

**DUBUQUE COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006**

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Dubuque Community School District

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|--|--------------------|---------------------|
| Board of Education (Before September, 2005 Election) | | |
| Doug Horstmann | President | 2007 |
| Cammie Dean | Vice-President | 2005 |
| Karen Behr | Board Member | 2006 |
| Tom Barton | Board Member | 2006 |
| Donna Bauerly | Board Member | 2006 |
| Steve Hodge | Board Member | 2005 |
| Larry Loeppke | Board Member | 2007 |
| Board of Education (After September, 2005 Election) | | |
| Doug Horstmann | President | 2007 |
| Tom Barton | Vice-President | 2006 |
| Karen Behr | Board Member | 2006 |
| Donna Bauerly | Board Member | 2006 |
| Dave Patton | Board Member | 2008 |
| Adam Menning | Board Member | 2008 |
| Larry Loeppke | Board Member | 2007 |
| School Officials | | |
| John Burgart | Superintendent | 2007 |
| Joni Lucas | District Secretary | Indefinite |
| Janet Quick | District Treasurer | Indefinite |
| Allan Carew | Attorney | Indefinite |

Jim Kircher & Associates, P.C.
Certified Public Accountants

815 Century Drive
Dubuque, Iowa 52002

Independent Auditors' Report

To the Board of Education of
Dubuque Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Dubuque Community School District, Dubuque, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Dubuque Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof 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 October 20, 2006 on our consideration of Dubuque 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 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 6-18 and 50-51 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 Dubuque Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005, (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

JIM KIRCHER & ASSOCIATES, P.C.

A handwritten signature in cursive script, appearing to read "Jim Kircher".

Dubuque, Iowa
October 20, 2006

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Dubuque Community School District (the “District”) provides this Management’s Discussion and Analysis of its financial statements. This narrative overview and analysis focuses on the financial activities 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

- Funding levels for Iowa K-12 school districts principally depend on two factors: first, changes in enrollment and second, changes in *per pupil district cost*. Of these two factors, changes in *per pupil district cost* has the larger impact on District funding. *Per pupil district cost* is an amount annually set by state government. This amount has historically been determined by applying a percentage increase to the prior year’s amount. The percentage increase has ranged from a low of 1% to a high of 4% over the past five years. The percentage amount has a substantial impact on district-funding levels.
- The District’s enrollment has grown considerably during the past five years, with the largest growth, 302 students (3%) occurring in 2004. For the five years ending September 30, 2006, the District added 1,055 students to its population, an 11% increase over the student population in 2001. Educating this number of additional students has resulted in substantial budget pressures on the District.
- General Fund revenues increased by \$7.5 million (10%) in fiscal 2006 of which \$2.9 million came from state aid, \$2.6 million from real estate taxes and \$2.0 million from miscellaneous income. Although revenues grew substantially, expenses grew faster. Total expenses increased by \$9.4 million of which \$7.3 million resulted from staff increases. Fiscal 2006 was the first year of operation of the Eleanor Roosevelt Middle School. This building accounted for \$2.7 million of the increased staff costs.
- Expenditure growth in excess of revenue growth has resulted in substantial declines in unreserved/undesignated fund balances, cash/investment balances and unspent balances. These declines (and resulting year-end balances) will need to be addressed in fiscal 2007 and 2008.
- Increasing student populations create the need for more classroom space. Additional space is being funded by one-cent local option sales tax revenues and by bond proceeds. The District collected \$9.8 million of sales tax revenue in fiscal 2006. This amount substantially exceeds original revenue projections. The District issued \$10 million of revenue bonds in this fiscal year.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 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 the 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 the 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 the District acts solely as an agent or custodian for the benefit of those outside of the District.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Overview of the Financial Statements

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

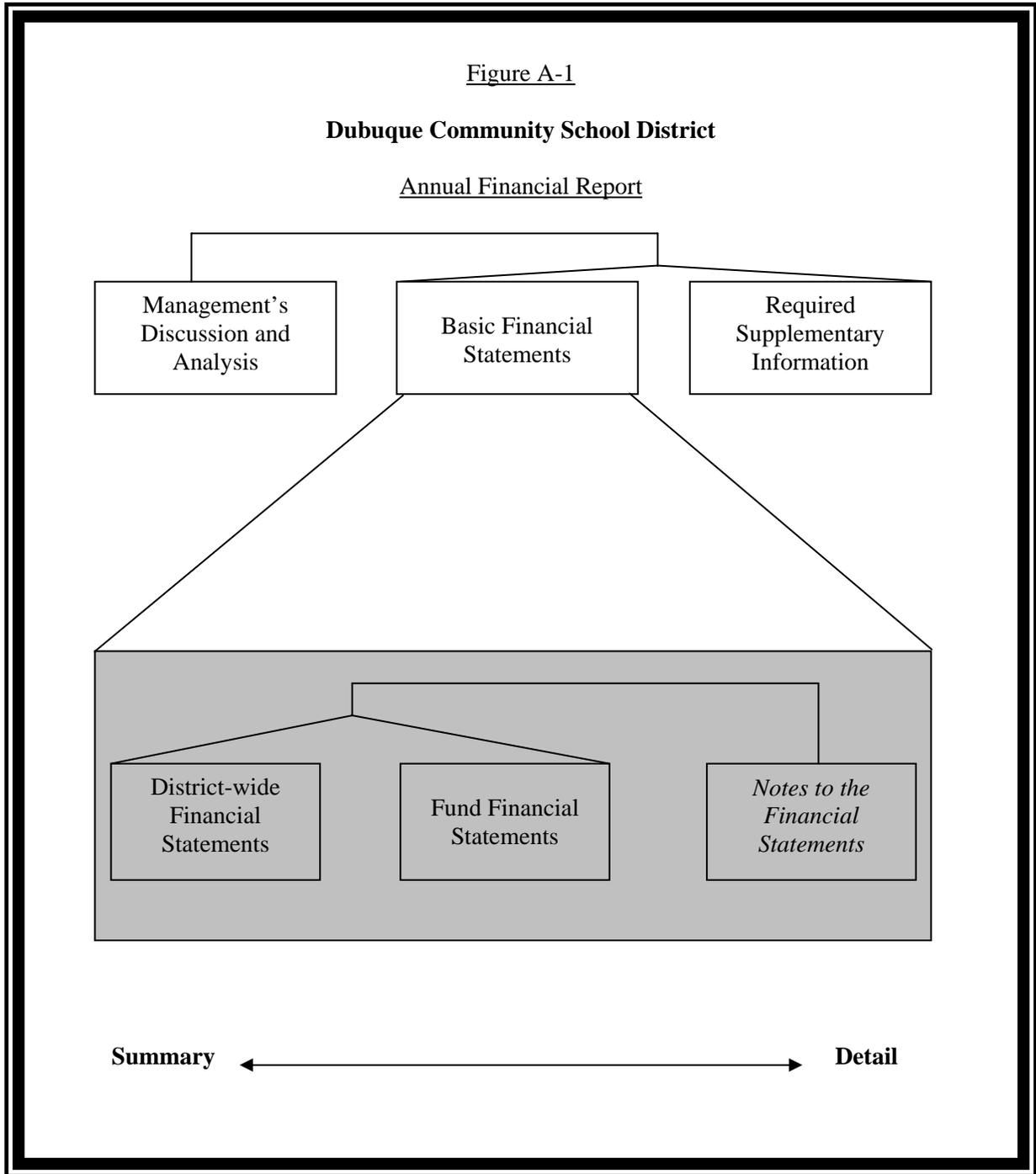
Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

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



Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

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 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 Financial 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 service is included here. | Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies. |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> • Statement of 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 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 and payable | 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 |

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

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

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds which generally focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds 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.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

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 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 net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds 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 Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for employee purchases of soft drinks and related expenditures.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Figure A-3:
Condensed Statement of Net Assets
At June 30,**

| | Governmental Activities | | Business-type Activities | | Total District | | Total Percentage Change |
|---|-------------------------|----------------------|--------------------------|--------------------|----------------------|----------------------|-------------------------|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005-06 |
| Current and other assets | \$63,056,488 | \$61,794,358 | \$747,907 | \$769,458 | \$63,804,395 | \$62,563,816 | (1.9%) |
| Capital assets | 57,226,282 | 79,693,391 | 477,625 | 518,906 | 57,703,907 | \$80,212,297 | 39.0% |
| Total Assets | \$120,282,770 | \$141,487,749 | \$1,225,532 | \$1,288,364 | \$121,508,302 | \$142,776,113 | 17.5% |
| Current liabilities | \$45,210,881 | \$47,319,825 | \$40,284 | \$54,600 | \$45,251,165 | \$47,374,425 | 4.7% |
| Long-term liabilities | 28,219,356 | \$38,097,734 | - | - | 28,219,356 | 38,097,734 | 35.0% |
| Total Liabilities | \$73,430,237 | \$85,417,559 | \$40,284 | \$54,600 | \$73,470,521 | \$85,472,159 | 16.3% |
| Net assets | | | | | | | |
| Invested in capital assets, net of related debt | \$29,300,136 | \$41,984,932 | \$477,625 | \$518,906 | \$29,777,761 | \$42,503,838 | 42.7% |
| Restricted | 2,201,244 | \$5,713,421 | - | - | 2,201,244 | 5,713,421 | 159.6% |
| Unrestricted | 15,351,153 | 8,371,837 | 707,623 | 714,858 | 16,058,776 | 9,086,695 | (43.4%) |
| Total Net Assets | \$46,852,533 | \$56,070,190 | \$1,185,248 | \$1,233,764 | \$48,037,781 | \$57,303,954 | 19.3% |

