

Deep River-Millersburg Community School District

**Independent Auditor's Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs**

June 30, 2006

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Deep River-Millersburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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Board of Education (Before September 2005 Election)

Ronald Grimm	President	2007
Carol Horras	Vice-President	2006
Kenneth Cheney	Board Member	2007
Amy Stephenson	Board Member	2005
Angela George	Board Member	2005

Board of Education (After September 2005 Election)

Ronald Grimm	President	2007
Carol Horras	Vice-President	2006
Kenneth Cheney	Board Member	2007
Amy Stephenson	Board Member	2008
Angela George	Board Member	2008

School Officials

Alan Jensen	Superintendent	2006
Vicki Pope	District Secretary/Treasurer	2006
Orville W. Bloethe	Attorney	2006

Independent Auditor's Report

To the Board of Education of the
Deep River-Millersburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Deep River-Millersburg Community School District, Millersburg, 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. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Deep-River Millersburg Community School District at 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, we have also issued our reports dated September 29, 2006 on our consideration of Deep River-Millersburg Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary information on pages 4 through 12 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods

of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Deep River Millersburg Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

September 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Deep River-Millersburg 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 \$1,631,290 in fiscal 2005 to \$1,693,497 in fiscal 2006, while General Fund expenditures increased from \$1,719,610 in fiscal 2005 to \$1,768,881 in fiscal 2006. The District's General Fund balance decreased from \$335,781 in fiscal 2005 to \$259,297 in fiscal 2006, a 23% decrease.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2006. The increase in expenditures was due primarily to an increase in student support. 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.
- An increase in interest rates during the past fiscal year resulted in interest earnings in the General Fund alone increasing from \$2,500 in fiscal 2005 to \$4,742 in fiscal 2006.

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 Deep River-Millersburg 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 Deep River-Millersburg 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 Deep River-Millersburg Community School District acts solely as an agent or custodian for the benefit of those outside of County 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 Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

