DANVILLE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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DANVILLE COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2006

| Name | Title | Term Expires |
|---|---|---|
| | **Board of Education** | |
| | (Before September 2005 Election) | |
| Judith Shotwell | Board President | 2005 |
| Stan Nelson | Vice President | 2007 |
| Russ Reed | Board Member | 2005 |
| Dwight Byerly, Jr. | Board Member | 2006 |
| Jeff Taeger | Board Member | 2006 |
| | (After September 2005 Election) | |
| Jeff Taeger | Board President | 2006 |
| Stan Nelson | Vice President | 2007 |
| Dwight Byerly, Jr. | Board Member | 2006 |
| Jim Hogberg | Board Member | 2008 |
| Brian Bauer | Board Member | 2008 |
| | **School Officials** | |
| Stephen McAllister | Superintendent | 2006 |
| Nancy House | Board Secretary/Treasurer | 2006 |
| Ahlers & Cooney, PC | Attorney | 2006 |

# KAY L. CHAPMAN, CPA PC

210 Cedar Street
Muscatine, Iowa 52761
563-264-1385


Independent Auditor's Report

To the Board of Education
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of Danville Community School District, Danville, Iowa, 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. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Danville Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated December 13, 2006 on my consideration of Danville Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Danville Community School District's basic financial statements. I 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 7, 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 my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
December 13, 2006

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $4,019,395 in fiscal 2005 to $4,020,982 in fiscal 2006, and General Fund expenditures increased from $4,134,919 in fiscal 2005 to $4,215,321 in fiscal 2006. The District's General Fund balance decreased from $(349,346) in fiscal 2005 to $(543,310) in fiscal 2006, a 55% decrease.

- The increase in General Fund revenues was attributable to an increase in state aid in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2006. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover 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 Danville 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 Danville 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 Danville Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

Notes to 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 Governmental Funds.

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

***Figure A-1***
***Danville Community School District Annual Financial Report***

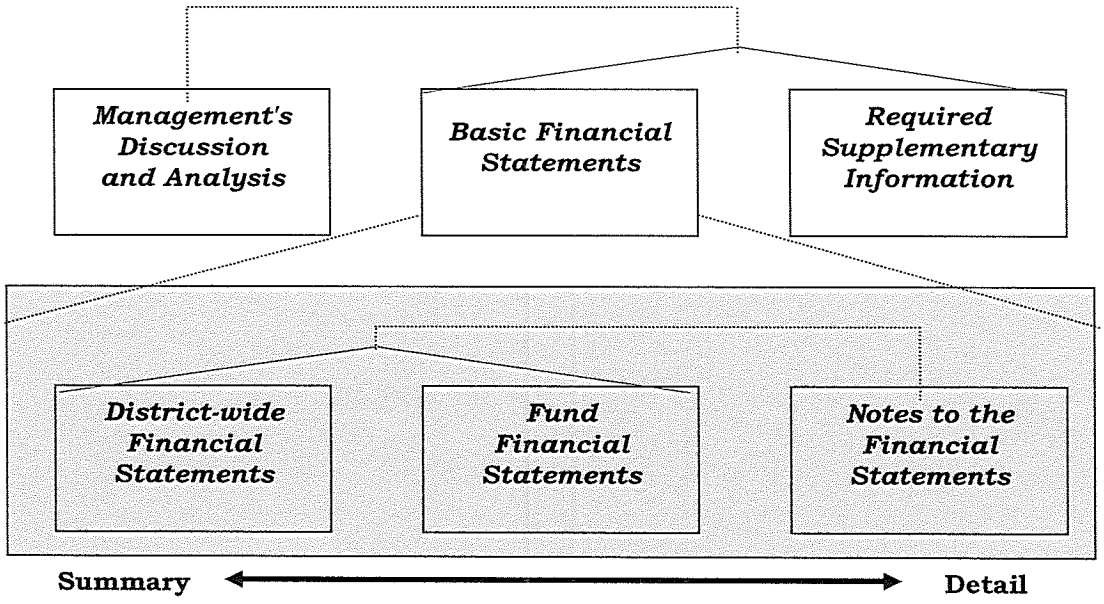

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

***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: food services and preschool operation | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | • Statement of net assets<br>• Statement of activities | • Balance sheet<br>• Statement of revenues, expenditures and changes in fund balances | • Statement of net assets<br>• Statement of revenues, expenses and changes in fund net assets<br>• Statement of cash flows | • Statement of fiduciary net assets<br>• Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/ liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both financial and capital, short-term and long-term | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of inflow/ outflow information | All revenues and expenses during 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 financial 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 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 two Enterprise Funds, the School Nutrition Fund and the Preschool Fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund 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 consist of a Private-Purpose Trust Fund.

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

The District is responsible for ensuring 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 government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes 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 at 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 | 2005-2006 |
| Current and other assets | $ 3,026,716 | $ 2,894,992 | $ 25,105 | $ 12,341 | $ 3,051,821 | $ 2,907,333 | 4.97% |
| Capital assets | 5,153,327 | 5,312,800 | 11,952 | 12,436 | 5,165,279 | 5,325,236 | -3.00% |
| Total assets | 8,180,043 | 8,207,792 | 37,057 | 24,777 | 8,217,100 | 8,232,569 | -0.19% |
| Long-term obligations | 2,018,816 | 2,383,038 | - | - | 2,018,816 | 2,383,038 | -15.28% |
| Other liabilities | 3,482,658 | 3,093,332 | 40,372 | 3,272 | 3,523,030 | 3,096,604 | 13.77% |
| Total liabilities | 5,501,474 | 5,476,370 | 40,372 | 3,272 | 5,541,846 | 5,479,642 | 1.14% |
| Net assets | | | | | | | |
| Invested in capital assets, net of related debt | 3,213,327 | 3,032,800 | 11,952 | 12,436 | 3,225,279 | 3,045,236 | 5.91% |
| Restricted | 119,742 | 233,765 | - | - | 119,742 | 233,765 | -48.78% |
| Unrestricted | (654,500) | (535,143) | (15,267) | 9,069 | (669,767) | (526,074) | -27.31% |
| Total net assets | $ 2,678,569 | $ 2,731,422 | $ (3,315) | $ 21,505 | $ 2,675,254 | $ 2,752,927 | -2.82% |

The District's combined net assets decreased by approximately 3%, or $77,673, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent 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 $114,023, or approximately 49% from the prior year. The decrease was primarily a result of expending Capital Projects Fund revenues for the purchase of approximately 18 acres of land for $119,000.

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 $143,693, or approximately 27%. This decline in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4

