DOWS COMMUNITY SCHOOL DISTRICT
DOWS, IOWA

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

YEAR ENDED JUNE 30, 2006

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Dows Community School District
Dows, Iowa

Officials

Name	Title	Term Expires
Board of Education (Before September 2005 Election)		
Shelly Howard	President	2006
Corey Jacobson	Board Member	2006
Kristi Hinkle	Board Member	2005
Marty Osterman	Board Member	2005
Pam Odland	Board Member	2006
Board of Education (After September 2005 Election)		
Shelly Howard	President	2006
Corey Jacobson	Board Member	2006
Kristi Hinkle	Board Member	2008
Marty Osterman	Board Member	2008
Pam Odland	Board Member	2006
School Officials		
Robert Olson	Superintendent	Indefinite
Carol Hanson	District Secretary/Treasurer and Business Manager	2006
Rick Engel	Attorney	Indefinite

Independent Auditor's Report

To the Board of Education of
Dows 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 Dows Community School District, Dows, 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 opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Dows 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 report dated August 9, 2006 on our consideration of Dows Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 42 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 required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Dows 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 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 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

August 9, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dows GASB 34 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.

Financial Highlights

- General Fund revenues were $1,536,005 for fiscal year 2006, while General Fund expenditures were $1,498,737 in fiscal year 2006. This resulted in the District's General Fund balance of $780,170, which was an increase of $37,268 from the balance in fiscal year 2005.

(a) Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

Figure A-1
Dows GASB 34 Community School District Annual Financial Report

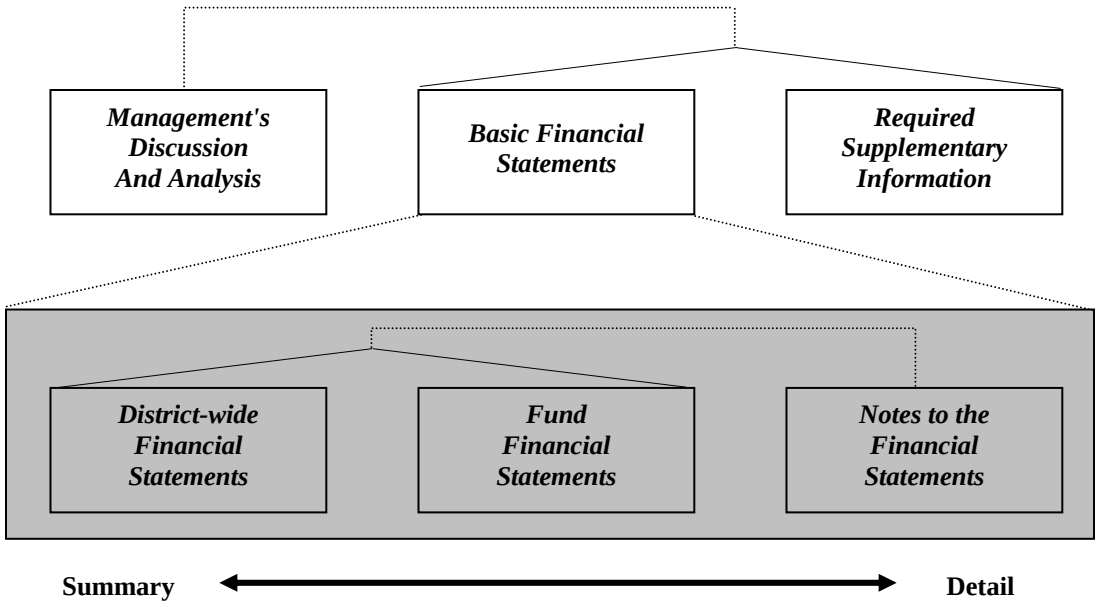

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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

	District-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 and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of revenues, expenses and changes in net assets • Statement of cash flows	• 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

District-wide Statements

The District-wide 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 District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.

- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities. Declining student enrollment also impacts the District's overall financial health.

In the District-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:

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

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

- *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 District-wide 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.

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

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

  - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. This subsection isn't used.