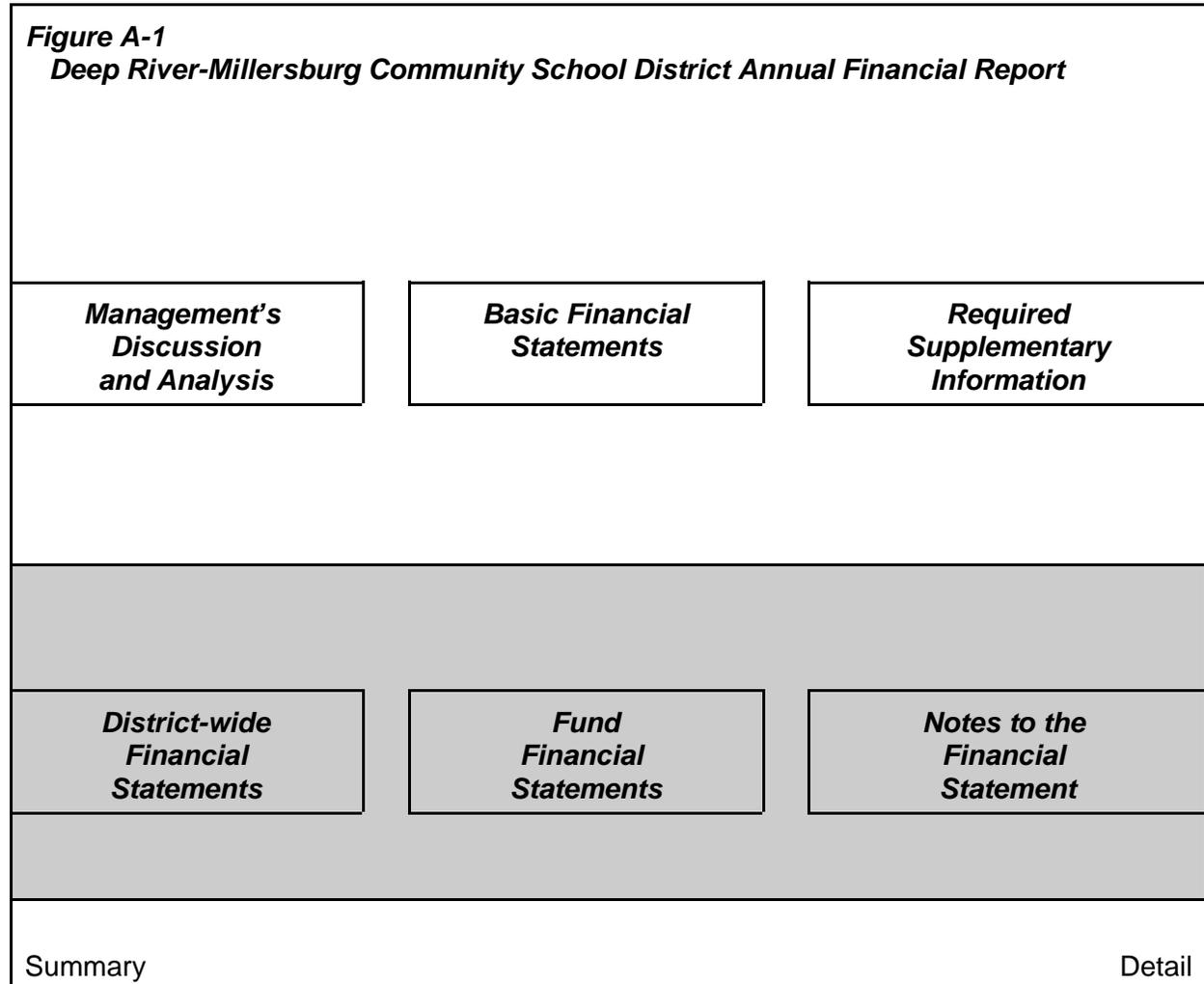


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or 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 two 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 one Enterprise Fund, the School Nutrition 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.

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.

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	2006-2005
Current and other assets	\$ 1,227	1,187	1	2	1,228	1,189	39
Capital assets	<u>183</u>	<u>190</u>	<u>0</u>	<u>0</u>	<u>183</u>	<u>190</u>	(7)
Total assets	<u>1,410</u>	<u>1,377</u>	<u>1</u>	<u>2</u>	<u>1,411</u>	<u>1,379</u>	<u>32</u>
Other liabilities	<u>710</u>	<u>705</u>	<u>0</u>	<u>0</u>	<u>710</u>	<u>705</u>	<u>5</u>
Total liabilities	<u>710</u>	<u>705</u>	<u>0</u>	<u>0</u>	<u>710</u>	<u>705</u>	<u>5</u>
Net assets:							
Investments in capital assets, net of related debt	183	190	0	0	183	190	(7)
Restricted	0	0	0	0	0	0	0
Unrestricted	<u>517</u>	<u>482</u>	<u>1</u>	<u>2</u>	<u>518</u>	<u>484</u>	<u>34</u>
Total net assets	\$ <u>700</u>	<u>672</u>	<u>1</u>	<u>2</u>	<u>701</u>	<u>674</u>	<u>27</u>

The District's combined net assets increased by nearly 4%, or approximately \$27,000 from the prior year. The largest portion of the District's net assets is invested in cash.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$34,000, or 7%. This increase 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 and 2005.

Figure A-4 Changes in Net Assets (Expressed in Thousands)						
	Governmental Activities		Business type Activities		Total District	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for service	\$ 138	136	25	25	163	161
Operating grants, contributions, and restricted interest	278	181	25	26	303	207
General revenues:						
Property tax	630	647			630	647
Local option sales and service tax	86	49			86	49
Unrestricted state grants	658	672			658	672
Unrestricted investment earnings	6	3			6	3
Other	<u>111</u>	<u>115</u>	—	—	<u>111</u>	<u>115</u>
Total revenues	<u>1,907</u>	<u>1,803</u>	<u>50</u>	<u>51</u>	<u>1,957</u>	<u>1,854</u>
Program expenses:						
Governmental activities:						
Instruction	1,271	1,268			1,271	1,268
Support services	472	431			472	431
Non-instructional programs	51	29	53	53	104	82
Other expenses	<u>83</u>	<u>88</u>	—	—	<u>83</u>	<u>88</u>
Total expenses	<u>1,877</u>	<u>1,816</u>	<u>53</u>	<u>53</u>	<u>1,930</u>	<u>1,869</u>
Change in net assets	\$ <u><u>30</u></u>	(<u>13</u>)	(<u>3</u>)	(<u>2</u>)	<u>27</u>	(<u>15</u>)

Governmental Activities

Revenues for governmental activities were \$1,907,426 and expenses were \$1,876,233.