Change in Net Assets

| | Governmental Activities | | Business Type Activities | | Total District | | Total Change |
|---|---|---|---|---|---|---|---|
| Revenues | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-2006 |
| Program revenues | | | | | | | |
| Charges for service and sales | $ 889,494 | $ 1,042,349 | $ 204,276 | $ 164,965 | $ 1,093,770 | $ 1,207,314 | -9.40% |
| Operating grants | 411,215 | 394,887 | 120,670 | 80,872 | 531,885 | 475,759 | 11.80% |
| General revenues | | | | | | | |
| Property tax | 1,461,348 | 1,437,419 | - | - | 1,461,348 | 1,437,419 | 1.66% |
| Sales and services tax | 372,265 | 344,443 | - | - | 372,265 | 344,443 | 8.08% |
| Unrestricted state grants | 1,666,533 | 1,645,014 | - | - | 1,666,533 | 1,645,014 | 1.31% |
| Contributions and donations | 2,010 | 15,079 | - | - | 2,010 | 15,079 | -86.67% |
| Unrestricted investment earnings | 80,489 | 38,790 | 320 | 260 | 80,809 | 39,050 | 106.94% |
| Other | 6,414 | 50 | - | - | 6,414 | 50 | 12728.00% |
| Transfer | - | (12,235) | - | 12,235 | - | - | -100.00% |
| Total revenues | 4,889,768 | 4,905,796 | 325,266 | 258,332 | 5,215,034 | 5,164,128 | 0.99% |
| Program expenses | | | | | | | |
| Governmental activities | | | | | | | |
| Instruction | 3,010,030 | 2,950,111 | - | - | 3,010,030 | 2,950,111 | 2.03% |
| Support services | 1,486,413 | 1,437,130 | - | - | 1,486,413 | 1,437,130 | 3.43% |
| Non-instructional programs | 2,417 | 104,342 | 350,086 | 205,064 | 352,503 | 309,406 | 13.93% |
| Other expenses | 443,761 | 442,945 | - | - | 443,761 | 442,945 | 0.18% |
| Total expenses | 4,942,621 | 4,934,528 | 350,086 | 205,064 | 5,292,707 | 5,139,592 | 2.98% |
| Change in net assets | $ (52,853) | $ (28,732) | $ (24,820) | $ 53,268 | $ (77,673) | $ 24,536 | -416.57% |

In fiscal 2006, property tax and unrestricted state grants account for 64% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were $5,215,034 of which $4,889,768 was for governmental activities and $325,266 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a .99% increase in revenues and a 2.98% increase in expenses. Property tax increased $23,929 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

**Governmental Activities**

Revenues for governmental activities were $4,889,768 and expenses were $4,942,621. In a difficult budget year, the District did not 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 | | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | Change 2005-2006 | 2006 | 2005 | Change 2005-2006 |
| Instruction | $ 3,010,030 | $ 2,950,111 | 2.0% | $ 1,839,935 | $ 1,639,512 | 12.2% |
| Support services | 1,486,413 | 1,437,130 | 3.4% | 1,485,230 | 1,436,860 | 3.4% |
| Non-instructional programs | 2,417 | 104,342 | -97.7% | 2,417 | 104,342 | -97.7% |
| Other expenses | 443,761 | 442,945 | 0.2% | 314,330 | 316,578 | -0.7% |
| Total expenses | $ 4,942,621 | $ 4,934,528 | 0.2% | $ 3,641,912 | $ 3,497,292 | 4.1% |

- The cost financed by users of the District's programs was $889,494.
- Federal and state governments subsidized certain programs with grants and contributions totaling $411,215.
- The net cost of governmental activities was financed with $1,833,613 in property and other taxes and $1,666,533 in unrestricted state grants.

**Business Type Activities**

Revenues for business type activities were $325,266 representing a 26% increase over the prior year and expenses were $350,086, a 71% increase over the prior year. The District's business type activities consist of the School Nutrition Fund and the Preschool/Daycare Fund, which was started in fiscal 2006, accounting for much of the increase in expenditures. Revenues of these activities were comprised of charges for service, federal and state reimbursements, empowerment grant and investment income.

During the year ended June 30, 2006, the District increased meal prices. In addition to meal price increases, the District continued to hold steady the labor hours in the Nutrition program. The savings helped to reduce the amount owed the General Fund for salaries and benefits at the end of the year.

## INDIVIDUAL FUND ANALYSIS

As previously noted, Danville 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 a combined fund balance of $(431,396), well below last year's ending fund balances of $(181,906). The fund balance decreased in the General fund because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal year 2006. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

### Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.

- The General Fund balance decreased from $(349,346) to $(543,310), due in part to the negotiated salary and benefits settlement and existing expenditure commitments of the District.

### Proprietary Fund Highlights

Enterprise Fund net assets decreased from $21,505 at June 30, 2005 to $(3,315) at June 30, 2006, representing a decrease of approximately 115%. For fiscal 2006, the District's Preschool/Daycare program expenditures were greater than the revenues generated by charge for services and empowerment grant revenues.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Danville Community School District amended its annual budget one time by $155,000 to reflect additional revenue and expenditures. The 2005/2006 budget amendment changed the estimates of expenditures in the areas of total Support Services from $1,289,705 to $1,364,705, a difference of $75,000. The district had increased expenditures for energy costs, cleaning supplies, bus repairs, and technology. Total Other Expenditures changed from $649,212 to $729,212. Expenditures increased by $80,000 due to the land, debt service and capital projects expenditures.

The District's receipts were $153,898 less than budgeted receipts, a variance of 3%. The most significant variance resulted from the District receiving less charges for services than originally anticipated.

Total expenditures were $116,487 less than budgeted, due 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 Support Services and Non-instructional Programs functional areas due to the disbursements paid at year-end. Support Services was exceeded due to the account code changes related to technology hardware purchases. Non-instructional Programs in the area of Preschool/Daycare was a new program with expenditures underestimated. Enrollment figures and grant amounts were not finalized by the end of the budget process for 2005/2006.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested $5,165,279, 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 represents a net decrease of approximately 3% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was $252,686.

The original cost of the District's capital assets was $8,199,670. Governmental funds account for $8,172,089, with the remainder of $27,581 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled $361,831 at June 30, 2006, compared to $407,515 reported at June 30, 2005. This decrease resulted from annual depreciation expense on the assets exceeding the new purchases made during the year.

Figure A-6

Capital Assets, Net of Depreciation

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Change |
|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-2006 |
| Land | $ 145,959 | $ 145,959 | $ - | $ - | $ 145,959 | $ 145,959 | 0.00% |
| Buildings and improvements | 4,610,334 | 4,720,939 | - | - | 4,610,334 | 4,720,939 | -2.34% |
| Improvements other than buildings | 47,155 | 50,823 | - | - | 47,155 | 50,823 | -7.22% |
| Furniture and equipment | 349,879 | 395,079 | 11,952 | 12,436 | 361,831 | 407,515 | -11.21% |
| Totals | $5,153,327 | $5,312,800 | $ 11,952 | $ 12,436 | $5,165,279 | $5,325,236 | -3.00% |

### Long-Term Debt

At June 30, 2006, the District had $2,018,816 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 15% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

During fiscal year 2006, the District extinguished $1,520,000 of general obligation bonds by issuing $1,550,000 in new general obligation bonds as part of an advance bond refunding.

Figure A-7

Outstanding Long-term Obligations

| | Total School District | | Total Change |
|---|---|---|---|
| | 2006 | 2005 | 2005-2006 |
| General obligation bonds | $ 1,680,000 | $ 1,770,000 | -5.08% |
| Revenue bonds | 260,000 | 510,000 | -49.02% |
| Early retirement | 78,816 | 103,038 | -23.51% |
| Total | $ 2,018,816 | $ 2,383,038 | -15.28% |

## 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 District will negotiate a new agreement with the Danville Education Association during fiscal 2007. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

- The 2006/2007 budget includes a cash reserve levy in the amount of $49,500 and SBRC approved Modified Allowable Growth for increased enrollment in the amount of $92,210.

- New money in the amount of approximately $176,000 is included in the budget as a result of increased enrollment of 18.7 students.

## 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 Nancy House, District Secretary/Treasurer and Business Manager, Danville Community School District, 419 South Main Street, Danville, Iowa, 52623.