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

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

**Figure A-4:
Changes in Net Assets**

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change |
|--|-------------------------|-----------------------|--------------------------|---------------------|-----------------------|-----------------------|-------------------------|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005-06 |
| Revenues | | | | | | | |
| Program Revenues | | | | | | | |
| Charges for Services | \$ 3,771,726 | \$ 3,926,303 | \$ 2,036,599 | \$ 2,404,627 | \$ 5,808,325 | \$ 6,330,930 | 9.0% |
| Operating Grants & Contributions | 9,686,214 | 11,319,335 | 1,605,625 | 1,675,198 | 11,291,839 | 12,994,533 | 15.1% |
| Capital Grants & Contributions | 358,598 | 325,600 | - | - | 358,598 | 325,600 | (9.2%) |
| General Revenues | | | | | | | |
| Property Taxes & Other Taxes | 40,863,628 | 43,695,073 | - | - | 40,863,628 | 43,695,073 | 6.9% |
| State Formula Aid | 37,225,489 | 40,133,528 | - | - | 37,225,489 | 40,133,528 | 7.8% |
| Other | 1,550,118 | 2,261,276 | 12,335 | 19,665 | 1,562,453 | 2,280,941 | 46.0% |
| Total Revenues | \$ 93,455,773 | \$ 101,661,115 | \$ 3,654,559 | \$ 4,099,490 | \$ 97,110,332 | \$ 105,760,605 | 8.9% |
| Expenses | | | | | | | |
| Instruction | \$ 53,686,035 | \$ 57,066,744 | \$ - | \$ - | \$ 53,686,035 | \$ 57,066,744 | 6.3% |
| Support Services | | | | | | | |
| Student & Instructional Services | 7,864,034 | 8,136,909 | - | - | 7,864,034 | 8,136,909 | 3.5% |
| Administrative & Business | 8,137,338 | 9,174,908 | - | - | 8,137,338 | 9,174,908 | 12.8% |
| Maintenance & Operations | 6,417,589 | 7,960,412 | - | - | 6,417,589 | 7,960,412 | 24.0% |
| Transportation | 3,120,256 | 3,259,502 | - | - | 3,120,256 | 3,259,502 | 4.5% |
| Non-instructional | 177,698 | 161,802 | 3,720,132 | 3,957,058 | 3,897,830 | 4,118,860 | 5.7% |
| Other | 6,034,420 | 6,683,181 | - | 93,916 | 6,034,420 | 6,777,097 | 12.3% |
| Total Expenses | \$ 85,437,370 | \$ 92,443,458 | \$ 3,720,132 | \$ 4,050,974 | \$ 89,157,502 | \$ 96,494,432 | 8.2% |
| Increase (decrease) in Net Assets | \$ 8,018,403 | \$ 9,217,657 | \$ (65,573) | \$ 48,516 | \$ 7,952,830 | \$ 9,266,173 | 16.5% |

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Governmental Activities

**Figure A-5:
Total and Net Cost of Governmental Activities
Years Ended June 30,**

| | Total Cost of Services | | Percentage Change | Net Cost of Services | | Percentage Change |
|------------------------------|-----------------------------------|----------------------|------------------------------|---------------------------------|----------------------|------------------------------|
| | 2005 | 2006 | 2005-06% | 2005 | 2006 | 2005-06 |
| Instruction | \$ 53,686,035 | \$ 57,066,744 | 6.3% | \$ 44,319,071 | \$ 46,289,559 | 4.4% |
| Support Services | | | | | | |
| Student & Instructional | | | | | | |
| Services | 7,864,034 | 8,136,909 | 3.5% | 7,348,916 | 7,661,397 | 4.3% |
| Administrative & Business | 8,137,338 | 9,174,908 | 12.8% | 8,019,645 | 9,076,532 | 13.2% |
| Maintenance & Operations | 6,417,589 | 7,960,412 | 24.0% | 6,417,589 | 7,912,916 | 23.3% |
| Transportation | 3,120,256 | 3,259,502 | 4.5% | 2,698,047 | 2,871,288 | 6.4% |
| Non-instructional | 177,698 | 161,802 | (8.9%) | 91,054 | (90,268) | (199.1%) |
| Other | 6,034,420 | 6,683,181 | 10.8% | 2,726,510 | 3,150,796 | 15.6% |
| TOTAL | \$ 85,437,370 | \$ 92,443,458 | 8.2% | \$ 71,620,832 | \$ 76,872,220 | 7.3% |

Business-Type Activities

District maintains only one activity within the business-type activities classification, and this is its School Nutrition Fund. School Nutrition Fund revenues increased by \$444,931(12.1%) over the prior year. The increase is primarily the result of increased meal prices. Overall, meal prices increased approximately 9.0%.

The increases in meal prices are necessitated by price increases in food and supplies and because of additional costs resulting from the opening of a new food services facility at the Eleanor Roosevelt Middle School. In addition, pieces of outdated equipment are being replaced. The School Nutrition Fund balances remained relatively stable over the past three years.

INDIVIDUAL FUND ANALYSIS

As previously noted, the 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 government funds. At June 30, 2006, total government fund balance was \$14,474,533.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Governmental Fund Highlights

- The District's General Fund financial position declined from the prior year. This is a result of many factors but primarily is due to increased costs necessitated by increasing enrollments. The general fund balance decreased by \$2.7 million (70%) in fiscal 2006. The District used carryover fund balances to meet its financial obligations during the year.
- Salaries and benefits comprise over 81.1% of the General Fund expenditures. These expenditures increased 11.5% primarily due to increased staffing costs in the new middle school but also because of increases caused by negotiated salary and benefits settlements.
- The Physical Plant and Equipment Levy (PEEL) Fund balance remained relatively constant in fiscal 2006. The District carefully monitors this fund to ensure balances are carried over from year to year in order to meet possible unexpected emergency costs and also to take advantage of property acquisition opportunities.
- Capital Projects Fund revenues continue to grow because of sales tax revenue growth and bond proceeds. These revenues and proceeds are being expended on Board-approved projects. Major projects already completed include the Eleanor Roosevelt Middle School, Prescott Elementary School (complete except for off-site parking), substantial improvements to Stephen Hempstead High School, and several other smaller projects. It is anticipated that additional bonds will be issued in the future to meet the District's project- completion plans.

Proprietary Fund Highlights

As stated previously, the School Nutrition Fund is the only proprietary fund maintained by the District. With the exception of revenue and expenditure growth caused by the opening of new schools the Nutrition Fund has remained relatively stable in terms of revenue, expenses, and fund balances.

BUDGETARY HIGHLIGHTS

The District maintains two types of budgets. The first is the *certified budget* which must meet certain State publication and monitoring requirements. The second is a management budget (sometimes called *line-item budget*) which is used by District administration to control and monitor expenditures. The District amended its *certified budget* in May of 2006 primarily to reflect increased expenditures in its Capital Projects Fund and to more accurately classify expenditures among the four categories required by a *certified budget*. The *certified budget* needs to be maintained in the following four functional areas: instruction, total support services, non-instructional programs, and total other expenditures. In fiscal 2006, the State of Iowa required districts to substantially expand and change account numbers. These changes had the effect of moving some expenditures between the four functional areas described above. The District attempted to reflect these changes in the amended budget.

In spite of the District's budgetary practice, the *certified budget* was exceeded in the instruction and other expenditures functional areas due to the timing of expenditures at year-end without sufficient time to amend the *certified budget*.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$80.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, infrastructure equipment, and transportation equipment. The year-end balance represents an increase of 39% from the prior year. More detailed information about the District's capital assets is presented in its Note 4 to the Financial Statements. Depreciation expense for the year was \$3,034,792

The largest increase in capital assets during the year resulted from continued construction of facilities funded by sales tax revenues. The District is collecting over \$9 million annually from this fund source and it is anticipated its capital assets will continue to increase over the course of sales tax collection.

**Figure A-6
Capital Assets, net of Depreciation
June 30,**

| | Governmental Activities | | Business-type Activities | | Total School District | | Total Percentage Change 2005-2006 |
|----------------------------|--------------------------------|---------------------|---------------------------------|------------------|------------------------------|---------------------|--|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | |
| Land and improvements | \$8,194,556 | \$9,538,509 | \$- | \$- | \$8,194,556 | \$9,538,509 | 16.4% |
| Construction in progress | 29,083,571 | 19,023,238 | - | - | 29,083,571 | 19,023,238 | (34.6%) |
| Buildings and improvements | 12,749,747 | 44,109,177 | - | - | 12,749,747 | 44,109,177 | 246.0% |
| Equipment | 5,695,250 | 5,185,848 | 477,625 | 502,786 | 6,172,875 | 5,688,634 | (7.8%) |
| Vehicles | 1,503,158 | 1,836,619 | - | 16,120 | 1,503,158 | 1,852,739 | 23.3% |
| Total | \$57,226,282 | \$79,693,391 | \$477,625 | \$518,906 | \$57,703,907 | \$80,212,297 | 39.0% |

The District currently has a bus replacement plan whereby it purchases eight school buses each year. Six of these buses are purchased by the Physical Plant and Equipment Levy Fund and two are purchased using Instructional Support Levy Funds. Total cost for all eight buses in fiscal 2006 was \$509,140.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

Long-Term Debt

At June 30, 2006, the District had \$37,708,458 in revenue bond debt outstanding. This represents an increase of approximately 35.6% from the prior year and is a result of continued bonding against future sales tax revenues to complete District building projects. The majority of the outstanding debt is secured by a first lien against sales tax collections. However, in January 2006, the District issued \$10,000,000 of debt including \$5,910,000 that is subordinate to previously issued bonds. See Figure A-7 below and Note 6 to the Financial Statements for additional information.

| Figure A-7 | | | |
|--|---------------------|---------------------|-----------------------|
| Outstanding Long-Term Obligations | | | |
| | Total District | | Total Change |
| | June 30, 2006 | 2005 | June 30, 2005-2006 |
| Revenue bonds | \$37,708,458 | \$27,809,667 | 35.6% |
| Compensated absences | 389,276 | 409,689 | (5.0%) |
| Totals | <u>\$38,097,734</u> | <u>\$28,219,356</u> | <u>35.0%</u> |

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Growth in student enrollment continues to necessitate increased facilities and increased staff. Although the State finance formula provides additional funds for growth in students, the increases have not been sufficient to maintain District cash/investment balances, fund balances, or unspent balances. Increasing the *cash reserve levy* has prevented unacceptable declines in cash/investment balances and fund balances. It does not, however, have that effect on unspent balance. *Unspent balance* is controlled by the State of Iowa. The District continues to apply to the State School Budget Review Committee for *modified allowable growth* (a direct addition to *unspent balance*) when possible. At this point, the District anticipates a positive *unspent balance* amount at the end of fiscal 2007. Budget cuts will be needed in fiscal 2008 or *modified allowable growth* must be granted by the State, if the June 30, 2008, unspent balance is to remain a positive number. District administration will continue to work with the State of Iowa Department of Education to ascertain when requests for *modified allowable growth* are appropriate.