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

(b) – (c) Financial Analysis of the District as a Whole

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

Figure A-3
Condensed Statement of Net Assets

	June 30, 2006		
	Governmental Activities	Business-type Activities	Total School District
Current Assets	$2,090,454	$6,593	$2,103,640
Capital Assets	$317,562	$5,422	$322,984
Total Assets	$2,408,016	$12,015	$2,420,031
Current Liabilities	$961,540	$393	$961,933
Other Liabilities	$3,402	$0	$3,402
Total Liabilities	$964,942	$393	$965,335
Net Assets			
Invested in capital assets, net of related debt	$317,652	$5,422	$323,074
Restricted	$305,175	$0	$305,175
Unrestricted	$820,337	$6,200	$826,537
Total Net Assets	$1,443,164	$11,622	$1,454,786

The District's net assets for governmental activities were $1,443,164 on June 30, 2006 for fiscal year 2006. The net assets for business type activities were $11,622 on June 30, 2006. When these are combined, the total combined net assets were $1,454,786 on June 30, 2006.

Governmental Activities

Revenues for governmental activities were $1,822,073 and expenses were $1,597,962.

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-4
Total & Net Cost of Governmental Activities
June 30, 2006

	Total Cost of Services	Net Cost of Services
Instruction	$1,011,961	-$837,010
Support Services	$509,713	-$493,264
Other Expenses	$76.288	-$23,012
Total Net Assets	$1,597,962	-$1,353,286

- Federal and state governments subsidized certain programs with grants and contributions totaling $0.
- The net cost of governmental activities was financed with $1,030,970 in property tax, and other taxes, $482,487 in unrestricted state grants, $44,622 in interest income, and $19,318 in other revenue.

Business-Type Activities

Revenues of the District's business-type activities were $54,317 and expenses were $66,358 for a net loss of $12,041. 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. The district hasn't increased meal prices for several years. With increased costs associated with food and personnel, the district will need to consider increasing meal prices and/or reducing expenditures in the future to reverse this trend of losing money in nutrition.

During the year ended June 30, 2006, the District maintained the same prices for food service.

(d) Financial Analysis of the District's Funds

As previously noted, the Dows GASB 34 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 fiscal year 2006, its governmental funds reported combined fund balances of $1,145,209.

Governmental Fund Highlights

- The District's General Fund financial position has remained fairly constant and is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was offset by the District's increase in General Fund expenditures to meet its financial obligations during the year.

- The General Fund balance increased from $742,902 to $780,170. The district has historically exercised restraint in regard to expenditures. The improvement was largely due to an increase in revenue $68,712 compared to last year while holding expenditures below revenue by $37,268.

- The Physical Plant and Equipment Levy (PPEL) Fund balance was $168,085.

- The Capital Projects was started in the fiscal year ending June 30, 2005. This money can be used for the same purposes as the District's PPEL funds. Revenue for FY06 was $83,505. District expenditures for FY06 were $35,930, for facility maintenance and grounds improvements,

Proprietary Fund Highlights

The School Nutrition Fund net assets for the fiscal year ending June 30, 2006 were $11,622, a net decrease of $12,041. The program maintained meal prices at the same level as the previous year, but must consider raising meal prices in the future.

(e) Budgetary Highlights

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 its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison.

Legal Budgetary Highlights

Total actual expenditures were less than budgeted in the General Fund. It is the District's practice to certify budget expenditures at the maximum authorized spending authority in all fund categories. Actual expenditures are managed using a line-item budget for the General Fund. As a result, the District's certified budget is always larger than actual expenditures for the year. The district did not exceed its budget by function for FY06.

(f) Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the District had invested $2,420,031 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-5) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was $322,984.