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
(Expressed in Thousands)

	Total Cost of Services	Net Cost of Services
Instruction	\$ 1,271	940
Support services	472	472
Non-instructional programs	51	28
Other expenses	<u>83</u>	<u>21</u>
Totals	<u>\$ 1,877</u>	<u>1,461</u>

- The cost financed by users of the District's programs was \$137,456.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$277,987.
- The net cost of governmental activities was financed with \$775,100 in property and other taxes and \$658,307 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$49,819 and expenses were \$52,629. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Deep River-Millersburg 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 \$516,541, above last year's ending fund balances of \$481,678.

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 \$335,781 to \$259,298, due to the negotiated salary and benefits.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from \$80,885 in fiscal 2005 to \$105,594 in fiscal 2006.
- The Capital Projects Fund balance increased due to small cash outlays.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$2,023 at June 30, 2005 to \$319 at June 30, 2006, representing a decrease of approximately 84%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$66,729 more than budgeted receipts, a variance of 3.5%.

Total expenditures were 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$183,000, 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) More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$18,270.

The original cost of the District's capital assets was \$1,069,422.

The largest change in capital asset activity during the year occurred in the equipment category. A van was purchased for \$13,500.

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	2005-2006
Land	\$ 19	19	0	0	19	19	0
Buildings	107	107	0	0	107	107	0
Furniture and equipment	<u>57</u>	<u>64</u>	<u>0</u>	<u>0</u>	<u>57</u>	<u>64</u>	(<u>7</u>)
Totals	\$ <u>183</u>	<u>190</u>	<u>0</u>	<u>0</u>	<u>183</u>	<u>190</u>	(<u>7</u>)

Long-Term Debt

There is no debt outstanding.

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The current whole-grade sharing agreements with Montezuma and English Valley Districts will expire in 2007.

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 Vicki Pope, District Secretary/Treasurer and Business Manager, Deep River-Millersburg Community School District, Millersburg, Iowa, 52308.

Deep River-Millersburg Community School District
Statement of Net Assets
June 30, 2006

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
Other	\$ 493,880	2	493,882
Receivables:			
Property tax:			
Delinquent	14,588		14,588
Succeeding year	639,530		639,530
Income tax	53,158		53,158
Sales tax	11,249		11,249
Intergovernmental	14,390		14,390
Inventories		317	317
Capital assets, net of accumulated depreciation	<u>182,933</u>	<u>—</u>	<u>182,933</u>
Total assets	<u>1,409,728</u>	<u>319</u>	<u>1,410,047</u>
Liabilities			
Accounts payable	5,282		5,282
Salaries and benefits payable	12,280		12,280
Deferred revenue - succeeding year property tax	639,530		639,530
Other	<u>53,158</u>	<u>—</u>	<u>53,158</u>
Total liabilities	<u>710,250</u>	<u>—</u>	<u>710,250</u>
Net assets			
Invested in capital assets, net of related debt	182,933		182,933
Unrestricted	<u>516,545</u>	<u>319</u>	<u>516,864</u>
Total net assets	<u>\$ 699,478</u>	<u>319</u>	<u>699,797</u>

See notes to financial statements.

Deep River-Millersburg Community School District
Statement of Activities
Year ended June 30, 2006