Dubuque Community School District

Management Discussion and Analysis

For Fiscal Year Ended June 30, 2006

- The voter-approved Physical Plant and Equipment Levy (PPEL) is used to maintain, improve, and construct District infrastructure. This levy was scheduled to expire on June 30, 2007. A 67¢ voter-approved PPEL referendum was held on September 12, 2006, and passed by a margin of 61%. The Administration believes that District taxpayers continue to support this levy because many District facilities are aged and require constant maintenance to be effectively and efficiently used in its educational programs. Sales tax revenues are currently funding facilities expansion for the District's rapidly growing school body; however, the PPEL levy is needed to maintain existing facilities. The voted PPEL levy generates approximately \$1.7 million per year and will remain in effect for ten (10) years from June 30, 2007.
- The Instructional Support Levy (ISL) is used to support a variety of education programs including the following:
 - Full-day, everyday kindergarten in every elementary school.
 - Grades K-3 class-size reduction.
 - Upgrading outdated equipment in classrooms, science and industrial technology labs, print centers, and the transportation department.
 - Restore site-based funding that had been lost in prior years.
- The Prescott Elementary School building replacement was funded by sales tax dollars and completed in August, 2006. The project is complete with the exception of certain off-site parking still needed for the facility. A new west-side elementary school (named George Washington Carver Elementary School) was started in September, 2006, and it is anticipated it will be complete in July of 2007. This is an additional facility for the District to accommodate rapidly growing populations in the west side of the city. Inasmuch as it is an additional, (as opposed to a replacement) facility, additional staffing, supplies, and utility costs will result from the opening of that building.

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 Ronald H. Holm, Executive Director of Finance and Business Services, Dubuque Community School District, 2300 Chaney Road, Dubuque, Iowa 52001.

Basic Financial Statements

Dubuque Community School District

Statement of Net Assets

June 30, 2006

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|-----------------------|
| Assets | | | |
| Cash | \$ 21,024,766 | \$ 718,971 | \$ 21,743,737 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 362,658 | - | 362,658 |
| Succeeding year | 36,854,271 | - | 36,854,271 |
| Accounts | 35,644 | - | 35,644 |
| Due from other governments | 3,011,068 | - | 3,011,068 |
| Inventories | 505,951 | 50,487 | 556,438 |
| Capital assets, net of accumulated depreciation | 79,693,391 | 518,906 | 80,212,297 |
| Total assets | \$ 141,487,749 | \$ 1,288,364 | \$ 142,776,113 |
| Liabilities | | | |
| Accounts payable | \$ 2,700,621 | \$ 91 | \$ 2,700,712 |
| Salaries and benefits payable | 7,235,026 | - | 7,235,026 |
| Early retirement payable | 477,955 | 3,989 | 481,944 |
| Deferred revenue: | | | |
| Succeeding year property tax | 36,854,271 | - | 36,854,271 |
| Other | 51,952 | 50,520 | 102,472 |
| Long-term liabilities: | | | |
| Portion due within one year: | | | |
| Compensated absences | 389,276 | - | 389,276 |
| Revenue bonds payable | 101,208 | - | 101,208 |
| Portion due after one year: | | | |
| Revenue bonds payable | 37,607,250 | - | 37,607,250 |
| Total liabilities | \$ 85,417,559 | \$ 54,600 | \$ 85,472,159 |
| Net assets | | | |
| Invested in capital assets, net of related debt | \$ 41,984,932 | \$ 518,906 | \$ 42,503,838 |
| Restricted for: | | | |
| Management levy | 787,359 | - | 787,359 |
| Physical plant and equipment levy | 517,570 | - | 517,570 |
| Other special revenue purposes | 708,492 | - | 708,492 |
| Debt service | 3,700,000 | - | 3,700,000 |
| Unrestricted | 8,371,837 | 714,858 | 9,086,695 |
| Total net assets | \$ 56,070,190 | \$ 1,233,764 | \$ 57,303,954 |

See notes to financial statements.

**Dubuque Community School District
Statement of Activities
Year ended June 30, 2006**

| | Program Revenues | | | | Net (Expense) Revenue and Changes in Net Assets | | |
|----------------------------------|----------------------|------------------------|---|--|--|-----------------------------|------------------------|
| | Expenses | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest | Governmental Activities | Business-type Activities | Total |
| Functions/Programs | | | | | | | |
| Governmental activities: | | | | | | | |
| Instruction: | | | | | | | |
| Regular instruction | \$ 32,919,455 | \$ 518,580 | \$ 3,583,150 | \$ 50,000 | \$ (28,767,725) | \$ - | \$ (28,767,725) |
| Special instruction | 15,751,905 | 1,341,341 | 3,005,092 | - | (11,405,472) | - | (11,405,472) |
| Other instruction | 8,395,384 | 2,037,769 | 241,253 | - | (6,116,362) | - | (6,116,362) |
| | <u>\$ 57,066,744</u> | <u>\$ 3,897,690</u> | <u>\$ 6,829,495</u> | <u>\$ 50,000</u> | <u>\$ (46,289,559)</u> | <u>\$ -</u> | <u>\$ (46,289,559)</u> |
| Support services: | | | | | | | |
| Student services | \$ 4,149,153 | \$ - | \$ 371,424 | \$ - | \$ (3,777,729) | \$ - | \$ (3,777,729) |
| Instructional staff services | 3,987,756 | - | 104,088 | - | (3,883,668) | - | (3,883,668) |
| Administration services | 9,174,908 | - | 98,376 | - | (9,076,532) | - | (9,076,532) |
| Operation and Maintenance of | | | | | | | |
| Plant services | 7,960,412 | - | 21,896 | 25,600 | (7,912,916) | - | (7,912,916) |
| Transportation services | 3,259,502 | 28,613 | 359,601 | - | (2,871,288) | - | (2,871,288) |
| | <u>\$ 28,531,731</u> | <u>\$ 28,613</u> | <u>\$ 955,385</u> | <u>\$ 25,600</u> | <u>\$ (27,522,133)</u> | <u>\$ -</u> | <u>\$ (27,522,133)</u> |
| Non-instructional programs | \$ 161,802 | \$ - | \$ 2,070 | \$ 250,000 | \$ 90,268 | \$ - | \$ 90,268 |
| Other expenditures: | | | | | | | |
| AEA flowthrough | \$ 3,532,385 | \$ - | \$ 3,532,385 | \$ - | \$ - | \$ - | \$ - |
| TIF property tax payment to City | 26,248 | - | - | - | (26,248) | - | (26,248) |
| Interest on long-term debt | 1,120,477 | - | - | - | (1,120,477) | - | (1,120,477) |
| Bond issuance costs | 128,710 | - | - | - | (128,710) | - | (128,710) |
| Depreciation (unallocated) * | 1,875,361 | - | - | - | (1,875,361) | - | (1,875,361) |
| | <u>\$ 6,683,181</u> | <u>\$ -</u> | <u>\$ 3,532,385</u> | <u>\$ -</u> | <u>\$ (3,150,796)</u> | <u>\$ -</u> | <u>\$ (3,150,796)</u> |
| Total governmental activities | \$ 92,443,458 | \$ 3,926,303 | \$ 11,319,335 | \$ 325,600 | \$ (76,872,220) | \$ - | \$ (76,872,220) |
| Business-type activities: | | | | | | | |
| Non-instructional programs: | | | | | | | |
| Nutrition services | \$ 3,957,058 | \$ 2,404,627 | \$ 1,675,198 | \$ - | \$ - | \$ 122,767 | \$ 122,767 |
| Total | <u>\$ 96,400,516</u> | <u>\$ 6,330,930</u> | <u>\$ 12,994,533</u> | <u>\$ 325,600</u> | <u>\$ (76,872,220)</u> | <u>\$ 122,767</u> | <u>\$ (76,749,453)</u> |
| General Revenues: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | | \$ 31,504,694 | \$ - | \$ 31,504,694 |
| Capital outlay | | | | | 2,374,392 | - | 2,374,392 |
| Local option sales tax | | | | | 9,815,987 | - | 9,815,987 |
| Unrestricted state grants | | | | | 40,715,113 | - | 40,715,113 |
| Unrestricted investment earnings | | | | | 793,031 | 19,665 | 812,696 |
| Miscellaneous | | | | | 792,744 | - | 792,744 |
| Transfers | | | | | 93,916 | (93,916) | - |
| Total general revenues | | | | | <u>\$ 86,089,877</u> | <u>\$ (74,251)</u> | <u>\$ 86,015,626</u> |
| Change in net assets | | | | | \$ 9,217,657 | \$ 48,516 | \$ 9,266,173 |
| Net assets beginning of year | | | | | \$ 46,852,533 | \$ 1,185,248 | \$ 48,037,781 |
| Net assets end of year | | | | | <u>\$ 56,070,190</u> | <u>\$ 1,233,764</u> | <u>\$ 57,303,954</u> |

See notes to financial statements.

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

Dubuque Community School District

Balance Sheet
Governmental Funds

June 30, 2006

| | | | | | Total |
|--|----------------------|---------------------------|----------------------|----------------------------|----------------------|
| | General | Local Option Sales Tax | Debt Service Fund | Other Nonmajor Funds | |
| Assets | | | | | |
| Cash | \$ 8,052,778 | \$ 6,542,014 | \$ 3,700,000 | \$ 2,729,974 | \$ 21,024,766 |
| Receivables: | | | | | |
| Property tax: | | | | | |
| Delinquent | 318,078 | - | - | 44,580 | 362,658 |
| Succeeding year | 32,286,077 | - | - | 4,568,194 | 36,854,271 |
| Accounts | 27,780 | 7,864 | - | - | 35,644 |
| Due from other governments | 1,422,135 | 1,588,933 | - | - | 3,011,068 |
| Inventories | 505,951 | - | - | - | 505,951 |
| Total assets | \$ 42,612,799 | \$ 8,138,811 | \$ 3,700,000 | \$ 7,342,748 | \$ 61,794,358 |
| Liabilities and Fund Balances | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 1,235,407 | \$ 1,170,856 | \$ - | \$ 294,358 | \$ 2,700,621 |
| Salaries and benefits payable | 7,235,026 | - | - | - | 7,235,026 |
| Early retirement payable | 16,740 | - | - | 461,215 | 477,955 |
| Deferred revenue: | | | | | |
| Succeeding year property tax | 32,286,077 | - | - | 4,568,194 | 36,854,271 |
| Other | 46,392 | - | - | 5,560 | 51,952 |
| Total liabilities | \$ 40,819,642 | \$ 1,170,856 | \$ - | \$ 5,329,327 | \$ 47,319,825 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Inventories | \$ 505,951 | \$ - | \$ - | \$ - | \$ 505,951 |
| Salary and improvement | 11,123 | - | - | - | 11,123 |
| Medicare claims | 101,285 | - | - | - | 101,285 |
| Student activities | - | - | - | 708,492 | 708,492 |
| Debt service | - | - | 3,700,000 | - | 3,700,000 |
| Unreserved: | | | | | |
| Designated for capital projects | - | 6,967,955 | - | - | 6,967,955 |
| Undesignated: | 1,174,798 | - | - | 1,304,929 | 2,479,727 |
| Total fund balances | \$ 1,793,157 | \$ 6,967,955 | \$ 3,700,000 | \$ 2,013,421 | \$ 14,474,533 |
| Total liabilities and fund balances | \$ 42,612,799 | \$ 8,138,811 | \$ 3,700,000 | \$ 7,342,748 | \$ 61,794,358 |

See notes to financial statements.