Figure A-5
Capital Assts, End of Year Balance
Less Accumulated Depreciation

	June 30, 2006		
	Governmental Activities	Business-type Activities	Total School District
Land	$4,258	$0	$4,258
Construction in progress	$0	$0	$0
Buildings	$784,923	$0	$784,923
Improvement other than buildings	$0	$0	$0
Furniture	$274,539	$38,569	$313,108
Total capital assets before depreciation	**$1,059,462**	**$38,569**	**$1,098,031**
Building depreciation	$555,544	$0	$555,544
Furniture & equipment depreciation	$190,524	$33,147	$223,671
Total depreciation	**$746,068**	**$33,147**	**$779,215**
Total capital assets after depreciation	**$317,652**	**$5,422**	**$323,074**

The original cost of the District's capital assets was $1,707,948. Governmental funds account for $38,569 with the remainder of $1,319 in the Proprietary, School Nutrition Fund.

Long-Term Debt

At June 30, 2006, the Dows Community School District has no long-term debt.

(h) Factors Bearing on the District's Future

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

- The district entered into a one-way sharing agreement with Clarion-Goldfield School District beginning the 2005-2006 school year. The ten-year agreement was originally for grades 7-12. The second year of the agreement also included sixth grade when class size appeared to be too small. This allowed the district to take advantage of a resignation at the sixth grade level.

- The district approved amending the sharing agreement with Clarion-Goldfield, to include grades 6-12. This would begin year three of a ten-year agreement for the 2007-2008 school year.

- The new sharing agreement calls for 65% of the Clarion-Goldfield cost per student to follow the student with the balance of 35% remaining with Dows.

- The District continues to experience declining enrollment. Enrollment dropped from 159.2 in 2005 to 144.2 in 2006 or by 9.4%. This will negatively impact revenue in FY08.

- The district is deep into the budget guarantee and will be authorized a smaller portion of the guarantee every year as a function of the statewide "scale down". The district will continue to look for opportunities to reduce expenditure to match the reduction in revenue. The allowable growth for Dows in 2007-2008 is -3.78% or -36,123.

- The district must encourage community availability of affordable housing. If families do not move into the district, it is predicted that enrollment will continue to decline.

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 Dr. Robert A. Olson, Superintendent, or Carol Hanson, District Secretary/Treasurer and Business Manager, Dows Community School District, 404 Park Avenue, Dows, Iowa 50071-7273.

Basic Financial Statements

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents:			
ISCAP	$ 1,152,950	3,212	1,156,162
Other	-	-	-
Receivables:			
Property tax:			
Delinquent	12,474	-	12,474
Succeeding year	904,316	-	904,316
Accounts	5,138	-	5,138
Due from other governments	15,576	-	15,576
Inventories	-	3,381	3,381
Capital assets, net of accumulated depreciation	317,562	5,422	322,984
Total assets	2,408,016	12,015	2,420,031
Liabilities			
Excess of warrants issued over bank balance	-	393	393
Accounts payable	14,793	-	14,793
Salaries and benefits payable	2,953	-	2,953
Deferred revenue:			
Succeeding year property tax	904,316	-	904,316
Other	17,747	-	17,747
Long-term liabilities:			
Portion due within one year:			
Early retirement	5,436	-	5,436
Portion due after one year:			
Early retirement	16,295	-	16,295
Compensated absences	3,402	-	3,402
Total liabilities	964,942	393	965,335

(continued)

Dows Community School District
Dows, Iowa

Exhibit A

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	317,652	5,422	323,074
Restricted for:			
Management levy	117,950	-	117,950
Physical plant and equipment levy	168,085	-	168,085
Other special revenue purposes	19,140	-	19,140
Unrestricted	820,337	6,200	826,537
Total net assets	$ 1,443,164	$ 11,622	1,454,786

See notes to financial statements.