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		Program Revenues		
Governmental Activities	Business Type Activities	Expenses Total	Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction		\$ 1,094,787	114,331	216,419
(764,037)		(764,037)		
Special instruction		136,289		
(136,289)		(136,289)		
Other instruction		39,597		
(39,597)		(39,597)		
		<u>1,270,673</u>	<u>114,331</u>	<u>216,419</u>
(939,923)		(939,923)		
Support services:				
Student services		1,344		
(1,344)		(1,344)		
Instructional staff services		53,402		
(53,402)		(53,402)		
Administration services		175,187		
(175,187)		(175,187)		
Operation and maintenance of plant services		134,505		
(134,505)		(134,505)		
Transportation services		107,246		
(107,246)		(107,246)		
		<u>471,684</u>		
(471,684)		(471,684)		
Non-instructional programs		50,804	23,125	
(27,679)		(27,679)		
Other expenditures:				
Facilities acquisition		3,234		
(3,234)		(3,234)		
AEA flowthrough		61,568		61,568
Depreciation (unallocated)*		18,270		
(18,270)		(18,270)		
		<u>83,072</u>		<u>61,568</u>
(21,504)		(21,504)		
Total governmental activities		<u>1,876,233</u>	<u>137,456</u>	<u>277,987</u>
(1,460,790)		(1,460,790)		

See notes to financial statements.

Deep River-Millersburg Community School District
Balance Sheet
Governmental Funds
June 30, 2006

Exhibit C

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
Assets						
Cash and pooled investments:						
Other	\$ 249,887	1,427	103,932	104,422	34,212	493,880
Receivables:						
Property tax:						
Delinquent	12,583			1,172	833	14,588
Succeeding year	569,184			33,955	36,391	639,530
Income tax	53,158					53,158
Sales tax			11,249			11,249
Intergovernmental	<u>14,390</u>					<u>14,390</u>
Total assets	\$ <u>899,202</u>	<u>1,427</u>	<u>115,181</u>	<u>139,549</u>	<u>71,436</u>	<u>1,226,795</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 5,282					5,282
Salaries and benefits payable	12,280					12,280
Deferred revenue:						
Succeeding year property tax	569,184			33,955	36,391	639,530
Other	<u>53,158</u>					<u>53,158</u>
Total Liabilities	<u>639,904</u>			<u>33,955</u>	<u>36,391</u>	<u>710,250</u>
Fund balances:						
Reserved for debt service		1,427				1,427
Unreserved	<u>259,298</u>		<u>115,181</u>	<u>105,594</u>	<u>35,045</u>	<u>515,118</u>
Total fund balances	<u>259,298</u>	<u>1,427</u>	<u>115,181</u>	<u>105,594</u>	<u>35,045</u>	<u>516,545</u>
Total liabilities and fund balances	\$ <u>899,202</u>	<u>1,427</u>	<u>115,181</u>	<u>139,549</u>	<u>71,436</u>	<u>1,226,795</u>

See notes to financial statements.

Deep River-Millersburg 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 \$ 516,545

***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.

182,933

Net assets of governmental activities \$ 699,478

See notes to financial statements.

Deep River-Millersburg Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2006

Exhibit E

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
Revenues:						
Local sources:						
Local tax	\$ 543,275		86,003	50,617	35,951	715,846
Tuition	114,331					114,331
Other	27,464		492	530	40,276	68,762
Income tax	59,254					59,254
State sources	864,078			35	25	864,138
Federal sources	<u>85,095</u>					<u>85,095</u>
Total revenues	<u>1,693,497</u>		<u>86,495</u>	<u>51,182</u>	<u>76,252</u>	<u>1,907,426</u>
Expenditures:						
Current:						
Instruction:						
Regular instruction	1,088,586				6,201	1,094,787
Special instruction	136,289					136,289
Other instruction					<u>39,597</u>	<u>39,597</u>
	<u>1,224,875</u>				<u>45,798</u>	<u>1,270,673</u>
Support services:						
Student services	1,344					1,344
Instructional staff services	53,402					53,402
Administration services	175,187					175,187
Operation and maintenance of plant services	100,966		106	12,973	20,460	134,505
Transportation services	<u>100,735</u>			<u>13,500</u>	<u>6,511</u>	<u>120,746</u>
	<u>431,634</u>		<u>106</u>	<u>26,473</u>	<u>26,971</u>	<u>485,184</u>
Non-instructional programs	<u>50,804</u>					<u>50,804</u>
Other expenditures:						
Facilities acquisition			3,234			3,234
AEA flowthrough	<u>61,568</u>					<u>61,568</u>
	<u>61,568</u>		<u>3,234</u>			<u>64,802</u>
Total expenditures	<u>1,768,881</u>		<u>3,340</u>	<u>26,473</u>	<u>72,769</u>	<u>1,871,463</u>
Excess (deficiency) of revenues over (under) expenditures	(<u>75,384</u>)		<u>83,155</u>	<u>24,709</u>	<u>3,483</u>	<u>35,963</u>
Other Financing Sources (Uses):						
Operating transfers out	<u>1,100</u>					<u>1,100</u>
Total other financing sources (uses)	<u>1,100</u>					<u>1,100</u>
Net change in fund balances	(<u>76,484</u>)	0	83,155	24,709	3,483	34,863
Fund balances beginning of year	<u>335,781</u>	<u>1,427</u>	<u>32,025</u>	<u>80,885</u>	<u>31,560</u>	<u>481,678</u>
Fund balances end of year	<u>\$ 259,297</u>	<u>1,427</u>	<u>115,180</u>	<u>105,594</u>	<u>35,043</u>	<u>516,541</u>