Basic Financial Statements

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

| | Governmental Activities | Business Type Activities | Total |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | | | |
| ISCAP | $ 1,387,524 | $ - | $ 1,387,524 |
| Other | 174,053 | 21,662 | 195,715 |
| Receivables | | | |
| Property tax | | | |
| Delinquent | 13,455 | - | 13,455 |
| Succeeding year | 1,367,271 | - | 1,367,271 |
| Accrued interest | | | |
| ISCAP | 14,047 | - | 14,047 |
| Accounts receivable | 386 | - | 386 |
| Due from other governments | 69,980 | - | 69,980 |
| Inventories | - | 3,443 | 3,443 |
| Capital assets, net of accumulated depreciation | 5,153,327 | 11,952 | 5,165,279 |
| Total assets | 8,180,043 | 37,057 | 8,217,100 |
| **LIABILITIES** | | | |
| Accounts payable | 2,385 | 30,769 | 33,154 |
| Salaries and benefits payable | 372,629 | 9,603 | 382,232 |
| Due to other governments | 33,432 | - | 33,432 |
| Accrued interest payable | 24,546 | - | 24,546 |
| Deferred revenue - succeeding year property tax | 1,367,271 | - | 1,367,271 |
| Deferred revenue - other | 2,728 | - | 2,728 |
| ISCAP drawdowns payable | 267,000 | - | 267,000 |
| ISCAP warrants payable | 1,386,000 | - | 1,386,000 |
| ISCAP accrued interest payable | 15,156 | - | 15,156 |
| ISCAP unamortized premium | 11,511 | - | 11,511 |
| Long-term liabilities | | | |
| Portion due within one year | | | |
| Bonds payable | 130,000 | - | 130,000 |
| Revenue bonds payable | 260,000 | - | 260,000 |
| Early retirement | 19,453 | - | 19,453 |
| Portion due after one year | | | |
| Bonds payable | 1,550,000 | - | 1,550,000 |
| Early retirement | 59,363 | - | 59,363 |
| Total liabilities | 5,501,474 | 40,372 | 5,541,846 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

| | Governmental Activities | Business Type Activities | Total |
|---|---|---|---|
| **NET ASSETS** | | | |
| Invested in capital assets, net of related debt | $ 3,213,327 | $ 11,952 | 3,225,279 |
| Restricted for | | | |
| Other special revenue purposes | 73,536 | - | 73,536 |
| Physical Plant and Equipment Levy | 4,703 | - | 4,703 |
| Capital Projects | 41,503 | - | 41,503 |
| Unrestricted | (654,500) | (15,267) | (669,767) |
| Total net assets | $ 2,678,569 | $ (3,315) | $ 2,675,254 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants, Contributions and Restricted Interest | Program Revenues: Capital Grants, Contributions and Restricted Interest | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business Type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|
| Governmental activities | | | | | | | |
| Instruction | | | | | | | |
| Regular instruction | $ 1,882,583 | $ 751,868 | $ 217,864 | $ - | $ (912,851) | $ - | $ (912,851) |
| Special instruction | 424,133 | 136,443 | 55,371 | - | (232,319) | - | (232,319) |
| Other instruction | 703,314 | - | 8,549 | - | (694,765) | - | (694,765) |
| | 3,010,030 | 888,311 | 281,784 | - | (1,839,935) | - | (1,839,935) |
| Support services | | | | | | | |
| Student services | 54,270 | - | - | - | (54,270) | - | (54,270) |
| Instructional staff services | 61,179 | - | - | - | (61,179) | - | (61,179) |
| Administration services | 655,844 | - | - | - | (655,844) | - | (655,844) |
| Operation and maintenance of plant services | 442,040 | 1,183 | - | - | (440,857) | - | (440,857) |
| Transportation services | 273,080 | - | - | - | (273,080) | - | (273,080) |
| | 1,486,413 | 1,183 | - | - | (1,485,230) | - | (1,485,230) |
| Non-instructional programs | 2,417 | - | - | - | (2,417) | - | (2,417) |
| Other expenditures | | | | | | | |
| Facilities acquisition | 25,377 | - | - | - | (25,377) | - | (25,377) |
| Long-term debt interest | 161,012 | - | - | - | (161,012) | - | (161,012) |
| AEA flowthrough | 129,431 | - | 129,431 | - | - | - | - |
| Depreciation (unallocated) * | 127,941 | - | - | - | (127,941) | - | (127,941) |
| | 443,761 | - | 129,431 | - | (314,330) | - | (314,330) |
| Total governmental activities | 4,942,621 | 889,494 | 411,215 | - | (3,641,912) | - | (3,641,912) |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit B

Statement of Activities

For the Year Ended June 30, 2006

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants, Contributions and Restricted Interest | Program Revenues: Capital Grants, Contributions and Restricted Interest | Net (Expense) Revenue and Changes in Net Assets: Governmental Activities | Net (Expense) Revenue and Changes in Net Assets: Business Type Activities | Net (Expense) Revenue and Changes in Net Assets: Total |
|---|---|---|---|---|---|---|---|
| Business type activities | | | | | | | |
| Non-instructional programs | | | | | | | |
| Nutrition services | $ 251,297 | $ 179,569 | $ 88,325 | $ - | $ - | $ 16,597 | $ 16,597 |
| Preschool operations | 98,789 | 24,707 | 32,345 | - | - | (41,737) | (41,737) |
| Total business type activities | 350,086 | 204,276 | 120,670 | - | - | (25,140) | (25,140) |
| Total | $ 5,292,707 | $ 1,093,770 | $ 531,885 | $ - | (3,641,912) | (25,140) | (3,667,052) |
| **General Revenues** | | | | | | | |
| Property tax levied for | | | | | | | |
| General purposes | | | | | 1,306,886 | - | 1,306,886 |
| Capital projects | | | | | 26,254 | - | 26,254 |
| Debt service | | | | | 128,208 | - | 128,208 |
| Sales and services tax | | | | | 372,265 | - | 372,265 |
| Unrestricted state grants | | | | | 1,666,533 | - | 1,666,533 |
| Contributions and donations | | | | | 2,010 | - | 2,010 |
| Unrestricted investment earnings | | | | | 80,489 | 320 | 80,809 |
| Other | | | | | 6,414 | - | 6,414 |
| Total general revenues | | | | | 3,589,059 | 320 | 3,589,379 |
| Change in net assets | | | | | (52,853) | (24,820) | (77,673) |
| Net assets, beginning of year | | | | | 2,731,422 | 21,505 | 2,752,927 |
| Net assets, end of year | | | | | $ 2,678,569 | $ (3,315) | $ 2,675,254 |

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

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit C

Balance Sheet
Governmental Funds
June 30, 2006

| ASSETS | General | Nonmajor Governmental | Total |
|---|---|---|---|
| Cash and pooled investments | | | |
| ISCAP | $ 1,387,524 | $ - | $ 1,387,524 |
| Other | 120,035 | 54,018 | 174,053 |
| Receivables | | | |
| Property tax | | | |
| Delinquent | 10,974 | 2,481 | 13,455 |
| Succeeding year | 1,118,646 | 248,625 | 1,367,271 |
| Accounts receivable | 328 | 58 | 386 |
| Accrued interest | | | |
| ISCAP | 14,047 | - | 14,047 |
| Due from other funds | - | 29,182 | 29,182 |
| Due from other governments | 12,691 | 57,289 | 69,980 |
| Total assets and other debits | $ 2,664,245 | $ 391,653 | $ 3,055,898 |
| **LIABILITIES AND FUND BALANCES** | | | |
| Liabilities | | | |
| Accounts payable | $ 453 | $ 1,932 | $ 2,385 |
| Salaries and benefits payable | 372,629 | - | 372,629 |
| Due to other funds | - | 29,182 | 29,182 |
| Due to other governments | 33,432 | - | 33,432 |
| ISCAP warrants payable | 1,386,000 | - | 1,386,000 |
| ISCAP accrued interest payable | 15,156 | - | 15,156 |
| ISCAP unamortized premium | 11,511 | - | 11,511 |
| ISCAP drawdown payable | 267,000 | - | 267,000 |
| Deferred revenue | | | |
| Succeeding year property tax | 1,118,646 | 248,625 | 1,367,271 |
| Other | 2,728 | - | 2,728 |
| Total liabilities | 3,207,555 | 279,739 | 3,487,294 |
| Fund balances | | | |
| Reserved for | | | |
| Debt service | - | 994 | 994 |
| Unreserved, undesignated | | | |
| Governmental | (543,310) | 41,503 | (501,807) |
| Special revenue | - | 69,417 | 69,417 |
| Total fund balances | (543,310) | 111,914 | (431,396) |
| Total liabilities and fund balances | $ 2,664,245 | $ 391,653 | $ 3,055,898 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2006