Dows Community School District
Dows, Iowa
Statement of Activities
Year ended June 30, 2006

		Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	$ 665,518	24,081	93,463	-
Special instruction	274,412	-	36,079	-
Other instruction	72,031	10,516	10,812	-
	1,011,961	34,597	140,354	-
Support services:				
Student services	45,009	-	-	-
Instructional staff services	48,982	-	8,963	-
Administration services	172,258	-	7,313	-
Operation and maintenance of plant services	166,228	-	-	-
Transportation services	77,236	173	-	-
	509,713	173	16,276	-
Other expenditures:				
Facilities acquisition	23,012	-	-	-
AEA flowthrough	53,276	-	53,276	-
	76,288	-	53,276	-
Total governmental activities	1,597,962	34,770	209,906	-
Business type activities:				
Nonmajor enterprise	66,358	23,445	30,696	-
Total	$ 1,664,320	58,215	240,602	-
General Revenues:				
Property tax levied for:				
General purposes				
Capital outlay				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				
Change in net assets				
Net assets beginning of year				
Net assets end of year				

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(547,974)	-	(547,974)
(238,333)	-	(238,333)
(50,703)	-	(50,703)
(837,010)	-	(837,010)
(45,009)	-	(45,009)
(40,019)	-	(40,019)
(164,945)	-	(164,945)
(166,228)	-	(166,228)
(77,063)	-	(77,063)
(493,264)	-	(493,264)
(23,012)	-	(23,012)
-	-	-
(23,012)	-	(23,012)
(1,353,286)	-	(1,353,286)
-	(12,217)	(12,217)
(1,353,286)	(12,217)	(1,365,503)
$ 883,983	-	883,983
64,594	-	64,594
82,393	-	82,393
482,487	-	482,487
44,622	-	44,622
19,318	176	19,494
1,577,397	176	1,577,573
224,111	(12,041)	212,070
1,219,053	23,663	1,242,716
$ 1,443,164	11,622	1,454,786

Dows Community School District
Dows, Iowa

Exhibit C

Balance Sheet
Governmental Funds

June 30, 2006

	General	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental	Total
Assets					
Cash and pooled investments:					
Other	$ 787,513	167,588	121,811	76,038	1,152,950
Receivables:					
Property tax:					
Delinquent	10,049	850	1,575	-	12,474
Succeeding year	775,256	69,060	60,000	-	904,316
Accounts	5,127	11	-	-	5,138
Due from other funds	-	1,694	-	-	1,694
Due from other governments	8,269	-	-	7,307	15,576
Total assets	$ 1,586,214	239,203	183,386	83,345	2,092,148
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 8,394	2,058	-	4,341	14,793
Salaries and benefits payable	2,953	-	-	-	2,953
Due to other funds	1,694	-	-	-	1,694
Early retirement payable	-	-	5,436	-	5,436
Deferred revenue:					
Succeeding year property tax	775,256	69,060	60,000	-	904,316
Other	17,747	-	-	-	17,747
Total liabilities	806,044	71,118	65,436	4,341	946,939
Fund balances:					
Unreserved	780,170	168,085	117,950	79,004	1,145,209
Total fund balances	780,170	168,085	117,950	79,004	1,145,209
Total liabilities and fund balances	$ 1,586,214	239,203	183,386	83,345	2,092,148

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit D

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2006

Total fund balances of governmental funds (page 17)	$ 1,145,209
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.	317,652
Long-term liabilities, including bonds and notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(19,697)
Net assets of governmental activities (page 14)	$ 1,443,164

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit E

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2006

	General	Physical Plant and Equipment Levy	Management Levy	Nonmajor Governmental	Total
Revenues:					
Local sources:					
Local tax	$ 763,671	64,594	119,698	82,393	1,030,356
Tuition	24,081	-	-	-	24,081
Other	55,192	4,899	2,394	11,970	74,455
State sources	639,782	42	78	-	639,902
Federal sources	53,279	-	-	-	53,279
Total revenues	1,536,005	69,535	122,170	94,363	1,822,073
Expenditures:					
Current:					
Instruction:					
Regular instruction	681,483	-	5,737	-	687,220
Special instruction	274,412	-	-	-	274,412
Other instruction	63,069	-	-	8,962	72,031
	1,018,964	-	5,737	8,962	1,033,663
Support services:					
Student services	34,172	-	10,837	-	45,009
Instructional staff services	48,982	-	-	-	48,982
Administration services	170,522	-	1,736	-	172,258
Operation and maintenance of plant services	126,730	2,136	28,166	35,930	192,962
Transportation services	46,091	-	4,467	-	50,558
	426,497	2,136	45,206	35,930	509,769
Other expenditures:					
Facilities acquistion	-	23,012	-	-	23,012
AEA flowthrough	53,276	-	-	-	53,276
	53,276	23,012	-	-	76,288
Total expenditures	1,498,737	25,148	50,943	44,892	1,619,720
Excess of revenues over expenditures	37,268	44,387	71,227	49,471	202,353
Net change in fund balances	37,268	44,387	71,227	49,471	202,353
Fund balances beginning of year	742,902	123,698	46,723	29,533	942,856
Fund balances end of year	$ 780,170	168,085	117,950	79,004	1,145,209