See notes to financial statements.

Deep River-Millersburg Community School District
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances - Governmental Funds
 to the Statement of Activities
 Year ended June 30, 2006

Exhibit F

Net change in fund balances - total governmental funds **\$ 34,863**

***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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 13,500	
Depreciation expense	(18,270)	(4,770)

Change in net assets of governmental activities **\$ 30,093**

Deep River-Millersburg Community School District
Statement of Net Assets
Proprietary Fund
June 30, 2006

Exhibit G

	<u>School Nutrition</u>
Assets	
Cash and cash equivalents	\$ 2
Inventories	<u>317</u>
Total assets	<u>319</u>
Net Assets	
Unrestricted	<u>319</u>
Total net assets	<u>\$ 319</u>

See notes to financial statements.

Deep River-Millersburg Community School District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
Year ended June 30, 2006

Exhibit H

	School Nutrition
Operating revenues:	
Local sources:	
Charges for service	\$ <u>25,041</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	24,406
Benefits	3,463
Supplies	<u>24,760</u>
Total operating expenses	<u>52,629</u>
Operating loss	(27,588)
Non-operating revenues:	
State sources	732
Federal sources	24,046
Interest income	<u>6</u>
Total non-operating revenues	<u>24,784</u>
Other funding source:	
Transfer in	<u>1,100</u>
Net (loss)	(1,704)
Net assets beginning of year	<u>2,023</u>
Net assets end of year	\$ <u><u>319</u></u>

See notes to financial statements.

Deep River-Millersburg Community School District
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2006

Exhibit I

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 25,041
Cash paid to employees for services	(27,869)
Cash paid to suppliers for goods or services	<u>(20,728)</u>
Net cash used by operating activities	<u>(23,556)</u>
Cash flows from non-capital financing activities:	
State grants received	732
Federal grants received	<u>20,181</u>
Net cash provided by non-capital financing activities	<u>20,913</u>
Cash flows from financing activities:	
Interfund transfer	1,100
Cash flows from investing activities:	
Interest on investments	<u>6</u>
Net decrease in cash and cash equivalents	(1,537)
Cash and cash equivalents beginning of year	<u>1,539</u>
Cash and cash equivalents end of year	\$ <u><u>2</u></u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (27,588)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	4,016
Decrease in inventories	<u>16</u>
Net cash used by operating activities	\$ <u>(23,556)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$3,865 of federal commodities.

See notes to financial statements.

Deep River-Millersburg Community School District
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

Deep River-Millersburg Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through sixth. The geographic area served includes the cities of Deep River and Millersburg, Iowa, and the predominate agricultural territory in Iowa and Poweshiek 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, Deep River-Millersburg 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. Deep River-Millersburg Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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 attributable 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 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

The Physical Plant and Equipment Levy Fund (PPEL) is used to account for revenues derived from specific sources which are usually required by law or regulation to be accounted for in a separate fund.

The District reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

Under 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 fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinion, 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 financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested.

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, 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 the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, 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 repair 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	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	2,000
Other furniture and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax receivable and income surtax that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed amounts budgeted.

(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.