Exhibit D

| | |
|---|---|
| **Total fund balances of governmental funds** | $ (431,396) |
| **Amounts reported for governmental activities in the statement of net assets are different because:** | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | 5,153,327 |
| 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. | (24,546) |
| Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | (2,018,816) |
| **Net assets of governmental activities** | $ 2,678,569 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

| | General | Nonmajor Governmental | Total |
|---|---|---|---|
| Revenues | | | |
| Local sources | | | |
| Local tax | $ 1,218,773 | $ 613,585 | $ 1,832,358 |
| Tuition | 643,369 | - | 643,369 |
| Other | 90,128 | 254,812 | 344,940 |
| State sources | 1,961,825 | 14 | 1,961,839 |
| Federal sources | 106,887 | - | 106,887 |
| Total revenues | 4,020,982 | 868,411 | 4,889,393 |
| Expenditures | | | |
| Current | | | |
| Instruction | | | |
| Regular instruction | 1,850,699 | 14,400 | 1,865,099 |
| Special instruction | 417,274 | 3,683 | 420,957 |
| Other instruction | 436,011 | 249,814 | 685,825 |
| | 2,703,984 | 267,897 | 2,971,881 |
| Support services | | | |
| Student services | 40,575 | 11,533 | 52,108 |
| Instructional staff services | 84,022 | 768 | 84,790 |
| Administration services | 650,732 | 7,397 | 658,129 |
| Operation and maintenance of plant services | 376,975 | 25,728 | 402,703 |
| Transportation services | 229,602 | 15,822 | 245,424 |
| | 1,381,906 | 61,248 | 1,443,154 |
| Non-instructional programs | - | 2,417 | 2,417 |
| Other expenditures | | | |
| Facilities acquisition | - | 99,475 | 99,475 |
| Long-term debt | | | |
| Principal | - | 370,000 | 370,000 |
| Interest and fiscal charges | - | 150,857 | 150,857 |
| AEA flowthrough | 129,431 | - | 129,431 |
| | 129,431 | 620,332 | 749,763 |
| Total expenditures | 4,215,321 | 951,894 | 5,167,215 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

| | General | Nonmajor Governmental | Total |
|---|---|---|---|
| Deficiency of revenues under expenditures | $ (194,339) | $ (83,483) | $ (277,822) |
| Other financing sources (uses) | | | |
| Sale of equipment and materials | 375 | - | 375 |
| Proceeds from issuance of bonds | - | 1,550,000 | 1,550,000 |
| Payments to fiscal agent | - | (1,522,043) | (1,522,043) |
| Total other financing sources | 375 | 27,957 | 28,332 |
| Net change in fund balances | (193,964) | (55,526) | (249,490) |
| Fund balance, beginning of year | (349,346) | 167,440 | (181,906) |
| Fund balance, end of year | $ (543,310) | $ 111,914 | $ (431,396) |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2006

Exhibit F

| | | |
|---|---|---|
| **Net change in fund balances - total governmental funds** | | $ (249,490) |
| **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 | $ 92,729 | |
| Depreciation expense | (252,202) | (159,473) |
| Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows: | | |
| Issued | (30,000) | |
| Repaid | 370,000 | 340,000 |
| 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 governmental funds, as follows: | | |
| Early retirement | | 24,222 |
| 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. | | (8,112) |
| **Change in net assets of governmental activities** | | $ (52,853) |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2006

Exhibit G

| | Nonmajor Enterprise |
|---|---|
| **ASSETS** | |
| Cash and cash equivalents | $ 21,662 |
| Inventories | 3,443 |
| Capital assets, net of accumulated depreciation | 11,952 |
| Total assets | 37,057 |
| **LIABILITIES** | |
| Accounts payable | 30,769 |
| Salaries and benefits payable | 9,603 |
| Total liabilities | 40,372 |
| **NET ASSETS** | |
| Invested in capital assets | 11,952 |
| Unrestricted | (15,267) |
| Total net assets | $ (3,315) |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2006

Exhibit H

| | Nonmajor Enterprise |
|---|---|
| Operating revenue | |
| Local sources | |
| Charges for service | $ 204,276 |
| Operating expenses | |
| Regular instruction | |
| Preschool program | |
| Salaries | 62,759 |
| Benefits | 20,361 |
| Purchased services | 10,464 |
| Supplies | 2,492 |
| Equipment repairs | 2,713 |
| | 98,789 |
| Non-instructional programs | |
| Food service operations | |
| Salaries | 76,921 |
| Benefits | 26,993 |
| Purchased services | 3,037 |
| Supplies | 143,862 |
| Depreciation | 484 |
| | 251,297 |
| Total operating expenses | 350,086 |
| Operating loss | (145,810) |
| Non-operating revenue | |
| Interest income | 320 |
| State sources | 35,624 |
| Federal sources | 85,046 |
| Total non-operating revenue | 120,990 |
| Net loss | (24,820) |
| Net assets, beginning of year | 21,505 |
| Net assets, end of year | $ (3,315) |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006

Exhibit I

| | Nonmajor Enterprise |
|---|---|
| Cash flows from operating activities | |
| Cash received from sale of meals | $ 204,276 |
| Cash payments to employees for services | (149,934) |
| Cash payments to suppliers for goods and services | (154,168) |
| Net cash used in operating activities | (99,826) |
| Cash flows from non-capital financing activities | |
| State grants received | 35,624 |
| Federal grants received | 75,792 |
| Net cash provided by non-capital financing activities | 111,416 |
| Cash flows from capital and related financing activities | - |
| Cash flows from investing activities | |
| Interest on investments | 320 |
| Net increase in cash and cash equivalents | 11,910 |
| Cash and cash equivalents, beginning of year | 9,752 |
| Cash and cash equivalents, end of year | $ 21,662 |
| **Reconciliation of operating loss to net cash used in operating activities** | |
| Operating loss | $ (145,810) |
| Adjustments to reconcile operating loss to net cash used in operating activities | |
| Commodities used | 9,254 |
| Depreciation | 484 |
| (Increase) in inventories | (854) |
| Increase in accounts payable | 30,769 |
| (Decrease) in due to other fund | (3,272) |
| Increase in accrued salaries and benefits | 9,603 |
| Net cash used in operating activities | $ (99,826) |

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received $9,254 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2006

Exhibit J

| | Private Purpose Trust Scholarships |
|---|---|
| Assets | |
| Cash and pooled investments | $10,766 |
| Liabilities | - |
| Net assets | |
| Reserved for scholarships | $10,766 |

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2006

Exhibit K

| | Private Purpose Trust Scholarships |
|---|---|
| Additions | |
| Local sources | |
| Interest | $ 125 |
| Deductions | - |
| Change in net assets | 125 |
| Net assets, beginning of year | 10,641 |
| Net assets, end of year | $ 10,766 |

See notes to financial statements and Independent Auditor's Report.

## Note 1. Summary of Significant Accounting Policies

The Danville Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Danville, Iowa, and the agricultural territory in Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports no major proprietary funds. However, it reports two nonmajor enterprise funds, the School Nutrition Fund which is used to account for the food service operations of the District and the Preschool Fund which accounts for the operation of the District's preschool program.