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit F

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (page 19)		$ 202,353
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	34,392	
Depreciation expense	(34,336)	56
Some expenses reported in the Statement of Activities do not require the use of curent financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early Retirement		10,645
Compensated Absences		11,057
Change in net assets of governmental activities (page 16)		$ 224,111

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit G

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor Enterprise
Assets	
Cash and cash equivalents	$ 3,212
Inventories	3,381
Capital assets, net of accumulated depreciation	5,422
Total assets	12,015
Liabilities	
Excess of warrants issued over bank balance	393
Total liabilities	393
Net Assets	
Invested in capital assets, net of related debt	5,422
Unrestricted	6,200
Total net assets	$ 11,622

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit H

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise
Operating revenues:	
Local sources:	
Charges for service	$ 23,445
Miscellaneous	176
Total operating revenues	23,621
Operating expenses:	
Instruction:	
Regular instruction	10,852
Non-instructional programs:	
Food service operations:	
Salaries and benefits	31,807
Purchased services	22,234
Supplies	72
Depreciation	1,319
Other	74
Total operating expenses	66,358
Operating loss	(42,737)
State sources	584
Federal sources	30,112
Total non-operating revenues	30,696
Change in net assets	(12,041)
Net assets beginning of year	23,663
Net assets end of year	$ 11,622

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit I

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor Enterprise
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	$ 12,986
Cash received from miscellaneous receipts	10,635
Cash paid to employees for services	(43,067)
Cash paid to suppliers for goods or services	(18,772)
Net cash used by operating activities	(38,218)
Cash flows from non-capital financing activities:	
State grants received	584
Federal grants received	25,835
Net cash provided by non-capital financing activities	26,419
Cash flows from capital and related financial activitites:	
Acquisition of fixed assets	-
Net decrease in cash and cash equivalents	(11,799)
Cash and cash equivalents beginning of year	14,618
Cash and cash equivalents end of year	$ 2,819
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (42,737)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Commodities used	4,277
Depreciation	1,319
Decrease in inventories	(597)
Increase in salaries and benefits payable	(480)
Net cash used by operating activities	$ (38,218)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received $4,277 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Exhibit J

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship
Assets	
Cash and pooled investments	$ 18,692
Accrued interest receivable	34
Total assets	18,726
Liabilities	---
Net assets	
Reserved for scholarships	$ 18,726

See notes to financial statements

Dows Community School District
Dows, Iowa

Exhibit K

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Gifts and contributions	$ 2,000
Interest income	389
Total additions	2,389
Deductions:	
Support services:	
Scholarships awarded	3,825
Change in net assets	(1,436)
Net assets beginning of year	20,162
Net assets end of year	$ 18,726

See notes to financial statements.

(1) Summary of Significant Accounting Policies

Dows Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades preschool through six. The geographic area served includes the City of Dows, Iowa, and the predominate agricultural territory in Wright and Franklin 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, Dows 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. Dows Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but 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 Wright and Franklin County Assessor's Conference boards.

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 the 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 Physical Plant and Equipment Levy Fund is used to account for the revenues and resources used in the acquisition of equipment and improvements to buildings.

The Management Levy Fund is used to account for the revenues and expenditures on the taxes levied for insurance and early retirement.

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

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require principal and 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 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 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 maintained 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, 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	$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	300
Other furniture and equipment	5,000

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	8-10 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. Also an accrual has been made for any hourly employees for hours worked in June.