Dubuque Community School District

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

June 30, 2006

| | | |
|---|-------------------|-----------------------------|
| Total fund balances of governmental funds (page 22) | | \$ 14,474,533 |
| <i>Amounts reported for governmental activities in the statement of net assets are different because:</i> | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. | | 79,693,391 |
| Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. | | |
| Compensated absences | \$ 389,276 | |
| Bonds payable | <u>37,708,458</u> | |
| | | <u>(38,097,734)</u> |
| Net assets of governmental activities (page 20) | | <u><u>\$ 56,070,190</u></u> |

See notes to financial statements

Dubuque Community School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Government Funds
Year ended June 30, 2006

| | General | Capital Projects Fund | Debt Service Fund | Other Nonmajor Funds | Total |
|---|-----------------------|--------------------------|----------------------|----------------------------|-----------------------|
| Revenues: | | | | | |
| Local sources: | | | | | |
| Local tax | \$ 29,605,400 | \$ 9,815,987 | \$ - | \$ 4,273,686 | \$ 43,695,073 |
| Tuition | 1,591,829 | - | - | - | 1,591,829 |
| Other | 1,995,565 | 773,917 | 161,882 | 1,921,706 | 4,853,070 |
| State sources | 47,792,892 | - | - | 3,699 | 47,796,591 |
| Federal sources | 3,630,635 | - | - | - | 3,630,635 |
| Total revenues | \$ 84,616,321 | \$ 10,589,904 | \$ 161,882 | \$ 6,199,091 | \$ 101,567,198 |
| Expenditures: | | | | | |
| Current: | | | | | |
| Instruction: | | | | | |
| Regular instruction | \$ 33,274,986 | \$ - | \$ - | \$ 789,206 | \$ 34,064,192 |
| Special instruction | 16,289,430 | - | - | - | 16,289,430 |
| Other instruction | 6,947,760 | - | - | 1,711,929 | 8,659,689 |
| | \$ 56,512,176 | \$ - | \$ - | \$ 2,501,135 | \$ 59,013,311 |
| Support services: | | | | | |
| Student services | \$ 4,241,681 | \$ - | \$ - | \$ 43,951 | \$ 4,285,632 |
| Instructional staff services | 3,660,968 | - | - | 474,143 | 4,135,111 |
| Administration services | 9,057,223 | - | - | 442,274 | 9,499,497 |
| Operation and maintenance of plant services | 7,496,659 | - | - | 816,094 | 8,312,753 |
| Transportation services | 2,842,768 | - | - | 521,934 | 3,364,702 |
| | \$ 27,299,299 | \$ - | \$ - | \$ 2,298,396 | \$ 29,597,695 |
| Non-instructional programs | \$ 101,085 | \$ - | \$ - | \$ 65,150 | \$ 166,235 |
| Other expenditures: | | | | | |
| Facilities acquisition | \$ - | \$ 19,882,005 | \$ - | \$ 1,471,120 | \$ 21,353,125 |
| Debt service: | | | | | |
| Principal | - | - | 101,208 | - | 101,208 |
| Interest | - | - | 1,236,956 | - | 1,236,956 |
| AEA flowthrough | 3,532,385 | - | - | - | 3,532,385 |
| TIF property tax payment to City | - | - | - | 26,248 | 26,248 |
| | \$ 3,532,385 | \$ 19,882,005 | \$ 1,338,164 | \$ 1,497,368 | \$ 26,249,922 |
| Total expenditures | \$ 87,444,945 | \$ 19,882,005 | \$ 1,338,164 | \$ 6,362,049 | \$ 115,027,163 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (2,828,624) | \$ (9,292,101) | \$ (1,176,282) | \$ (162,958) | \$ (13,459,965) |
| Other financing sources: | | | | | |
| Sales of property and equipment | \$ 6,867 | \$ - | \$ - | \$ 339 | \$ 7,206 |
| Operating transfers in | 119,120 | - | 4,759,803 | - | 4,878,923 |
| Operating transfers out | - | (4,759,803) | - | (25,204) | (4,785,007) |
| Revenue bonds net proceeds | - | 9,871,290 | - | - | 9,871,290 |
| Net change in fund balances | \$ (2,702,637) | \$ (4,180,614) | \$ 3,583,521 | \$ (187,823) | \$ (3,487,553) |
| Fund balances beginning of year | 4,495,794 | 11,148,569 | 116,479 | 2,201,244 | 17,962,086 |
| Fund balances end of year | \$ 1,793,157 | \$ 6,967,955 | \$ 3,700,000 | \$ 2,013,421 | \$ 14,474,533 |

See notes to financial statements

**Dubuque 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**

Net change in fund balances - total governmental funds (page 24) \$ (3,487,553)

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

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

| | | | |
|---------------------------------|----|--------------------|------------|
| Expenditures for capital assets | \$ | 25,968,827 | |
| Depreciation expense | | <u>(3,034,792)</u> | |
| | | | 22,934,035 |

Proceeds from the sale of property and equipment are reported in the governmental funds, however in the statement of activities it is netted against the book value of the assets being deleted and only the gain portion is recognized. (7,206)

Net book value of assets retired this year (459,720)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. (10,000,000)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 101,208

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 116,479

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

| | | | |
|----------------------|--|--|--------|
| Compensated absences | | | 20,414 |
|----------------------|--|--|--------|

| | | | |
|--|--|--|---------------------|
| Change in net assets of governmental activities (page 21) | | | <u>\$ 9,217,657</u> |
|--|--|--|---------------------|

See notes to financial statements.

Dubuque Community School District

**Statement of Net Assets
Proprietary Fund**

Year ended June 30, 2006

| | School Nutrition |
|---|---------------------|
| Assets: | |
| Cash | \$ 718,971 |
| Inventories | 50,487 |
| Capital assets, net of accumulated depreciation | 518,906 |
| Total assets | \$ 1,288,364 |
| Liabilities | |
| Accounts payable | \$ 91 |
| Early retirement payable | 3,989 |
| Deferred revenue | 50,520 |
| Total liabilities | \$ 54,600 |
| Net Assets | |
| Invested in capital assets, net of related debt | \$ 518,906 |
| Unrestricted | 714,858 |
| Total net assets | \$ 1,233,764 |

See notes to financial statements.

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

| | | |
|------------------------------|----|-------------|
| Operating revenue: | | |
| Local sources: | | |
| Charges for service | \$ | 2,404,627 |
| | | |
| Operating expenses: | | |
| Non-instructional programs: | | |
| Food service operations: | | |
| Salaries | \$ | 1,292,479 |
| Benefits | | 413,801 |
| Purchased services | | 32,312 |
| Supplies | | 2,137,770 |
| Depreciation | | 70,867 |
| Loss on disposal of assets | | 9,829 |
| Total operating expenses | \$ | 3,957,058 |
| | | |
| Operating loss | \$ | (1,552,431) |
| | | |
| Non-operating revenue: | | |
| State sources | \$ | 46,575 |
| Federal sources | | 1,628,623 |
| Interest on investments | | 19,665 |
| Total non-operating revenue | \$ | 1,694,863 |
| | | |
| Income before transfer | \$ | 142,432 |
| Operating transfer out | | (93,916) |
| Change in net assets | \$ | 48,516 |
| | | |
| Net assets beginning of year | | 1,185,248 |
| | | |
| Net assets end of year | \$ | 1,233,764 |
| | | |

See notes to financial statements

Dubuque Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

| | <u>School Nutrition</u> |
|---|-------------------------|
| Cash received from sale of lunches and breakfasts | \$ 2,372,051 |
| Cash received from miscellaneous operating activities | 43,251 |
| Cash payments to employees for services | (1,706,289) |
| Cash payments to suppliers for goods or services | <u>(1,975,046)</u> |
| Net cash used in operating activities | <u>\$ (1,266,033)</u> |
| Cash flows from non-capital financing activities: | |
| State grants received | \$ 46,575 |
| Federal grants received | 1,439,026 |
| Transfers to other funds | <u>(93,916)</u> |
| Net cash provided by non-capital financing activities | <u>\$ 1,391,685</u> |
| Cash flows from capital and related financing activities: | |
| Acquisition of capital assets | <u>\$ (121,977)</u> |
| Cash flows from investing activities: | |
| Interest on investments | <u>\$ 19,665</u> |
| Net increase in cash and cash equivalents | \$ 23,340 |
| Cash and cash equivalents at beginning of year | <u>695,631</u> |
| Cash and cash equivalents at end of year | <u>\$ 718,971</u> |

Dubuque Community School District

Statement of Cash Flows
Proprietary Fund

Year ended June 30, 2006

School Nutrition

Reconciliation of operating loss to net cash used in operating activities:

| | |
|---|-----------------------|
| Operating loss | \$ (1,552,431) |
| Adjustments to reconcile operating loss to net cash used in operation activities: | |
| Commodities used | 189,598 |
| Depreciation | 70,867 |
| Loss on disposal of assets | 9,829 |
| Decrease in inventories | 1,789 |
| (Decrease) in accounts payable | (350) |
| Increase in accrued retirement payable | 3,989 |
| Increase in deferred revenue | <u>10,676</u> |
| Net cash used in operating activities | <u>\$ (1,266,033)</u> |

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$189,598 of federal commodities.