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

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the 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 early retirement benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

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

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

Capital Assets - Capital assets, which include property, 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 | $2,500 |
| Buildings | $1,000 |
| Improvements other than buildings | $2,500 |
| Furniture and equipment: | |
| School Nutrition Fund equipment | $ 500 |
| Other furniture and equipment | $1,000 |

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

| Asset Class | Useful Life |
|---|---|
| Buildings & Improvements | 50 years |
| Improvements other than buildings | 20 years |
| Furniture and equipment | 5-12 years |

Salaries and Benefits Payable - Payroll and related expenses for services performed by hourly employees prior to June 30, 2006 and payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2006. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of property tax 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amended amounts budgeted in the Support Services and Non-instructional Programs functions. However, General Fund disbursements did not exceed the District's unspent authorized budget.

## Note 2. Cash and Pooled Investments

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

| | Amortized Cost |
|---|---|
| Diversified Portfolio | $ 3,299 |

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

Credit risk. The investment in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

## Note 3. Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2006 is as follows:

| Receivable Fund | Payable Fund | Amount |
|---|---|---|
| Student Activities | Capital Projects | $ 19,085 |
| Student Activities | Management Levy | 9,773 |
| Student Activities | Debt Service | 324 |
| Totals | | $ 29,182 |

The Management Fund, Debt Service Fund and Capital Projects Fund owe the Student Activities Fund for monies borrowed from a shared bank account to cover disbursements.

## Note 4. Interfund Transfers

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

| Transfer to | Transfer from | Amount |
|---|---|---|
| Preschool | School Nutrition | $ 3,225 |
| Debt Service | Capital Projects | 349,791 |
| Total | | $ 353,016 |

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The School Nutrition Fund transferred money to the Preschool Fund to pay for the preschool's federal and state meal revenues.

## Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

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

| Series | Date | Final Maturity | Investments | Accrued Receivable | Payable | Accrued Payable | Premium |
|---|---|---|---|---|---|---|---|
| 2005-06B | 1/26/06 | 1/26/07 | $ 518,733 | $ 13,777 | $ 516,000 | $ 14,941 | $ 4,890 |
| 2006-07A | 6/28/06 | 6/28/07 | 868,791 | 270 | 870,000 | 215 | 6,621 |
| | | | $ 1,387,524 | $ 14,047 | $ 1,386,000 | $ 15,156 | $ 11,511 |

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 additions, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

| Series | Balance, Beginning of Year | Advances Received | Advances Repaid | Balance, End of Year |
|---|---|---|---|---|
| 2005-06A | $ - | $ 700,000 | $ 700,000 | $ - |
| 2005-06B | - | 267,000 | - | 267,000 |
| Total | $ - | $ 967,000 | $ 700,000 | $ 267,000 |

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

| Series | Interest Rates on Warrants | Interest Rates on Investments |
|---|---|---|
| 2005-06A | 4.000% | 3.9030% |
| 2005-06B | 4.500% | 4.7720% |
| 2006-07A | 4.500% | 5.6760% |

## Note 6. Capital Assets

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

| Governmental activities | Balance, Beginning of Year | Additions | Deletions | Balance, End of Year |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 145,959 | $ - | $ - | $ 145,959 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 6,190,076 | 11,877 | - | 6,201,953 |
| Improvements other than buildings | 281,244 | - | - | 281,244 |
| Furniture and equipment | 1,462,081 | 80,852 | - | 1,542,933 |
| Total capital assets being depreciated | 7,933,401 | 92,729 | - | 8,026,130 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 1,469,137 | 122,482 | - | 1,591,619 |
| Improvements other than buildings | 230,421 | 3,668 | - | 234,089 |
| Furniture and equipment | 1,067,002 | 126,052 | - | 1,193,054 |
| Total accumulated depreciation | 2,766,560 | 252,202 | - | 3,018,762 |
| Total capital assets being depreciated, net | 5,166,841 | (159,473) | - | 5,007,368 |
| Governmental activities capital assets, net | $ 5,312,800 | $(159,473) | $ - | $ 5,153,327 |
| | | | | |
| Business type activities | | | | |
| Furniture and equipment | $ 27,581 | $ - | $ - | $ 27,581 |
| Less accumulated depreciation | 15,145 | 484 | - | 15,629 |
| Business type activities capital assets, net | $ 12,436 | $ (484) | $ - | $ 11,952 |

Depreciation expense was charged to the following functions:

| | |
|---|---|
| **Governmental activities** | |
| Instruction | |
| Regular | $ 24,388 |
| Special | 3,176 |
| Other | 17,489 |
| Support services | |
| Student | 2,162 |
| Instructional staff | 2,302 |
| Administration | 7,751 |
| Operation and maintenance of plant | 39,337 |
| Transportation | 27,656 |
| Unallocated depreciation | 127,941 |
| Total governmental activities depreciation expense | $ 252,202 |
| | |
| **Business type activities** | |
| Food services | $ 484 |

## Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

| | Balance, Beginning of Year | Additions | Reductions | Balance, End of Year | Due Within One Year |
|---|---|---|---|---|---|
| General obligation bonds | $ 1,770,000 | $ - | $(1,640,000) | $ 130,000 | $ 130,000 |
| Refunded bonds | - | 1,550,000 | - | 1,550,000 | - |
| Revenue bonds | 430,000 | - | (210,000) | 220,000 | 220,000 |
| Bank loan | 80,000 | - | (40,000) | 40,000 | 40,000 |
| Early retirement | 103,038 | - | (24,222) | 78,816 | 19,453 |
| Totals | $ 2,383,038 | $ 1,550,000 | $(1,914,222) | $ 2,018,816 | $ 409,453 |

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. Eligible employees must be between the ages of fifty-five and sixty-four and have completed fifteen years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Early retirement benefits are paid in a lump sum payment equal to 15% of the last year's salary. The District also pays 95% of the retiree's medical and dental insurance premium until the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2006 totaled $24,222.

Revenue Bonds

In June 2001 the District issued revenue anticipation bonds in the amount of $970,000 to be used for repairs and improvements to the gym. During the year ended June 30, 2003, these bonds were refinanced. The new bonds for $1,185,000 were issued on July 11, 2001. On June 15, 2005 the District issued $80,000 in revenue anticipation bonds for land purchase. Both bond issues will be repaid from revenue generated from the local sales and services tax. Details of the revenue anticipation bonded indebtedness at June 30, 2006 are as follows:

| Year Ending June 30, | Issue of July 12, 2001 | | | |
|---|---|---|---|---|
| | Interest Rates | Interest | Principal | Total |
| 2007 | 4.900 | $ 8,085 | $ 220,000 | $ 228,085 |

| Year Ending June 30, | Issue of June 15, 2005 | | | |
|---|---|---|---|---|
| | Interest Rates | Interest | Principal | Total |
| 2007 | 2.500 | $ 750 | $ 40,000 | $ 40,750 |

General Obligation Bonds Payable

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

| Year Ending June 30, | Bond issue of November 24, 1997 | | | |
|---|---|---|---|---|
| | Interest Rates | Interest | Principal | Total |
| 2007 | 4.800 | $82,310 | $130,000 | $212,310 |

| Year Ending June 30, | Bond issue of November 1, 2005 | | | |
|---|---|---|---|---|
| | Interest Rates | Interest | Principal | Total |
| 2007 | | $ 59,082 | $ - | $ 59,082 |
| 2008 | 3.350 | 59,082 | 145,000 | 204,082 |
| 2009 | 3.450 | 54,225 | 155,000 | 209,225 |
| 2010 | 3.550 | 48,877 | 155,000 | 203,877 |
| 2011 | 3.700 | 43,375 | 165,000 | 208,375 |
| 2012 | 3.800 | 37,270 | 175,000 | 212,270 |
| 2013 | 3.900 | 30,620 | 175,000 | 205,620 |
| 2014 | 4.000 | 23,795 | 185,000 | 208,795 |
| 2015 | 4.100 | 16,395 | 195,000 | 211,395 |
| 2016 | 4.200 | 8,400 | 200,000 | 208,400 |
| Totals | | $ 381,121 | $ 1,550,000 | $ 1,931,121 |

During the year ended June 30, 2006, the District issued $1,550,000 in general obligation bonds and retired general obligation bonds of $1,640,000 as part of an advance refunding of the 1997 bond issue.

