	1,798,033
Special instruction	1,375,313	1,183,551	1,701,382	1,659,528
Other instruction	1,097,039	1,010,720	587,880	600,990
Support services:				
Student services	137,510	185,335	156,971	148,194
Instructional staff services	176,916	148,074	112,165	231,331
Administration services	659,791	673,989	749,866	745,947
Operation and maintenance of plant services	570,804	500,877	442,197	406,763
Transportation services	375,953	390,472	260,144	421,203
Non-instructional programs	24,190	355,901	443,482	627,760
Other expenditures:				
Facilities acquisitions	146,308	443,849	782,391	3,016,192
Long-term debt:				
Principal	135,000	130,000	125,000	225,000
Interest	148,712	154,238	159,450	169,133
AEA flow-through	232,901	226,161	229,347	234,564
Total	\$ 7,192,175	7,414,601	7,611,947	10,284,638

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 06	<u>20,743</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	44,639
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	132,159
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	FY 06	<u>4,150</u>
			<u>180,948</u>
DECATUR COUNTY HOSPITAL:			
STATE ADMINISTRATIVE FUNDING FOR THE FOOD STAMP PROGRAM			
	10.561	FY 06	<u>250</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	1093-G	189,392
TITLE I SCHOOL IMPROVEMENT FOLLOW-UP BUDGET			
	84.010A	FY 06	<u>19,963</u>
			<u>209,355</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 06	<u>2,624</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 06	<u>9,668</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 06	<u>52,255</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)			
	84.369	FY 06	<u>3,948</u>
BEDFORD COMMUNITY SCHOOL DISTRICT: VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 06	<u>14,479</u>
GREEN VALLEY AREA EDUCATION AGENCY 14: SPECIAL EDUCATION - GRANTS TO STATES (PART B)			
	84.027	FY 06	<u>44,000</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)			
	84.318	FY 06	<u>3,615</u>

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
GREEN VALLEY AREA EDUCATION AGENCY 14:			
RURAL HEALTH CARE SERVICES OUTREACH AND			
RURAL HEALTH NETWORK DEVELOPMENT PROGRAM	93.912	FY 06	5,072
CORPORATION FOR NATIONAL			
AND COMMUNITY SERVICE:			
IOWA DEPARTMENT OF EDUCATION:			
LEARN AND SERVE AMERICA			
SCHOOL AND COMMUNITY BASED PROGRAMS	94.004	FY 06	9,000
TOTAL			\$ 555,957

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Central Decatur Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 16, 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 Central Decatur Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Decatur Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do

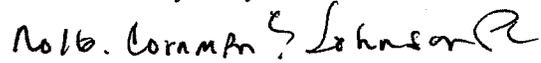
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not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 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 Central Decatur Community School District and other parties to whom Central Decatur Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



NOLTE, CORNMAN & JOHNSON, P.C.

October 16, 2006

NOLTE, CORNMAN & JOHNSON P.C.
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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

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

Compliance

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

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

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

Internal Control Over Compliance

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

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that,

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in our judgment, could adversely affect Central Decatur Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-06 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-06 is a material weakness.

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


NOLTE, CORNMAN & JOHNSON, P.C.

October 16, 2006

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

Part I: Summary of the Independent Auditor's Report

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - Clustered Programs:
 - CDFA Number 10.553 - School Breakfast Program
 - CDFA Number 10.555 - National School Lunch Program
 - CDFA Number 10.559 - Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Central Decatur Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

II-B-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account and the interest earned during the year was not allocated.

Recommendation - The interest earned each year should be allocated out at on an annual basis to the individual activity accounts.

Response - Interest will be allocated to the Activity Fund accounts in the future.

Conclusion - Response accepted.

II-C-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included a TE Workroom, North, and South accounts where the money is controlled by the teachers for break room beverages and flowers sent to funerals. The Middle School Student Council account had instructional supplies purchased from it. It was also noted that the Activity Fund included a playground equipment account.

Recommendation - If the proceeds in these accounts are truly controlled by the faculty and administration, these accounts should not be contained within the Activity Fund. The accounts used by the teachers may be more appropriate in the General Fund. The money in the playground equipment account would appear to be more appropriate in PPEL or the General Fund.

Response - The money in the playground equipment account has been moved to the PPEL account. The money in the other accounts will be put into an General Fund.

Conclusion - Response accepted.

CENTRAL DECATUR 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:

CDFA Number 10.553 - School Breakfast Program
CDFA Number 10.555 - National School Lunch Program
CDFA Number 10.559 - Summer Food Service Program for Children
Federal Award Year: 2006
U.S. Department of Agriculture

CFDA Number 84.010 - Title I Grants to Local Educational Agencies
Federal Award Year: 2006
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District disbursements for the year ended June 30, 2006, exceeded the certified budget amount in the instruction and support services functional area.

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

Response - The budget will be amended in the future as needed.

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
Mike Frost, Board President Owner of Leon Napa Auto Parts	Auto Parts	\$2,475

In accordance with the Chapter 279.7A of the code of Iowa, the above transaction with the board member does 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.

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.