See notes to financial statements.

Dubuque Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

| | Private Purpose Trust | |
|---------------------------|--------------------------|-------------|
| | Scholarship | Agency |
| Assets | | |
| Cash | \$ 142,662 | \$ 29,707 |
| Liabilities | | |
| Other payables | \$ - | \$ 29,707 |
| Net Assets | | |
| Reserved for scholarships | <u>\$ 142,662</u> | <u>\$ -</u> |

See notes to financial statements.

Dubuque Community School District
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

| | Private Purpose Trust | | | | Total |
|------------------------------|--|--|---|--|-------------------|
| | Trust | Scholarships | | | |
| | Prescott Elementary Trust | Dubuque Senior High School Scholarships | Stephen Hempstead High School Scholarships | Central High School Scholarship | |
| Additions: | | | | | |
| Local sources: | | | | | |
| Other local sources | \$ - | \$ 5,928 | \$ 1,550 | \$ - | \$ 7,478 |
| Interest on investments | 560 | 4,510 | 1,363 | 22 | 6,455 |
| Total revenues | <u>\$ 560</u> | <u>\$ 10,438</u> | <u>\$ 2,913</u> | <u>\$ 22</u> | <u>\$ 13,933</u> |
| Deductions: | | | | | |
| Instruction: | | | | | |
| Regular instruction: | | | | | |
| Other | \$ - | \$ 9,468 | \$ 4,080 | \$ - | \$ 13,548 |
| Change in net assets | \$ 560 | \$ 970 | \$ (1,167) | \$ 22 | \$ 385 |
| Net assets beginning of year | <u>12,320</u> | <u>96,873</u> | <u>32,582</u> | <u>502</u> | <u>142,277</u> |
| Net assets end of year | <u>\$ 12,880</u> | <u>\$ 97,843</u> | <u>\$ 31,415</u> | <u>\$ 524</u> | <u>\$ 142,662</u> |

See notes to financial statements.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note: 1 Summary of Significant Accounting Policies

Dubuque Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Dubuque, Iowa, portions of Dubuque County and Jackson County, Iowa. 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, Dubuque Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Dubuque Community School District has no component units that 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 City of Dubuque and Dubuque Assessor's Conference Board.

B. Basis of Presentation

District-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.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

B. Basis of Presentation: (continued)

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

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

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

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are 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 that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest 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 District-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 Capital Projects Fund – Local Option Sales Tax is used to account for all resources used in the acquisition and construction of capital facilities.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

B. Basis of Presentation: (continued)

The Debt Service Fund shall be used to pay interest as it becomes due and the amount necessary to pay the principal when due on bonds or other authorized indebtedness issued by the District, and to make payments required under a loan, lease-purchase agreement, or other evidence of indebtedness authorized by Code.

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.

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

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

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

C. Measurement Focus and Basis of Accounting

The District-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.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

C. Measurement Focus and Basis of Accounting: (continued)

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

Cash 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, they have a maturity date no longer than three months.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

D. Assets, Liabilities and Fund Equity: (continued)

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-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 District-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. District machinery and equipment with a cost of more than \$1,500 will be capitalized. The Nutrition Fund equipment is capitalized with a cost of more than \$500.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

D. Assets, Liabilities and Fund Equity: (continued)

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following estimated useful lives:

| | |
|-------------------------------------|------------|
| Buildings | 50 years |
| Improvements to buildings and sites | 20 years |
| Furniture and equipment | 5-12 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 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 District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements for all employees. 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.

Long-term obligations – In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

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

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 1: Summary of Significant Accounting Policies: (continued)

D. Assets, Liabilities and Fund Equity: (continued)

Restricted Net Assets – In the District-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, expenditures in the instruction and other expenditures functional areas exceeded the amounts budgeted.

Note 2: Cash and Pooled Investments

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

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

At June 30, 2006, the District had no investments.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 3: Interfund Transfers

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

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|--------------------------------------|--------------------|
| Debt Service | Capital Projects | \$4,759,803 |
| General | Proprietary | 93,916 |
| General | Special Revenue: Student Activity | <u>25,204</u> |
| Total | | <u>\$4,878,923</u> |

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

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 4: Capital Assets

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

| | Balance Beginning of Year | Increases | (Decreases) | Balance End of Year |
|--|---------------------------------|----------------------|------------------------|------------------------|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,530,742 | \$ 374,952 | \$ - | \$ 6,905,694 |
| Construction in progress | 29,083,571 | - | (10,060,333) | 19,023,238 |
| Total capital assets not being depreciated | <u>\$ 35,614,313</u> | <u>\$ 374,952</u> | <u>\$ (10,060,333)</u> | <u>\$ 25,928,932</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 31,377,188 | \$ 32,424,062 | \$ (129,000) | \$ 63,672,250 |
| Land improvements | 4,546,418 | 1,188,036 | - | 5,734,454 |
| Furniture and equipment | 17,874,418 | 2,042,111 | (2,922,685) | 16,993,844 |
| Total capital assets being depreciated | <u>\$ 53,798,024</u> | <u>\$ 35,654,209</u> | <u>\$ (3,051,685)</u> | <u>\$ 86,400,548</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | \$ 18,627,441 | \$ 1,064,632 | \$ (129,000) | \$ 19,563,073 |
| Land improvements | 2,882,603 | 219,036 | - | 3,101,639 |
| Furniture and equipment | 10,676,011 | 1,751,124 | (2,455,758) | 9,971,377 |
| Total accumulated depreciation | <u>\$ 32,186,055</u> | <u>\$ 3,034,792</u> | <u>\$ (2,584,758)</u> | <u>\$ 32,636,089</u> |
| Total capital assets being depreciated, net | <u>\$ 21,611,969</u> | <u>\$ 32,619,417</u> | <u>\$ (466,927)</u> | <u>\$ 53,764,459</u> |
| Governmental activities capital assets, net | <u>\$ 57,226,282</u> | <u>\$ 32,994,369</u> | <u>\$ (10,527,260)</u> | <u>\$ 79,693,391</u> |
| Business-Type Activities: | | | | |
| Furniture and equipment | \$ 1,365,224 | \$ 121,977 | \$ (56,317) | \$ 1,430,884 |
| Less accumulated depreciation | 887,599 | 70,867 | (46,488) | 911,978 |
| Business-type activities capital assets, net | <u>\$ 477,625</u> | <u>\$ 51,110</u> | <u>\$ (9,829)</u> | <u>\$ 518,906</u> |

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 4: Capital Assets: (continued)

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

| | |
|---------|------------|
| Regular | \$ 482,785 |
| Special | 26,294 |
| Other | 116,890 |

Support Services:

| | |
|------------------------------------|---------|
| Student services | 28,893 |
| Instructional staff | 26,302 |
| Administration | 232,245 |
| Operation and maintenance of plant | 80,018 |
| Transportation | 562,768 |

| | |
|----------------------------|-------|
| Non-instructional programs | 1,212 |
|----------------------------|-------|

| | |
|--|--------------|
| | \$ 1,557,407 |
|--|--------------|

| | |
|--------------------------|-----------|
| Unallocated depreciation | 1,477,385 |
|--------------------------|-----------|

| | |
|--|--------------|
| | \$ 3,034,792 |
|--|--------------|

| | |
|--|--------------|
| Total governmental activities depreciation expense | \$ 3,034,792 |
|--|--------------|

Business-type activities:

Food Services

| | |
|----------------------|-----------|
| Regular depreciation | \$ 70,867 |
|----------------------|-----------|

| | |
|--|-----------|
| | \$ 70,867 |
|--|-----------|

Note 5: Termination Benefits

The District offers voluntary early retirement plans to its certified, administrative, and classified employees. Eligible employees must be at least age fifty-five, must have completed either fifteen or twenty years of service, depending on the employees classification, and the last five years must be consecutive. Employees must complete an application which is required to be approved by the Board of Education.

The early retirement incentive for each eligible employee is up to 50% of the employee's base salary calculated by using different methods depending on the type of employee.

The cost of early retirements expected to be liquidated currently, are recorded as a liability of the General Fund or the Special Revenue – Management Levy Fund or the School Nutrition Fund. The June 30, 2006, accrued liability is \$481,944. These early retirement benefits will be paid July 1, 2006.

Early retirement benefits paid during the year ended June 30, 2006, totaled \$234,967.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 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 |
|----------------------|--|----------------------|-------------------|--------------------------------|--------------------------------|
| Revenue bonds | \$ 27,809,667 | \$ 10,000,000 | \$ 101,209 | \$ 37,708,458 | \$ 101,208 |
| Compensated absences | 409,689 | 389,276 | 409,689 | 389,276 | 389,276 |
| | \$ 28,219,356 | \$ 10,389,276 | \$ 510,898 | \$ 38,097,734 | \$ 490,484 |

Revenue Bonds Payable

Details of the District's June 30, 2006, local option sales and services tax revenue bonded indebtedness are as follows:

Interest-bearing bonds

A. Parity Bonds

2004 Series Bonds

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|----------------------|---------------------|----------------------|
| 2007 | 3.62% | \$ - | \$ 615,840 | \$ 615,840 |
| 2008 | 3.62% | - | 615,840 | 615,840 |
| 2009 | 3.62% | - | 615,840 | 615,840 |
| 2010 | 4.00% | - | 615,840 | 615,840 |
| 2011 | 4.00%-3.35% | 4,440,000 | 493,691 | 4,933,691 |
| 2012-2014 | 3.45%-3.75% | \$ 12,560,000 | \$ 471,005 | \$ 13,031,005 |
| Total | | \$ 17,000,000 | \$ 3,428,056 | \$ 20,428,056 |

2005 Series Bonds

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|----------------------|-------------------|----------------------|
| 2007 | 2.80% | \$ - | \$ 279,550 | \$ 279,550 |
| 2008 | 2.80% | - | 279,550 | 279,550 |
| 2009 | 2.50%-2.75% | 4,400,000 | 195,425 | 4,595,425 |
| 2010 | 2.75%-3.00% | 4,000,000 | 75,050 | 4,075,050 |
| 2011 | 3.00%-3.05% | 1,100,000 | 18,025 | 1,118,025 |
| 2012-2014 | 3.10%-3.45% | 500,000 | 16,925 | 516,925 |
| Total | | \$ 10,000,000 | \$ 864,525 | \$ 10,864,525 |