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 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 sick leave hours for subsequent use in accordance with Dows Community School District's collective bargaining agreement. 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 the 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.

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

	Amortized Cost
Diversified Portfolio	$ 1,190,979
	========

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

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

(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
Special Revenue:		
Physical Plant & Equipment Levy	General	$ 1,694
		=====

The General Fund is repaying the Physical Plant and Equipment Levy Fund for expenses that were incorrectly recorded in the prior year. The balance will be repaid by June 30, 2006.

(4) Iowa School Cash Anticipation Program(ISCAP)

The District participated in the Iowa School Cash Anticipation Program (ISCAP) through January 27, 2006. 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 matured. 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.

(5) 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	$ 4,258	---	---	4,258
Construction in progress	---	---	---	---
Total capital assets not being depreciated	4,258	---	---	4,258
Capital assets being depreciated:				
Buildings	750,531	34,392	---	784,923
Improvements other than buildings	---	---	---	---
Furniture and equipment	274,539	---	---	274,539
Total capital assets being depreciated	1,025,070	34,392	---	1,059,462
Less accumulated depreciation for:				
Buildings	548,769	6,775	---	555,544
Improvements other than buildings	---	---	---	---
Furniture and equipment	162,963	27,561	---	190,524
Total accumulated depreciation	711,732	34,336	---	746,068
Total capital assets being depreciated, net	313,338	56	---	313,394
Governmental activities capital assets, net	$ 317,596	56	---	317,652
	=======	======	=====	======

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Furniture and equipment	$ 38,569	---	---	38,569
Less accumulated depreciation	31,828	1,319	---	33,147
Business type activities capital assets, net	$ 6,741	1,319	---	5,422

Depreciation expense was charged to the following functions:

Governmental activities:	
Support services:	
Operation and maintenance of plant	$ 7,658
Transportation	26,678
Total depreciation expense – governmental activities	$ 34,336
Business type activities:	
Food service operations	$ 1,319

(6) 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
Compensated absences	$ 14,459	---	11,057	3,402	---
Early retirement	26,940	192	5,401	21,731	5,436
Total	$ 41,399	192	16,458	25,133	5,436

Early Retirement

The District offered a one time early retirement plan for one employee. The early retirement incentive for the employee is equal to the health insurance until the employee reaches sixty-five years old. There were no early retirement expenditures for the year ended June 30, 2006.

(7) 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.

(8) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75 % of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were $41,303, $59,557 and $57,763, respectively, equal to the required contributions for each year.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $53,276 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.

Required Supplementary Information

Dows Community School District
Dows, Iowa

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Local sources	$ 1,163,431	20,920
State sources	639,902	584
Federal sources	63,797	28,535
Total receipts	1,867,130	50,039
Disbursements:		
Instruction	1,032,426	10,851
Support services	498,512	-
Non-instructional programs	-	50,987
Other expenditures	74,230	-
Total disbursements	1,605,168	61,838
Excess (deficiency) of receipts over (under) disbursements	261,962	(11,799)
Other financing sources, net	-	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	261,962	(11,799)
Balances beginning of year	909,680	14,618
Balances end of year	$ 1,171,642	2,819

See accompanying independent auditor's report.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance
1,184,351	1,145,006	1,145,006	39,345
640,486	603,188	603,188	37,298
92,332	102,000	102,000	(9,668)
1,917,169	1,850,194	1,850,194	66,975
1,043,277	1,363,100	1,363,100	319,823
498,512	612,757	612,757	114,245
50,987	60,600	60,600	9,613
74,230	108,839	108,839	34,609
1,667,006	2,145,296	2,145,296	478,290
250,163	(295,102)	(295,102)	545,265
-	-	-	-
250,163	(295,102)	(295,102)	545,265
924,298	663,841	663,841	260,457
1,174,461	368,739	368,739	805,722

Dows Community School District
Dows, Iowa

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	$ 1,867,130	(45,057)	1,822,073
Expenditures	1,605,168	14,552	1,619,720
Net	261,962	(59,609)	202,353
Other financing sources, net	-	-	-
Beginning fund balances	909,680	33,176	942,856
Ending fund balances	$ 1,171,642	(26,433)	1,145,209