Refunded General Obligation Bonds

During the year ended June 30, 2006, the District entered into an escrow agreement whereby the proceeds from general obligation refunding bonds were converted into U.S. Securities. These securities and additional cash were placed in an escrow account for the express purpose of paying the principal and interest on the refunded general obligation bonds as they become due. After the principal and interest on all of the outstanding bonds have been paid, the remaining funds in the escrow account, together with any interest thereon, shall be returned to the District. The transactions, balances and liabilities of the escrow account are not recorded by the District. The amount of the refunded general obligation bonds that was considered extinguished and, therefore, excluded from long-term debt was $1,520,000 at June 30, 2006.

The advance refunding was undertaken to reduce total debt service payments over the next eleven years by $46,059 and resulted in an economic gain of $47,478.

## Note 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, IA, 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 $147,491, $139,452 and $132,834 respectively, equal to the required contributions for each year.

## Note 9. Risk Management

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

## Note 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 $129,431 adjusting entry to the cash basis financial statements.

## Note 11. Deficit Balances

The District had unreserved undesignated fund deficits in the following funds at June 30, 2006:

| | |
|---|---|
| General Fund | $543,310 |
| Management Fund | $ 8,822 |
| Preschool | $ 38,512 |

Required Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule of Receipts, Disbursements
and Changes in Balances - Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Fund
Required Supplementary Information
For the Year Ended June 30, 2006

| | Governmental Funds Actual | Proprietary Fund Actual | Total Actual | Budgeted Amounts Original | Budgeted Amounts Final | Final to Actual Variance |
|---|---|---|---|---|---|---|
| Receipts | | | | | | |
| Local sources | $ 2,784,691 | $ 204,596 | $ 2,989,287 | $ 3,106,881 | $ 3,261,881 | $ (272,594) |
| Intermediate sources | - | - | - | 1,000 | 1,000 | (1,000) |
| State sources | 1,959,760 | 35,624 | 1,995,384 | 2,047,188 | 2,047,188 | (51,804) |
| Federal sources | 155,708 | 75,792 | 231,500 | 60,000 | 60,000 | 171,500 |
| Total receipts | 4,900,159 | 316,012 | 5,216,171 | 5,215,069 | 5,370,069 | (153,898) |
| Disbursements | | | | | | |
| Instruction | 2,933,959 | - | 2,933,959 | 3,081,423 | 3,081,423 | 147,464 |
| Support services | 1,368,527 | - | 1,368,527 | 1,289,705 | 1,364,705 | (3,822) |
| Non-instructional programs | 2,417 | 334,871 | 337,288 | 298,370 | 298,370 | (38,918) |
| Other expenditures | 717,449 | - | 717,449 | 649,212 | 729,212 | 11,763 |
| Total disbursements | 5,022,352 | 334,871 | 5,357,223 | 5,318,710 | 5,473,710 | 116,487 |
| Deficiency of receipts under disbursements | (122,193) | (18,859) | (141,052) | (103,641) | (103,641) | (37,411) |
| Other financing sources, net | 375 | - | 375 | - | - | 375 |
| Deficiency of receipts and other financing sources under disbursements | (121,818) | (18,859) | (140,677) | (103,641) | (103,641) | (37,036) |
| Balance, beginning of year | (311) | 9,752 | 9,441 | 211,863 | 211,863 | (202,422) |
| Balance, end of year | $ (122,129) | $ (9,107) | $ (131,236) | $ 108,222 | $ 108,222 | $ (239,458) |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Budgetary Comparison Schedule - Budget to GAAP Reconciliation
Required Supplementary Information
For the Year Ended June 30, 2006

| | Governmental Fund Types | | |
|---|---|---|---|
| | Cash Basis | Accrual Adjustments | Modified Accrual Basis |
| Revenues | $ 4,900,159 | $ (10,766) | $ 4,889,393 |
| Expenditures | 5,022,352 | 144,863 | 5,167,215 |
| Net | (122,193) | (155,629) | (277,822) |
| Other financing sources | 375 | 27,957 | 28,332 |
| Beginning fund balances | (311) | (181,595) | (181,906) |
| Ending fund balances | $ (122,129) | $ (309,267) | $ (431,396) |

| | Proprietary Fund Type | | |
|---|---|---|---|
| | Enterprise | | |
| | Cash Basis | Accrual Adjustments | Accrual Basis |
| Revenues | $ 316,012 | $ 9,254 | $ 325,266 |
| Expenditures | 334,871 | 15,215 | 350,086 |
| Net | (18,859) | (5,961) | (24,820) |
| Beginning fund balances | 9,752 | 11,753 | 21,505 |
| Ending fund balances | $ (9,107) | $ 5,792 | $ (3,315) |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the 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 comparisons for the General 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. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing disbursements by $155,000.

During the year ended June 30, 2006, District disbursements exceeded the amounts budgeted in the Support Services and Non-instructional Programs functions; however, General Fund disbursements did not exceed the District's unspent authorized budget.

Other Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT

Schedule 1

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2006

| | Special Revenue | | | | | |
|---|---|---|---|---|---|---|
| **ASSETS** | Management Levy | Student Activity | Physical Plant and Equipment Levy | Capital Projects | Debt Service | Total |
| Cash and pooled investments | $ - | $ 44,390 | $ 6,329 | $ 3,299 | $ - | $ 54,018 |
| Receivables | | | | | | |
| Property tax | | | | | | |
| Current year delinquent | 893 | - | 270 | - | 1,318 | 2,481 |
| Succeeding year | 92,000 | - | 27,427 | - | 129,198 | 248,625 |
| Accounts receivable | 58 | - | - | - | - | 58 |
| Due from other governments | - | - | - | 57,289 | - | 57,289 |
| Due from other fund | - | 29,182 | - | - | - | 29,182 |
| Total assets | $ 92,951 | $ 73,572 | $ 34,026 | $ 60,588 | $ 130,516 | $ 391,653 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| Liabilities | | | | | | |
| Due to other funds | $ 9,773 | $ - | $ - | $ 19,085 | $ 324 | $ 29,182 |
| Accounts payable | - | 36 | 1,896 | - | - | 1,932 |
| Deferred revenue | | | | | | |
| Succeeding year property tax | 92,000 | - | 27,427 | - | 129,198 | 248,625 |
| Total liabilities | 101,773 | 36 | 29,323 | 19,085 | 129,522 | 279,739 |
| Fund Balances | | | | | | |
| Unreserved fund balances | (8,822) | 73,536 | 4,703 | 41,503 | 994 | 111,914 |
| Total fund balances | (8,822) | 73,536 | 4,703 | 41,503 | 994 | 111,914 |
| Total liabilities and fund balances | $ 92,951 | $ 73,572 | $ 34,026 | $ 60,588 | $ 130,516 | $ 391,653 |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Schedule 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended June 30, 2006