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 6: Long-Term Liabilities: (continued)

Interest-bearing bonds

A. Parity Bonds

2006 A Series Bonds

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|--------------|------------|--------------|
| 2007 | 4.04% | \$ - | \$ 165,299 | \$ 165,299 |
| 2008 | 4.04% | - | 165,299 | 165,299 |
| 2009 | 4.00% | 755,000 | 142,699 | 897,699 |
| 2010 | 4.00% | 750,000 | 112,499 | 862,499 |
| 2011 | 4.00% | 725,000 | 83,099 | 808,099 |
| 2012-2014 | 4.10%-4.125% | \$ 1,860,000 | \$ 78,546 | \$ 1,938,546 |
| Total | | \$ 4,090,000 | \$ 747,441 | \$ 4,837,441 |

B. Subordinate Bonds

2006 B Series Bonds

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|--------------|--------------|--------------|
| 2007 | 4.82% | \$ - | \$ 284,875 | \$ 284,875 |
| 2008 | 4.82% | - | 284,875 | 284,875 |
| 2009 | 4.82% | - | 284,875 | 284,875 |
| 2010 | 4.82% | - | 284,875 | 284,875 |
| 2011 | 4.82% | - | 284,875 | 284,875 |
| 2012-2014 | 4.50%-5.00% | 5,910,000 | 359,850 | 6,269,850 |
| Total | | \$ 5,910,000 | \$ 1,784,225 | \$ 7,694,225 |

The Bond Resolutions require that Local Option Tax Revenues be deposited into the Revenue Fund and disbursed only as follows:

a.) Sinking Fund.

Money in the Revenue Fund shall first be disbursed to make deposits into a separate and special trust fund (the "**Sinking Fund**" for the Outstanding Bonds under the Prior Bond Resolutions) (the 2004 Series Bonds, the QZAB's, the 2005 Series Bonds and the 2006A Series Bonds and any Additional Parity Bonds that might be issued in the future) to pay the principal and interest requirements of the Fiscal Year and to maintain the reserve (the "Reserve Fund" under the Prior Bond Resolutions) for the Outstanding Bonds and Parity Bonds as provided in the Prior Bond Resolutions. The June 30, 2006 Parity Bonds Reserve Fund balance is \$3,109,000. This requirement will apply as long as the Outstanding bonds are not paid and discharged.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 6: Long-Term Liabilities: (continued)

Money in the Revenue Fund shall next be disbursed to make deposits into a separate and special trust fund to pay the principal and interest requirements of the Fiscal Year on the Subordinate Bonds authorized and Additional Subordinate Bonds. The fund shall be known as the Subordinate Bonds School Infrastructure Local Option Sales and Services Tax Revenue Bond and Interest Sinking Fund (the "*Subordinate Bond Sinking Fund*"). The required amount to be deposited in the Subordinate Bond Sinking Fund in any month shall be the equal monthly amount necessary to pay in full the installment of interest coming due on the next interest payment date on the then outstanding Bonds and Additional Subordinate Bonds plus the equal monthly amount necessary to pay in full the installment of principal coming due on such bonds on the next succeeding principal payment date until the full amount of such installment is on hand. If for any reason the amount on hand in the Subordinate Bond Sinking Fund exceeds the required amount, the excess shall forthwith be withdrawn and paid into the Revenue Fund. Money in the Subordinate Bond Sinking Fund shall be used solely for the purpose of paying principal of an interest on the Bonds and Additional Subordinate Bonds as the same shall become due and payable. Accrued interest, if any, shall be deposited in the Subordinate Bond Sinking Fund.

b.) Reserve Fund.

Money in the Revenue Fund shall next be disbursed to maintain a debt service reserve in an amount equal to the Reserve Fund Requirement. Such fund shall be known as the Subordinate School Infrastructure Local Option Sales and Services Tax Revenue Debt Service Reserve Fund (the "*Subordinate Reserve Fund*"). In each month there shall be deposited in the Reserve Fund an amount equal to one hundred percent (100%) of the amount required by this Resolution to be deposited in such month in the Sinking Fund; provided, however, that when the amount on deposit in the Reserve Fund shall be not less than the Reserve Fund Requirement, no further deposits shall be made into the Reserve Fund except to maintain such level, and when the amount on deposit in the Reserve Fund is greater than the balance required above, such additional amounts shall be withdrawn and paid into the Early Bond Redemption Fund.

Money in the Reserve Fund shall be used solely for the purpose of paying principal at the maturity of or interest on the Bonds and Additional Subordinate Bonds for the payment of which insufficient money shall be available in the Sinking Fund. Whenever it shall become necessary to so use money in the Reserve Fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount. On the Closing Date, \$591,000 of the Bond Proceeds shall be deposited in the Reserve Fund.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 6: Long-Term Liabilities (continued)

c.) Early Bond Redemption Fund.

Beginning July 1, 2008, money in the Revenue Fund shall next be deposited into the (“**Early Bond Redemption Fund**”) until such time as coverage on the Bonds and the Additional Subordinate Bonds shall be not less than 1.15 times the maximum amount that will be required in any Fiscal Year in which Bonds or additional Subordinate Bonds remain outstanding.

Deposits into this Fund shall not begin until the Issuer has met the following test, however, deposits must begin by July 1, 2009:

- (i) The Issuer has completed construction and furnishing of the new west side elementary building in an amount not greater than \$12,000,000; the downtown elementary building in an amount not greater than \$6,800,000; the new middle school in the amount of \$2,500,000; and the Jefferson Elementary School in an amount not to exceed \$300,000;
- (ii) The issuer has completed construction and furnishing of improvements at Steven Hempstead High School in an amount not greater than \$13,000,000 for Phases II, III, and IV of improvements to this facility;
- (iii) Provided, however, that the expenditures contemplated in sections (i) and (ii) herein must be completed, except for retainage, by June 30, 2009.

d.) Operating Reserve Fund.

Money next on hand in the Revenue Fund shall be deposited into the Operating Reserve Fund until such time as a balance of \$1,000,000 is on hand. Money in this Fund shall be used to make debt service payments on the Bonds and Additional Subordinate Bonds in the event that money on hand in the Sinking Fund or Reserve Fund is insufficient for that purpose. Interest earnings from this fund shall be deposited into the Revenue Fund. Whenever it shall become necessary to so use money in the **Operating Reserve Fund**, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

e.) Surplus Revenue.

Any remaining money may be used to pay or redeem any of the Outstanding Bonds, Parity Bonds, the Bonds, or Additional Subordinate Bonds, or may be transferred to the **Project Fund** to be used for any lawful purpose.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 6: Long-Term Liabilities (continued)

Non-interest bearing bonds (QZABs [Qualified Zone Academy Bonds])

QZAB Bond Issue of January 3, 2005

| Year Ending June 30, | Interest Rate | Principal | Interest | Total |
|----------------------------|------------------|------------|----------|------------|
| 2007 | 0.00% | \$ 101,208 | - | \$ 101,208 |
| 2008 | 0.00% | 101,208 | - | 101,208 |
| 2009 | 0.00% | 101,208 | - | 101,208 |
| 2010 | 0.00% | 101,208 | - | 101,208 |
| 2011 | 0.00% | 101,208 | - | 101,208 |
| 2012-2013 | 0.00% | 202,419 | - | 202,419 |
| Total | | \$ 708,459 | \$ - | \$ 708,459 |

The QZABs are authorized by Section 1397E of the Internal Revenue Code of 1986, and were issued to equip, rehabilitate, and repair Jefferson Middle School. Under the terms of the Investment Agreement, the District will make annual payments of \$101,208.38 in January of each year, commencing January 2006 (8 total payments amount to \$809,667). Each payment will be held in trust by Bank of America until final maturity on January 3, 2013. In addition, Bank of America will make semi-annual interest payments directly to the District on the amount held in trust at the rate of 1.60%, said interest to be payable in January and July of each year. Interest payments received by the District must be deposited into the Local Option Sales Tax Revenue Sinking Fund pledged to make annual bond payments as they come due. The net effect will be to reduce the amount of Local Option Sales Tax Revenue necessary to make each annual payment by the amount of interest paid under the Investment Agreement. The resolution authorizing issuance of the Bond pledges the interest received under the Investment Agreement (along with the Local Option Sales Tax Revenues) to the payment of the Bond.

Under the terms of the QZAB Investment Agreement, each annual payment is due no later than January 3rd of each year. Under the terms of the resolution authorizing issuance of the QZAB Bonds, payments must be made in accordance with the Additional Bonds Test of the District's outstanding Local Option Sales Tax Bonds, dated October 1, 2004 (the "2004 Bonds"), which requires payments to be made on the same month and day as the 2004 Bonds. The 2004 Bonds are payable on January 1st of each year, accordingly, the annual payments on the QZAB Bonds must also be made on January 1st of each year. The terms of the Investment Agreement permit the Bank to accept annual payments on said dates.

The District complied with all revenue-bond provisions during the year ended June 30, 2006.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 6: Long-Term Liabilities: (continued)

A recap of the revenue bonds issued for the fiscal year is as follows:

| | | |
|--------------------------------|----|------------------|
| January 19, 2006 bond issuance | \$ | 4,090,000 |
| January 19, 2006 bond issuance | | <u>5,910,000</u> |
| Subtotal: | \$ | 10,000,000 |
| Less: Bond issuance costs | | <u>(128,710)</u> |
| Net bond proceeds | \$ | <u>9,871,290</u> |

During the year ended June 30, 2006, the District made interest payments totaling \$1,236,956.

Note 7: 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 \$3,147,107, \$2,832,931 and \$2,692,279, respectively, equal to the required contributions for each year.

Note 8: Risk Management

Dubuque 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.

Note 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 \$3,532,385 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

Note 10: Lease Commitment

On June 15, 2006, the District fulfilled a one-year non-cancelable operating lease for its day-care facility. Rent expense for the year ended June 30, 2006, was \$20,916.