(3) **Capital Assets**

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 19,481	_____	_____	19,481
Total Capital assets not being depreciated	<u>19,481</u>	_____	_____	<u>19,481</u>
Capital assets being depreciated:				
Buildings	288,500			288,500
Furniture and equipment	<u>747,941</u>	<u>13,500</u>	<u>2,134</u>	<u>759,307</u>
Total capital assets being depreciated	<u>1,036,441</u>	<u>13,500</u>	<u>2,134</u>	<u>1,047,807</u>
Less accumulated depreciation for:				
Buildings	181,886	4,130		186,016
Furniture and equipment	<u>684,199</u>	<u>14,140</u>	_____	<u>698,339</u>
Total accumulated depreciation	<u>866,085</u>	<u>18,270</u>	_____	<u>884,355</u>
Total capital assets being depreciated, net	<u>170,356</u>	(4,770)	<u>2,134</u>	<u>163,452</u>
Governmental activities capital assets, net	<u>\$ 189,837</u>	(4,770)	<u>2,134</u>	<u>182,933</u>

Depreciation expense was charged to the following functions:

Unallocated	\$ 18,270
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Total depreciation expense - governmental activities	\$ 18,270
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(4) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$44,349, \$43,359 and \$40,022 respectively, equal to the required contributions for each year.

(5) Risk Management

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

(6) 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 \$61,568 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Deep River-Millersburg Community School District
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
 Budget and Actual - All Governmental Funds and Proprietary Fund
 Required Supplementary Information
 Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Final Actual Variance
Receipts:					
Local sources	\$ 958,193	25,217	983,410	911,387	72,023
State sources	864,138	732	864,870	886,205	(21,335)
Federal sources	<u>85,095</u>	<u>24,046</u>	<u>109,141</u>	<u>93,100</u>	<u>16,041</u>
Total receipts	<u>1,907,426</u>	<u>49,995</u>	<u>1,957,421</u>	<u>1,890,692</u>	<u>66,729</u>
Disbursements:					
Instruction	1,270,673		1,270,673	1,392,900	122,227
Support services	485,184		485,184	447,650	(37,534)
Non-instructional programs	50,804		50,804	78,500	27,696
Other expenditures	<u>64,802</u>	<u>52,799</u>	<u>117,601</u>	<u>191,799</u>	<u>74,198</u>
Total disbursements	<u>1,871,463</u>	<u>52,799</u>	<u>1,924,262</u>	<u>2,110,849</u>	<u>186,587</u>
Deficiency of revenues under expenditures before other financing sources or uses	35,963	(2,804)	33,159	(220,157)	253,316
Other Financing Sources or Uses					
Transfer in		1,100			
Transfer out	(1,100)				
Deficiency of revenues under expenditures after other financing sources or uses	34,863	(1,704)	33,159	(220,157)	253,316
Balances beginning of year	<u>481,678</u>	<u>2,023</u>	<u>483,701</u>	<u>351,896</u>	<u>131,805</u>
Balances end of year	<u>\$ 516,541</u>	<u>319</u>	<u>516,860</u>	<u>131,739</u>	<u>385,121</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District
Notes to Required Supplementary Information - Budgetary Reporting
Year ended June 30, 2006

This budgetary comparison is presented as a Required Supplementary Information in accordance with Government 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 and each major Special Revenue Fund.

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. 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 ended June 30, 2006, expenditures in the support service function exceeded the amount budgeted.

Deep River-Millersburg Community School District
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2006

Schedule 1

	Management Levy	Student Activity	Total
 Assets			
Cash and pooled investments	\$ 23,931	10,281	34,212
Receivables:			
Property tax:			
Delinquent	833		833
Succeeding year	<u>36,391</u>	_____	<u>36,391</u>
Total assets	<u>\$ 61,155</u>	<u>10,281</u>	<u>71,436</u>
 Liabilities and Fund Balances			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ <u>36,391</u>	_____	<u>36,391</u>
Total Liabilities	36,391	0	36,391
Fund equity:			
Unreserved fund balances	<u>24,764</u>	<u>10,281</u>	<u>35,045</u>
Total liabilities and fund balances	<u>\$ 61,155</u>	<u>10,281</u>	<u>71,436</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds
Year ended June 30, 2006