| | Special Revenue | | | | | |
|---|---|---|---|---|---|---|
| Revenues | Management Levy | Student Activity | Physical Plant and Equipment Levy | Capital Projects | Debt Service | Total |
| Local sources | | | | | | |
| Local taxes | $ 86,867 | $ - | $ 26,252 | $ 372,265 | $ 128,201 | $ 613,585 |
| Other | 58 | 237,651 | 17 | 971 | 16,115 | 254,812 |
| State sources | 5 | - | 2 | - | 7 | 14 |
| Total revenues | 86,930 | 237,651 | 26,271 | 373,236 | 144,323 | 868,411 |
| Expenditures | | | | | | |
| Instruction | | | | | | |
| Regular program instruction | 14,400 | - | - | - | - | 14,400 |
| Special instruction | 3,683 | - | - | - | - | 3,683 |
| Other instruction | 1,280 | 248,534 | - | - | - | 249,814 |
| Support services | | | | | | |
| Student services | 11,533 | - | - | - | - | 11,533 |
| Instructional staff services | 768 | - | - | - | - | 768 |
| Administration services | 7,397 | - | - | - | - | 7,397 |
| Operation and maintenance of plant | 25,728 | - | - | - | - | 25,728 |
| Transportation services | 15,822 | - | - | - | - | 15,822 |
| Noninstructional programs | 2,417 | - | - | - | - | 2,417 |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT

Schedule 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

| | Special Revenue | | | | | |
|---|---|---|---|---|---|---|
| Expenditures (continued) | Management Levy | Student Activity | Physical Plant and Equipment Levy | Capital Projects | Debt Service | Total |
| Other expenditures | | | | | | |
| Facilities acquisition services | $ - | $ - | $ 22,043 | $ 77,432 | $ - | $ 99,475 |
| Long-term debt | | | | | | |
| Principal | - | - | - | - | 370,000 | 370,000 |
| Interest and fiscal charges | - | - | - | - | 150,857 | 150,857 |
| Total expenditures | 83,028 | 248,534 | 22,043 | 77,432 | 520,857 | 951,894 |
| Excess (deficiency) of revenues over (under) expenditures | 3,902 | (10,883) | 4,228 | 295,804 | (376,534) | (83,483) |
| Other financing sources (uses) | | | | | | |
| Proceeds from issuance of bonds | - | - | - | - | 1,550,000 | 1,550,000 |
| Payments to fiscal agent | - | - | - | - | (1,522,043) | (1,522,043) |
| Operating transfers in (out) | - | - | - | (349,791) | 349,791 | - |
| Total other financing sources (uses) | - | - | - | (349,791) | 377,748 | 27,957 |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses) | 3,902 | (10,883) | 4,228 | (53,987) | 1,214 | (55,526) |
| Fund balances, beginning of year | (12,724) | 84,419 | 475 | 95,490 | (220) | 167,440 |
| Fund balances, end of year | $ (8,822) | $ 73,536 | $ 4,703 | $ 41,503 | $ 994 | $ 111,914 |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Assets
Nonmajor Proprietary Funds
June 30, 2006

Schedule 3

| | Enterprise | | |
|---|---|---|---|
| | School Nutrition | Preschool | Total |
| **ASSETS** | | | |
| Cash and cash equivalents | $21,662 | $ - | $21,662 |
| Inventories | 3,443 | - | 3,443 |
| Capital assets, net of accumulated depreciation | 11,952 | - | 11,952 |
| Total assets | 37,057 | - | 37,057 |
| **LIABILITIES** | | | |
| Accounts payable | - | 30,769 | 30,769 |
| Salaries and benefits payable | 1,860 | 7,743 | 9,603 |
| Total liabilities | 1,860 | 38,512 | 40,372 |
| **NET ASSETS** | | | |
| Invested in capital assets | 11,952 | - | 11,952 |
| Unrestricted | 23,245 | (38,512) | (15,267) |
| Total net assets | $35,197 | $(38,512) | $ (3,315) |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT Schedule 4
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

| | Enterprise | | |
|---|---|---|---|
| | School | | |
| Operating revenue | Nutrition | Preschool | Total |
| Local sources | | | |
| Charges for service | $ 179,569 | $ 24,707 | $ 204,276 |
| Operating expenses | | | |
| Instruction | | | |
| Regular instruction | | | |
| Salaries | - | 62,759 | 62,759 |
| Benefits | - | 20,361 | 20,361 |
| Purchased services | - | 10,464 | 10,464 |
| Supplies | - | 2,492 | 2,492 |
| Equipment repairs | - | 2,713 | 2,713 |
| Non-instructional programs | | | |
| Salaries | 76,921 | - | 76,921 |
| Benefits | 26,993 | - | 26,993 |
| Purchased services | 3,037 | - | 3,037 |
| Supplies | 143,862 | - | 143,862 |
| Depreciation | 484 | - | 484 |
| Total operating expenses | 251,297 | 98,789 | 350,086 |
| Operating (loss) | (71,728) | (74,082) | (145,810) |
| Non-operating revenue | | | |
| Interest income | 320 | - | 320 |
| State sources | 3,279 | 32,345 | 35,624 |
| Federal sources | 85,046 | - | 85,046 |
| Total non-operating revenue | 88,645 | 32,345 | 120,990 |
| Net income (loss) before transfers | 16,917 | (41,737) | (24,820) |
| Transfers | (3,225) | 3,225 | - |
| Net income (loss) | 13,692 | (38,512) | (24,820) |
| Net assets, beginning of year | 21,505 | - | 21,505 |
| Net assets, end of year | $ 35,197 | $ (38,512) | $ (3,315) |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Proprietary Funds
For the Year Ended June 30, 2006

Schedule 5

| | Enterprise | | |
|---|---|---|---|
| | School Nutrition | Daycare & Preschool | Total |
| Cash flows from operating activities | | | |
| Cash received from sale of meals | $ 179,569 | $ 24,707 | $ 204,276 |
| Cash payments to employees for services | (105,326) | (44,608) | (149,934) |
| Cash payments to suppliers for goods and services | (138,499) | (15,669) | (154,168) |
| Net cash (used in) operating activities | (64,256) | (35,570) | (99,826) |
| Cash flows from non-capital financing activities | | | |
| Operating transfers to other fund | (3,225) | 3,225 | - |
| State grants received | 3,279 | 32,345 | 35,624 |
| Federal grants received | 75,792 | - | 75,792 |
| Net cash provided by non-capital financing activities | 75,846 | 35,570 | 111,416 |
| Cash flows from capital and related financing activities | - | - | - |
| Cash flows from investing activities | | | |
| Interest on investments | 320 | - | 320 |
| Net increase in cash and cash equivalents | 11,910 | - | 11,910 |
| Cash and cash equivalents, beginning of year | 9,752 | - | 9,752 |
| Cash and cash equivalents, end of year | $ 21,662 | $ - | $ 21,662 |
| **Reconciliation of operating (loss) to net cash (used in) operating activities** | | | |
| Operating (loss) | $ (71,728) | $ (74,082) | $ (145,810) |
| Adjustments to reconcile operating (loss) to net cash (used in) operating activities | | | |
| Commodities used | 9,254 | - | 9,254 |
| Depreciation | 484 | - | 484 |
| (Increase) in inventories | (854) | - | (854) |
| Increase in accounts payable | - | 30,769 | 30,769 |
| (Decrease) in due to other fund | (3,272) | - | (3,272) |
| Increase in accrued salaries and benefits | 1,860 | 7,743 | 9,603 |
| Net cash (used in) operating activities | $ (64,256) | $ (35,570) | $ (99,826) |

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2006, the District received $9,254 of federal commodities.