Dubuque Community School District

Notes to Financial Statements

June 30, 2006

Note 11: Construction and Other Commitments

On May 17, 2005, the District signed a \$8,817,050 contract for the construction of a new elementary school. As of June 30, 2006, \$163,829 of change orders had been added to the project. Funding will come from the Capital Projects Fund. As of June 30, 2006, \$8,125,337 had been paid on the contract.

On May 8, 2006, the District signed \$7,558,109 of contracts for renovations of current classrooms, library and locker bay at Hempstead High School. As of June 30, 2006, no change orders had been added to the project. Funding will come from the Capital Projects Fund. As of June 30, 2006, \$335,512 had been paid on the contracts.

At June 30, 2006, the District also had approximately \$114,289 in commitments related to unfilled purchase orders for goods and services.

Required Supplementary Information

Dubuque Community School District
Budgetary Comparison Schedule of Revenues, Expenditures
and Changes in Balances - Budget and Actual (GAAP Basis)
All Governmental Funds, Proprietary Fund and Fiduciary Funds
Required Supplementary Information
Year ended June 30, 2006

| | GAAP Basis | | | | | | |
|--|-----------------------|---------------------|--------------------|----------------------|----------------------|----------------------|-----------------------------|
| | Actual Amounts | | | | Budgeted Amounts | | Final to Actual Variance |
| | Governmental Funds | Proprietary Fund | Fiduciary Funds | Total | Original | Amended | |
| Revenues | | | | | | | |
| Local sources | \$50,139,972 | \$2,424,292 | \$13,933 | \$52,578,197 | \$52,307,999 | \$52,307,999 | \$270,198 |
| State sources | 47,796,591 | 46,575 | -0- | 47,843,166 | 47,672,559 | 47,672,559 | 170,607 |
| Federal sources | 3,630,635 | 1,628,623 | -0- | 5,259,258 | 4,113,760 | 4,113,760 | 1,145,498 |
| Total Revenues | <u>\$101,567,198</u> | <u>\$4,099,490</u> | <u>\$13,933</u> | <u>\$105,680,621</u> | <u>\$104,094,318</u> | <u>\$104,094,318</u> | \$1,586,303 |
| Expenditures | | | | | | | |
| Instruction | \$59,013,311 | \$-0- | \$13,548 | \$59,026,859 | \$57,739,590 | \$58,839,590 | \$(187,269) |
| Support services | 29,597,695 | -0- | -0- | 29,597,695 | 27,790,278 | 30,990,278 | 1,392,583 |
| Non-instructional | | | | | | | |
| Programs | 166,235 | 3,957,058 | -0- | 4,123,293 | 4,140,049 | 4,840,049 | 716,756 |
| Other expenditures | 26,223,674 | -0- | -0- | 26,223,674 | 20,348,638 | 24,848,638 | (1,375,036) |
| Total Expenditures | <u>\$115,000,915</u> | <u>\$3,957,058</u> | <u>\$13,548</u> | <u>\$118,971,521</u> | <u>\$110,018,555</u> | <u>\$119,518,555</u> | \$547,034 |
| Excess (deficiency) of revenues over expenditures | \$(13,433,717) | \$142,432 | \$385 | \$(13,290,900) | \$(5,924,237) | \$(15,424,237) | \$2,133,337 |
| Other financing sources, net | \$9,946,164 | \$(93,916) | -0- | \$9,852,248 | \$210,000 | \$210,000 | \$9,642,248 |
| Excess of revenues and other financing sources over expenditures | \$(3,487,553) | \$48,516 | \$385 | \$(3,438,652) | \$(5,714,237) | \$(15,214,237) | \$11,775,585 |
| Balances beginning of Year | \$17,962,086 | \$1,185,248 | \$142,277 | \$19,289,611 | \$14,096,910 | \$14,096,910 | \$5,192,701 |
| Balances end of year | <u>\$14,474,533</u> | <u>\$1,233,764</u> | <u>\$142,662</u> | <u>\$15,850,959</u> | <u>\$8,382,673</u> | <u>\$(1,117,327)</u> | \$16,968,286 |

See accompanying independent auditors' report.

Dubuque Community School District
Notes to Required Supplementary Information – Budgetary Reporting
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, each Special Revenue Fund, Capital Projects Fund, and Debt Service 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 GAAP basis. Appropriations lapse at fiscal year-end and then are reappropriated for the next year, if necessary.

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 that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$9,500,000.

During the year ended June 30, 2006, expenditures in the instruction and the other expenditures functions exceeded the amounts budgeted.

Other Supplementary Information

Dubuque Community School District

Combining Balance Sheet

Nonmajor Special Revenue Funds

June 30, 2006

| | Special Revenue | | | |
|--|---------------------|---------------------|---|---------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Total |
| Assets | | | | |
| Cash | \$ 1,237,055 | \$ 735,615 | \$ 757,304 | \$ 2,729,974 |
| Receivables: | | | | |
| Property tax: | | | | |
| Delinquent | 20,406 | - | 24,174 | 44,580 |
| Succeeding year | 2,100,000 | - | 2,468,194 | 4,568,194 |
| Total assets | \$ 3,357,461 | \$ 735,615 | \$ 3,249,672 | \$ 7,342,748 |
| Liabilities and Fund Equity | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 6,342 | \$ 27,123 | \$ 260,893 | \$ 294,358 |
| Early retirement payable | 461,215 | - | - | 461,215 |
| Deferred revenue: | | | | |
| Succeeding year property tax | 2,100,000 | - | 2,468,194 | 4,568,194 |
| Other | 2,545 | - | 3,015 | 5,560 |
| Total liabilities | \$ 2,570,102 | \$ 27,123 | \$ 2,732,102 | \$ 5,329,327 |
| Fund equity: | | | | |
| Reserved for student activities | \$ - | \$ 708,492 | \$ - | \$ 708,492 |
| Unreserved/Undesignated fund balances | 787,359 | - | 517,570 | 1,304,929 |
| Total fund balances | \$ 787,359 | \$ 708,492 | \$ 517,570 | \$ 2,013,421 |
| Total liabilities and fund equity | \$ 3,357,461 | \$ 735,615 | \$ 3,249,672 | \$ 7,342,748 |

See accompanying independent auditors' report.

Dubuque Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Nonmajor Special Revenue Funds

Year ended June 30, 2006

| | Special Revenue | | | |
|---|------------------------|---------------------|---|---------------------|
| | Management Levy | Student Activity | Physical Plant and Equipment Levy | Total |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 1,899,294 | \$ - | \$ 2,374,392 | \$ 4,273,686 |
| Other | 103,485 | 1,707,970 | 110,251 | 1,921,706 |
| State sources: | 1,691 | - | 2,008 | 3,699 |
| Federal sources: | - | - | - | - |
| Total revenues | <u>\$ 2,004,470</u> | <u>\$ 1,707,970</u> | <u>\$ 2,486,651</u> | <u>\$ 6,199,091</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 632,695 | \$ - | \$ 156,511 | \$ 789,206 |
| Other instruction | 46,839 | 1,665,090 | - | 1,711,929 |
| Support services: | | | | |
| Student services | 43,219 | - | 732 | 43,951 |
| Instructional staff services | 28,187 | - | 445,956 | 474,143 |
| Administration services | 346,566 | - | 95,708 | 442,274 |
| Operation and maintenance of plant services | 648,744 | - | 167,350 | 816,094 |
| Transportation services | 238,745 | 775 | 282,414 | 521,934 |
| Non-instructional programs | 65,150 | - | - | 65,150 |
| Other expenditures: | | | | |
| Facilities acquisition | - | - | 1,471,120 | 1,471,120 |
| TIF property tax payment to City | - | - | 26,248 | 26,248 |
| Total expenditures | <u>\$ 2,050,145</u> | <u>\$ 1,665,865</u> | <u>\$ 2,646,039</u> | <u>\$ 6,362,049</u> |
| Excess (deficiency) of revenues over (under) expenditures | \$ (45,675) | \$ 42,105 | \$ (159,388) | \$ (162,958) |
| Other financing sources | | | | |
| Sales of property and equipment | 339 | - | - | 339 |
| Operating transfers out | - | (25,204) | - | (25,204) |
| Net change in fund balances | \$ (45,336) | \$ 16,901 | \$ (159,388) | \$ (187,823) |
| Fund balances beginning of year | <u>832,695</u> | <u>691,591</u> | <u>676,958</u> | <u>2,201,244</u> |
| Fund balances end of year | <u>\$ 787,359</u> | <u>\$ 708,492</u> | <u>\$ 517,570</u> | <u>\$ 2,013,421</u> |

See accompanying independent auditors' report

Dubuque Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

| | Balance | | Balance | |
|-----------------------------|---------------|--------------|--------------|---------------|
| | June 30, 2005 | Revenues | Expenditures | June 30, 2006 |
| Senior High Schools: | | | | |
| Dubuque Senior | \$ 179,851 | \$ 617,376 | \$ 607,442 | \$ 189,785 |
| Stephen Hempstead | 164,328 | 699,607 | 693,439 | 170,496 |
| Central Alternative | 23,915 | 16,841 | 10,169 | 30,587 |
| Total Senior High Schools | \$ 368,094 | \$ 1,333,824 | \$ 1,311,050 | \$ 390,868 |
| Middle Schools | | | | |
| Washington | \$ 73,247 | \$ 83,710 | \$ 74,409 | \$ 82,548 |
| Jefferson | 57,204 | 43,562 | 57,250 | 43,516 |
| Roosevelt | 4,856 | 97,939 | 77,465 | 25,330 |
| Total Junior High Schools | \$ 135,307 | \$ 225,211 | \$ 209,124 | \$ 151,394 |
| Elementary Schools: | | | | |
| Audubon | \$ 14,393 | \$ 5,534 | \$ 4,798 | \$ 15,129 |
| Bryant | 5,658 | 10,422 | 10,403 | 5,677 |
| Eisenhower | 12,018 | 5,404 | 12,670 | 4,752 |
| Fulton | 13,807 | 18,049 | 17,404 | 14,452 |
| Hoover | 18,993 | 19,515 | 17,897 | 20,611 |
| Irving | 15,233 | 18,871 | 18,330 | 15,774 |
| Kennedy | 16,767 | 15,166 | 20,637 | 11,296 |
| Lincoln | 310 | 10,461 | 9,883 | 888 |
| Marshall | 10,315 | 15,437 | 12,179 | 13,573 |
| Prescott | 2,371 | 3,151 | 4,105 | 1,417 |
| Sageville | 1,421 | 4,668 | 4,525 | 1,564 |
| Table Mound | 3,944 | 6,387 | 5,887 | 4,444 |
| Jones Early Childhood Ctr | 378 | 233 | 138 | 473 |
| Total Elementary Schools | \$ 115,608 | \$ 133,298 | \$ 138,856 | \$ 110,050 |
| Athletic Reserve | \$ 73,832 | \$ 5,227 | \$ 21,621 | \$ 57,438 |
| District Instrumental Music | (1,250) | 8,610 | 8,618 | (1,258) |
| | \$ 72,582 | \$ 13,837 | \$ 30,239 | \$ 56,180 |
| Grand Total | \$ 691,591 | \$ 1,706,170 | \$ 1,689,269 | \$ 708,492 |

See accompanying independent auditors' report.