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	$ 50,039	4,278	54,317
Expenses	61,838	4,520	66,358
Net	(11,799)	(242)	(12,041)
Beginning net assets	14,618	9,045	23,663
Ending net assets	$ 2,819	8,803	11,622

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. 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 ended June 30, 2006, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

Dows Community School District
Dows, Iowa

Schedule 1

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue		
	Student Activity	Capital Projects	Total
Assets			
Cash and pooled investments	19,158	56,880	76,038
Due from other governments	-	7,307	7,307
Total assets	19,158	64,187	83,345
Liabilities and Fund Equity			
Liabilities:			
Accounts payable	18	4,323	4,341
Total liabilities	18	4,323	4,341
Fund equity:			
Unreserved fund balances	19,140	59,864	79,004
Total liabilities and fund equity	19,158	64,187	83,345

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 2

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue		
	Student Activity	Capital Projects	Total
Revenues:			
Local sources:			
Local tax	-	82,393	82,393
Other	10,858	1,112	11,970
Total revenues	10,858	83,505	94,363
Expenditures:			
Current:			
Instruction:			
Other instruction	8,962	-	8,962
	8,962	-	8,962
Support services:			
Operation and maintenance of plant services	-	35,930	35,930
	-	35,930	35,930
Excess of revenues over expenditures	1,896	47,575	49,471
Fund balances beginning of year	17,244	12,289	29,533
Fund balances end of year	19,140	59,864	79,004

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 3

Combining Statement of Net Assets
Proprietary Funds

June 30, 2006

	Enterprise		
	Nutrition	Preschool	Total
Assets			
Cash and cash equivalents	$ 3,212	-	3,212
Inventories	3,381	-	3,381
Capital assets, net of accumulated depreciation	5,422	-	5,422
Total assets	12,015	-	12,015
Liabilities			
Excess of warrants issued over bank balance	-	393	393
Total liabilities	-	393	393
Net Assets			
Invested in capital assets, net of related debt	5,422	-	5,422
Unrestricted	6,593	(393)	6,200
Total net assets	$ 12,015	(393)	11,622

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 4

Combining Schedule of Revenues, Expenses and Changes
in Fund Net Assets
Proprietary Funds

June 30, 2006

	Enterprise		
	Nutrition	Preschool	Total
Operating revenues:			
Local sources:			
Charges for service	$ 12,986	10,459	23,445
Miscellaneous	176	-	176
Total operating revenues	13,162	10,459	23,621
Operating expenses:			
Instruction:			
Regular instruction	-	10,852	10,852
Non-instructional programs:			
Food service operations:			
Salaries and benefits	31,807	-	31,807
Purchased services	22,234	-	22,234
Supplies	72	-	72
Depreciation	1,319	-	1,319
Other	74	-	74
Total operating expenses	55,506	10,852	66,358
Operating loss	(42,344)	(393)	(42,737)
Non-operating revenues:			
State sources	584	-	584
Federal sources	30,112	-	30,112
Total non-operating revenues	30,696	-	30,696
Change in net assets	(11,648)	(393)	(12,041)
Net assets beginning of year	23,663	-	23,663
Net assets end of year	$ 12,015	(393)	11,622

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 5

Combining Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

	Enterprise		
	Nutrition	Preschool	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	$ 12,986	$ -	$ 12,986
Cash received from miscellaneous receipts	176	10,459	10,635
Cash paid to employees for services	(32,287)	(10,780)	(43,067)
Cash paid to suppliers for goods or services	(18,700)	(72)	(18,772)
Net cash used by operating activities	(37,825)	(393)	(38,218)
Cash flows from non-capital financing activities:			
State grants received	584	-	584
Federal grants received	25,835	-	25,835
Net cash provided by non-capital financing activities	26,419	-	26,419
Cash flows from capital and related financial activitites:			
Acquisition of fixed assets	-	-	-
Net decrease in cash and cash equivalents	(11,406)	(393)	(11,799)
Cash and cash equivalents beginning of year	14,618	-	14,618
Cash and cash equivalents end of year	$ 3,212	(393)	$ 2,819
Reconciliation of operating loss to net cash used by operating activities:			
Operating loss	$ (42,344)	$ (393)	$ (42,737)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Commodities used	4,277	-	4,277
Depreciation	1,319	-	1,319
Decrease in inventories	(597)	-	(597)
Increase in salaries and benefits payable	(480)	-	(480)
Net cash used by operating activities	$ (37,825)	$ (393)	$ (38,218)