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2006

Schedule 6

| Account | Balance, Beginning of Year | Revenues | Expenditures | Balance, End of Year |
|---|---|---|---|---|
| Athletics | $ 11,713 | $ 67,106 | $ 72,320 | $ 6,499 |
| Activity fees | 1,016 | 698 | 1,714 | - |
| Class of: | | | | |
| 2006 | 3,421 | 17 | 3,332 | 106 |
| 2007 | 1,331 | 13,093 | 10,910 | 3,514 |
| 2008 | 1,525 | 634 | 392 | 1,767 |
| 2009 | 144 | 1,708 | 655 | 1,197 |
| 2010 | 56 | - | - | 56 |
| 2011 | 409 | - | - | 409 |
| 2012 | - | 3,293 | 3,126 | 167 |
| 2013 | 452 | - | 13 | 439 |
| Playground equipment fund | 3,318 | - | - | 3,318 |
| Book clubs | - | 2,771 | 2,771 | - |
| Book fair | 3,331 | 3,388 | 3,030 | 3,689 |
| Parent volunteers | 2,497 | 8,563 | 9,244 | 1,816 |
| Jump Rope for Heart | 903 | 1,029 | 1,209 | 723 |
| Kindergarten workshop | 62 | - | - | 62 |
| Elementary school store | - | 687 | 679 | 8 |
| Speech | - | 3,265 | 3,265 | - |
| National Honor Society | - | 114 | - | 114 |
| Drama | 62 | 3,929 | 3,403 | 588 |
| Cheerleaders | 234 | 216 | 247 | 203 |
| Volleyball camp | - | 7,750 | 5,912 | 1,838 |
| SCI program | 129 | - | 68 | 61 |
| Math/Science | 217 | - | - | 217 |
| High school student council | 1,254 | 1,639 | 2,594 | 299 |
| Jr high student council | 7,835 | 12,367 | 12,179 | 8,023 |
| Boys basketball camp | - | 4,632 | 4,521 | 111 |
| Girls basketball camp | - | 2,287 | 1,851 | 436 |
| Baseball camp | - | 2,355 | 341 | 2,014 |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Funds, Student Activity Accounts
For the Year Ended June 30, 2006

Schedule 6

| Account | Balance, Beginning of Year | Revenues | Expenditures | Balance, End of Year |
|---|---|---|---|---|
| Band | $ 145 | $ 589 | $ 635 | $ 99 |
| Vocal music | - | 879 | 879 | - |
| Swing choir | 6,661 | 37,800 | 36,584 | 7,877 |
| Music trip | 339 | 2,949 | 1,296 | 1,992 |
| High school pop | 3,236 | 6,751 | 6,360 | 3,627 |
| School store | 541 | 4,995 | 5,220 | 316 |
| Seniors, Inc. | 355 | 136 | 103 | 388 |
| Shop | 507 | 392 | 661 | 238 |
| FHA | 380 | 1,582 | 1,465 | 497 |
| Mass media | 383 | - | - | 383 |
| Yearbook | 12,645 | 17,250 | 22,911 | 6,984 |
| Student pictures | 13,012 | 7,713 | 14,766 | 5,959 |
| Interest | 6,306 | 1,196 | - | 7,502 |
| General | - | 13,878 | 13,878 | - |
| Totals | $ 84,419 | $ 237,651 | $ 248,534 | $ 73,536 |

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 7

| | Modified Accrual Basis | | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 |
| Revenues | | | | |
| Local sources | | | | |
| Local tax | $ 1,832,358 | $ 1,780,361 | $ 1,793,022 | $ 1,758,474 |
| Tuition | 643,369 | 678,983 | 630,644 | 631,611 |
| Other | 344,940 | 417,235 | 261,089 | 243,038 |
| Intermediate sources | - | - | 14,812 | 13,872 |
| State sources | 1,961,839 | 1,916,794 | 1,737,471 | 1,764,781 |
| Federal sources | 106,887 | 124,608 | 107,508 | 59,029 |
| Total revenues | $ 4,889,393 | $ 4,917,981 | $ 4,544,546 | $ 4,470,805 |
| Expenditures | | | | |
| Instruction | | | | |
| Regular instruction | 1,865,099 | 1,889,528 | 1,887,401 | 1,803,750 |
| Special instruction | 420,957 | 363,474 | 434,193 | 430,750 |
| Other instruction | 685,825 | 731,195 | 474,810 | 445,315 |
| Support services | | | | |
| Student services | 52,108 | 76,134 | 60,415 | 66,523 |
| Instructional staff services | 84,790 | 106,076 | 67,008 | 62,973 |
| Administration services | 658,129 | 534,728 | 464,840 | 445,837 |
| Operation and maintenance of plant services | 402,703 | 382,867 | 359,174 | 354,368 |
| Transportation services | 245,424 | 226,894 | 201,758 | 205,957 |
| Central support services | - | - | 479 | 750 |
| Non-instructional programs | 2,417 | 104,342 | 4,968 | 7,668 |
| Other expenditures | | | | |
| Facilities acquisition | 99,475 | 361,119 | 152,193 | 472,516 |
| Long-term debt | | | | |
| Principal | 370,000 | 315,000 | 332,512 | 321,000 |
| Interest and other charges | 150,857 | 121,852 | 137,185 | 152,396 |
| AEA flowthrough | 129,431 | 126,367 | 126,589 | 135,192 |
| Total expenditures | $ 5,167,215 | $ 5,339,576 | $ 4,703,525 | $ 4,904,995 |

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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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
Danville Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Danville 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 my report thereon dated December 13, 2006. I conducted my 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 my audit, I considered Danville Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my 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 I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My 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, I believe items (A) Segregation of Duties and (B) Accounting Records, are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Danville Community School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operationsfor the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my 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 the Danville Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
December 13, 2006

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2006

## Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were reported.

REPORTABLE CONDITIONS

A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although I noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

   Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

   Conclusion - Response accepted.

B. Accounting Records - The District's accrual basis accounting records and reports generated by its accounting software did not agree with the Certified Annual Report submitted to the Iowa Department of Education. The year-end accruals and reversals entered in the accounting system appeared to be proper and the amounts reported on the CAR appeared to be accurate (except as noted in comment 10). However, the District's accounting software was not able to generate reports to support the amounts reported in the CAR.

   Recommendation - The District needs to be able to provide reports that support the amounts reported on the CAR. The District should contact the software vendor to resolve this issue for future years.

   Response - We will discuss this situation and take action to resolve the issue.

   Conclusion - Response accepted.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2006

**Part II. Other Findings Related to Statutory Reporting:**

1. Certified Budget - Disbursements for the year ended June 30, 2006 exceeded the amended amounts budgeted in the Support Services and Non-instructional Programs functions.

   Recommendation - The District should have amended the budget in sufficient amounts before disbursements were allowed to exceed the budget.

   Response - We will be more attentive of this in the future and amend the budget in sufficient amounts, as necessary.

   Conclusion - Response accepted.

2. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

3. 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.

4. Business Transactions - No business transactions between the District and District officials or employees were noted.

5. 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.

6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.

7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely; however, I noted a few errors in the amounts reported. The amounts reported for ISCAP transactions and relating to the general obligation bond advance refunding were not correctly reported on the CAR. The ISCAP entries affected the General Fund balance.

Recommendation - The District should correct the General Fund beginning balance on their Certified Annual Report for the year ending June 30, 2007.

Response - We will correct the necessary balances on our FY07 CAR.

Conclusion - Response accepted.

10. Financial Condition - The District had unreserved, undesignated deficits in the General Fund, Management Fund and Preschool Fund of $543,310, $8,822 and $38,512, respectively at June 30, 2006.

    Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate these deficits in order to return these funds to sound financial conditions.

    Response - We will review these situations and implement changes, as needed.

    Conclusion - Response accepted.

DANVILLE COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2006

This audit was performed by

Kay Chapman, CPA
Tammy Calvert, staff accountant