Dubuque Community School District
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund
Year ended June 30, 2006

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|--------------------|---------------------------------|------------------|------------------|------------------------|
| Assets | | | | |
| Cash | <u>\$ 19,746</u> | <u>\$ 49,309</u> | <u>\$ 39,348</u> | <u>\$ 29,707</u> |
| Liabilities | | | | |
| Other payables | <u>\$ 19,746</u> | <u>\$ 49,309</u> | <u>\$ 39,348</u> | <u>\$ 29,707</u> |

See accompanying independent auditors' report

Dubuque Community School District

Schedule of Revenues by Source and Expenditures by Function

All Governmental Fund Types

For the Last Four Years

| | Modified Accrual Basis | | | |
|---|------------------------|-----------------------|----------------------|----------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | |
| Local sources: | | | | |
| Local tax | \$ 43,695,073 | \$ 40,863,628 | \$ 36,562,089 | \$ 28,511,489 |
| Tuition | 1,591,829 | 1,522,456 | 1,236,803 | 1,430,405 |
| Other | 4,853,070 | 3,776,111 | 3,267,111 | 3,584,566 |
| State sources | 47,796,591 | 44,019,322 | 41,348,965 | 40,931,161 |
| Federal sources | 3,630,635 | 3,035,986 | 3,274,481 | 2,674,714 |
| Total | \$ 101,567,198 | \$ 93,217,503 | \$ 85,689,449 | \$ 77,132,335 |
| Expenditures: | | | | |
| Instruction: | | | | |
| Regular instruction | \$ 34,064,192 | \$ 31,370,284 | \$ 28,594,425 | \$ 26,540,765 |
| Special instruction | 16,289,430 | 14,828,336 | 13,290,321 | 12,220,711 |
| Other instruction | 8,659,689 | 8,018,424 | 7,673,923 | 7,456,799 |
| Support services: | | | | |
| Student services | 4,285,632 | 3,944,056 | 3,753,351 | 3,372,238 |
| Instructional staff services | 4,135,111 | 3,960,303 | 3,579,280 | 3,987,323 |
| Administration services | 9,499,497 | 8,139,883 | 7,590,078 | 6,764,538 |
| Operation and maintenance of plant services | 8,312,753 | 6,382,867 | 6,237,741 | 6,214,273 |
| Transportation services | 3,364,702 | 3,108,408 | 3,006,514 | 2,832,057 |
| Non-instructional programs | 166,235 | 183,046 | 236,125 | 221,806 |
| Other expenditures: | | | | |
| Facilities acquisition | 21,353,125 | 29,054,751 | 7,451,272 | 4,473,750 |
| Debt service: | | | | |
| Principal | 101,208 | 7,000,000 | - | - |
| Interest | 1,236,956 | 491,732 | - | - |
| AEA flowthrough | 3,532,385 | 3,307,910 | 3,233,844 | 3,337,833 |
| TIF property tax payment to City | 26,248 | \$ 25,478 | \$ 25,478 | \$ - |
| Total | \$ 115,027,163 | \$ 119,815,478 | \$ 84,672,352 | \$ 77,422,093 |

The Schedule of Revenues by Source and Expenditures by Function, Schedule 5, presents the last four years of data. This schedule should eventually accumulate a ten-year history of data.

See accompanying independent auditors' report.

Dubuque Community School District
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

| Grantor/Program | CFDA Number | Grant Number | Expenditures |
|--|-------------|--------------|---------------------|
| Indirect: | | | |
| U.S. Department of Agriculture: | | | |
| Iowa Department of Education: | | | |
| Food Distribution (non-cash) | 10.550 | FY06 | \$ 189,598 |
| School Nutrition Cluster Programs: | | | |
| School Breakfast Program | 10.553 | FY06 | \$ 196,007 |
| National School Lunch Program | 10.555 | FY06 | 1,243,018 |
| | | | <u>\$ 1,439,025</u> |
| U.S. Department of Education: | | | |
| Fund for the Improvement of Education | | | |
| Iowa Department of Education: | 84.215 | FY06 | \$ 126,874 |
| Title I grants to LEA | 84.010 | 1863-G | \$ 1,020,574 |
| Title I grants to LEA | 84.010 | 1863-GC | 167,365 |
| | | | <u>\$ 1,187,939</u> |
| Special Education-Grants to States | 84.027 | FY06 | \$ 464 |
| Vocational Education - Basic Grants to States | 84.048 | FY06 | \$ 139,955 |
| Safe and Drug-free Schools and Communities - State Grants | 84.186 | FY06 | \$ 55,087 |
| Even Start | 84.213 | FY06 | \$ 97,750 |
| Charter Schools | 84.282 | FY06 | \$ 43,272 |
| State Grants for Innovative Programs | 84.298 | FY06 | \$ 54,676 |
| Education Technology State Grants | 84.318 | FY06 | \$ 43,700 |
| Special Education -State Program Improvement | | | |
| Grants for Children with Disabilities | 84.323 | FY06 | \$ 20,900 |
| Improving Teacher Quality State Grants | 84.367 | FY06 | \$ 482,031 |
| Grants for State Assessments & Related Activities | 84.369 | FY06 | \$ 60,816 |
| Elementary/Secondary Education Hurricane Relief | 84.938 | FY06 | \$ 15,000 |
| Keystone Area Education Agency: | | | |
| Special Education - Grants to States | 84.027 | FY06 | \$ 641,826 |
| English Language Acquisition Grants | 84.365 | FY06 | \$ 5,285 |
| U.S. Department of Health and Human Services | | | |
| Iowa Department of Education: | | | |
| Temporary Assistance for Needy Families | 93.558 | FY06 | \$ 2,070 |
| U.S. Department of Housing and Urban Development: | | | |
| City of Dubuque: | | | |
| Community Development Block Grant | 14.218 | FY06 | \$ 7,820 |
| Total | | | <u>\$ 4,614,088</u> |

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

See accompanying independent auditors' report.

Jim Kircher & Associates, P.C.
Certified Public Accountants

815 Century Drive
Dubuque, Iowa 52002

Independent Auditors' 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
Dubuque 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 Dubuque Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 20, 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 Dubuque 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Dubuque 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.

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

JIM KIRCHER & ASSOCIATES, P.C.



Dubuque, Iowa
October 20, 2006

Jim Kircher & Associates, P.C.
Certified Public Accountants

815 Century Drive
Dubuque, Iowa 52002

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control
over Compliance in accordance with OMB Circular A-133

To the Board of Education of
Dubuque Community School District:

Compliance

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

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

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Dubuque Community School District and other parties to whom Dubuque 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.

JIM KIRCHER & ASSOCIATES, P.C.



Dubuque, Iowa
October 20, 2006

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No reportable conditions relating to the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting.
- (c) The audit did not disclose an instance of noncompliance which is material to the financial statements.
- (d) No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - * CFDA Number 84.010 - TITLE I GRANTS TO LEA
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Dubuque Community School District did qualify as a low-risk auditee.

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part II: Findings Related to the General Purpose Financial
Statements:

INSTANCES OF NONCOMPLIANCE:

No matters of material noncompliance were noted.

REPORTABLE CONDITIONS:

The Dubuque Community School District does not have any reportable conditions for the year ended June 30, 2006.

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

The Dubuque Community School District does not have any reportable conditions for the year ended June 30, 2006.

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting:

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

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-J-06 Board Policy Regarding Approval of Payment for Goods and Services

Comment - The Board policy regarding the approval of payment for goods and services states in part “The Board of Directors shall authorize the issuance of warrants for all just claims against the School District” The statement would seem to imply the existence of a legal liability before the issuance of a warrant for payment. We noted a payment to a vendor near the end of June, 2006 for some items that were not delivered until September, 2006. During this period of time the warrant was being held by the District awaiting receipt of the items ordered. This would seem to violate the Board’s policy in this regard.

Recommendation - The District should implement procedures particularly at year end, to ensure that goods and or services have been received or a legal liability incurred before an approval for payment is authorized.

Response - We will adopt the necessary cut-off procedures at year-end to be consistent with Board policy in this area.

IV-K-06 Oversight of Federal Grants

Comment - The situation as outlined in IV-J-06 was seemingly created by a lack of coordination amongst the District’s Management Team assigned to monitor the Perkins Federal Program. This lack of coordination caused this federal program not to follow the District’s guidelines regarding the purchasing and approval of the payment of goods and services.

Recommendation – The oversight of federal programs should be monitored throughout the school year by a school official appointed to oversee the program. The oversight person’s duties would include inspection of program files to determine compliance with federal guidelines and School District’s business policies.

Response - We will review our federal programs’ monitoring system and will make the necessary changes to ensure compliance in all areas.

Dubuque Community School District
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Part IV: Other Findings Related to Statutory Reporting: (Continued)

IV-L-06 Revision of Board policies Regarding Fixed Assets
(Policy #8013) and Inventory Control (Policy #8150)

Comment - The threshold for the tagging of machinery and equipment (presently \$500) and the threshold for the capitalization and depreciation of machinery and equipment (presently \$1,500) should be revisited and increased to higher levels.

The inventory control policy is outdated and needs to be changed to the current Board policy relative to the cycle of the physical inspection of District fixed assets.

Recommendation - It would be our suggestion to increase the tagging of machinery and equipment from \$500 to \$1,000 and to increase the capitalization and depreciation of machinery and equipment from \$1,500 to \$2,500.

Response - We will review the policies in question and make the necessary changes accordingly.

Conclusion - All responses accepted.