Schedule 2

	Management	Student Activity	Total
Revenues:			
Local sources:			
Local tax	\$ 35,951		35,951
Other	2,207	38,069	40,276
State sources	<u>25</u>		<u>25</u>
Total revenues	<u>38,183</u>	<u>38,069</u>	<u>76,252</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	6,201		6,201
Other instruction		<u>39,597</u>	<u>39,597</u>
	<u>6,201</u>	<u>39,597</u>	<u>45,798</u>
Support services:			
Operation and maintenance	20,460		20,460
Student transportation	<u>6,511</u>		<u>6,511</u>
	<u>26,971</u>		<u>26,971</u>
Total expenditures	<u>33,172</u>	<u>39,597</u>	<u>72,769</u>
Excess (deficiency) of revenues over (under) expenditures 3,483		5,011	(1,528)
Fund balances beginning of year	<u>19,752</u>	<u>11,808</u>	<u>31,560</u>
Fund balances end of year	<u>\$ 24,763</u>	<u>10,280</u>	<u>35,043</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 Year ended June 30, 2006

Schedule 3

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Band and vocal	\$ 32		32	
Interest	133	81		214
Elementary vocal	1,464	210	1,674	
Library	152	33		185
Elementary tournament	2,516	2,055	3,075	1,496
Kid Care	330	16,192	16,522	
Flowers	176	210	123	263
Elementary	<u>7,005</u>	<u>19,288</u>	<u>18,171</u>	<u>8,122</u>
Total	<u>\$ 11,808</u>	<u>38,069</u>	<u>39,597</u>	<u>10,280</u>

See accompanying independent auditor's report.

Deep River-Millersburg Community School District
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 4

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local Tax	\$ 715,846	696,173	666,145	581,906
Tuition	114,331	102,947	98,329	90,398
Other	68,762	60,857	58,321	77,175
Income tax	59,254	53,510	57,626	55,946
State sources	864,138	828,718	812,115	787,825
Federal sources	<u>85,095</u>	<u>61,759</u>	<u>66,199</u>	<u>76,801</u>
Total	<u>\$ 1,907,426</u>	<u>1,803,964</u>	<u>1,758,735</u>	<u>1,670,051</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 1,094,787	1,163,164	1,145,359	1,159,062
Special instruction	136,289	68,450	119,492	100,271
Other instruction	39,597	36,648	36,917	29,146
Support services:				
Student services	1,344	13,944	35,528	32,887
Instructional staff services	53,402	42,838	41,202	39,392
Administration services	175,187	156,819	114,291	94,206
Operation and maintenance of plant services	134,505	124,934	111,202	106,560
Transportation services	120,746	147,738	145,224	95,969
Non-instructional programs	50,804	28,761	28,139	31,384
Other expenditures:				
Facilities acquisition	3,234	72,012	11,070	4,580
AEA flowthrough	<u>61,568</u>	<u>64,160</u>	<u>61,577</u>	<u>61,987</u>
Total	<u>\$ 1,871,463</u>	<u>1,919,468</u>	<u>1,850,001</u>	<u>1,755,444</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Deep River-Millersburg Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Deep River-Millersburg Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Deep River-Millersburg Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Deep River-Millersburg Community School District's financial statements are free of material misstatement, we performed

tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted a certain immaterial instance of non-compliance that is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

ROLAND & DIELEMAN

Certified Public Accountants

September 29, 2006

Deep River-Millersburg Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-06 Segregation of Duties - The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure adequate internal control. This is not unusual in school District's of your size, but the Board should constantly be aware of this condition and realize that concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in the Board's knowledge of matters relating to the District's operations.

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

Response - We will continue to investigate alternatives to this problem.

Conclusion - Response accepted.

Deep River-Millersburg Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

- II-A-06 Certified Budget - Expenditures for the year ended June 30, 2006 exceeded the certified budget amounts in the support services functions.
- Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.
- Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion - Response accepted.
- II-B-06 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-06 Business Transaction - No business transactions between the District and District officials or employees were noted.
- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.
- II-G-06 Certified Enrollment - No variances in the basic enrollment data certified to the Department of Education were noted.
- II-H-06 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.
- II-I-06 Certified Annual Report - The Certified Annual Report was certified to the Iowa Department of Education timely.

Deep River-Millersburg Community School District
Staff

This audit was performed by:

Roger Roland, CPA
Ed Dieleman, CPA
Royal Roland, CPA