Non-cash investing, capital and financing activities:
During the year ended June 30, 2006, the District received $4,277 of federal commodities.

See notes to financial statements.

Dows Community School District
Dows, Iowa

Schedule 6

Schedule of Changes in Special Revenue Fund,
Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Key to the Stars	$ 1,858	-	1,858	-
Athletics	368	-	368	-
Class of:				
2007	1,581	-	1,581	-
2008	1,790	-	-	1,790
2009	1,092	-	-	1,092
Concessions	1,633	-	1,633	-
FHA	136	-	136	-
Instrumental Music	(29)	290	148	113
Vocal Music	41	-	41	-
Book Orders	1,468	595	479	1,584
Screenprinting	180	-	180	-
Postage	(493)	493	-	-
Interest	5,641	-	5,641	-
Drama	166	-	166	-
Fundraisers	896	2,797	3,693	-
Horticulture	12	-	12	-
Elementary Fund	904	16,717	3,060	14,561
Total	$ 17,244	20,892	18,996	19,140

See accompanying independent auditor's report.

Dows Community School District
Dows, Iowa

Schedule 7

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	$ 1,030,356	987,285	962,111	869,942
Tuition	24,081	179,867	187,512	157,575
Other	74,455	84,236	69,945	48,879
State sources	639,902	623,486	560,494	552,508
Federal sources	53,279	73,934	111,486	52,915
Total	$ 1,822,073	1,948,808	1,891,548	1,681,819
Expenditures:				
Instruction:				
Regular instruction	$ 687,220	754,189	748,746	710,491
Special instruction	274,412	392,669	387,814	282,988
Other instruction	72,031	62,078	60,483	107,336
Support services:				
Student services	45,009	29,852	27,784	41,185
Instructional staff services	48,982	59,594	50,958	72,235
Administration services	172,258	197,003	223,840	223,806
Operation and maintenance of plant services	192,962	135,745	131,125	104,896
Transportation services	50,558	54,594	88,930	63,697
Central support services	-	34,327	30,244	-
Other expenditures:				
Facilities acquisition	23,012	66,753	120,508	-
AEA flowthrough	53,276	52,655	54,272	57,892
Total	$ 1,619,720	1,839,459	1,924,704	1,664,526

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
Dows 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 Dows 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 August 9, 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 Dows 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.

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. 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 Dows 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 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 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 Dows Community School District and other parties to whom Dows 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 Dows 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.

Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

August 9, 2006

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

Response - We are doing everything we can within our situation and make improvements as the situation changes.

Conclusion - Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-06 Disbursement Approval – It was noted that the expenditures paid between June 28 and June 30 were not published in the paper in accordance with the Code of Iowa.

Recommendation – The District should review its publications to insure that all bills presented for payment are published in the paper.

Response – This was an oversight this year. We will make sure all bills are published in the future.

Conclusion – Response accepted.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget – Disbursements for the year ended June 30, 2006 did not exceed the amounts budgeted.

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 Transactions - 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 is reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Board Minutes - No transactions requiring Board approval which had not been approved by the Board except as previously noted. We noted however, that the minutes were not always published timely as required by Chapter 279.35 of the Code of Iowa.

Recommendation – The District should insure that all minutes are published within two weeks of the Board meeting as required by the Code of Iowa.

Response – This was an oversight this year.

Conclusion – Response accepted.

Dows Community School District
Dows, Iowa

Schedule of Findings

Year ended June 30, 2006

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 Chapter 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 filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.