

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

JUNE 30, 2006

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Fairfield Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2005 Election)</b>		
Terry Cochran	President	2007
Doug Flournoy	Vice President	2005
Gail Miller	Board Member	2005
Gerry Garles	Board Member	2006
Sandy Worley	Board Member	2006
Margaret Dwyer	Board Member	2007
Joe Stever	Board Member	2007
<b>Board of Education (After September 2005 Election)</b>		
Terry Cochran	President	2007
Margaret Dwyer	Vice President	2007
Gerry Garles	Board Member	2006
Sandy Worley	Board Member	2006
Joe Stever	Board Member	2007
Gail Miller	Board Member	2008
Doug Flournoy	Board Member	2008
<b>School Officials</b>		
Steve Triplett	Superintendent	2006
Janne Hunsaker	District Secretary/Treasurer and Business Manager	2006
Gary Cameron	Attorney	2006

**NOLTE, CORNMAN & JOHNSON P.C.**

**Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Fairfield Community School District:

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

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 the Fairfield Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2006 on our consideration of the Fairfield Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Members American Institute & Iowa Society of Certified Public Accountants

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fairfield 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 three years ended June 30, 2005 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The 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.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 23, 2006

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **2006 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$15,501,444 in fiscal 2005 to \$16,122,450 in fiscal 2006, while General Fund expenditures increased from \$14,789,107 in fiscal 2005 to \$15,554,620 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$538,444 in fiscal 2005 to \$978,194 in fiscal 2006, an 81.7% increase from the prior year. The District's solvency ratio improved from 3.47% to 6.06%.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- An increase in interest rates, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$33,009 in fiscal year 2005 to \$59,820 in fiscal year 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 Fairfield Community School District as a whole and present an overall view of the District's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

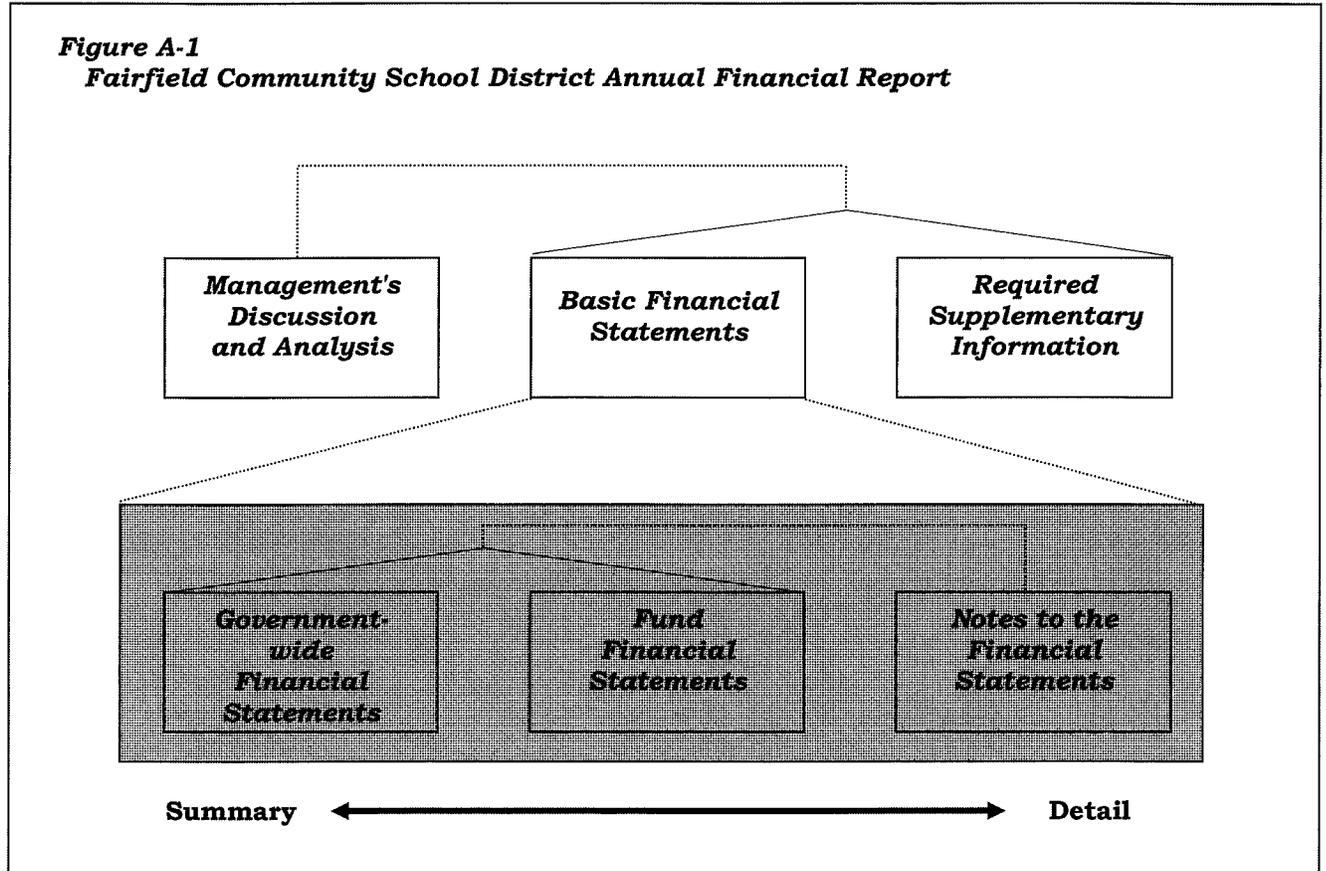


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## **REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES**

### **Government-wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

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

The District has three kinds of funds:

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

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

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

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

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

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

- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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

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

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 10,926,801	9,816,166	115,596	110,675	11,042,397	9,926,841	11.24%
Capital assets	6,281,376	6,185,739	59,284	60,180	6,340,660	6,245,919	1.52%
Total assets	17,208,177	16,001,905	174,880	170,855	17,383,057	16,172,760	7.48%
Long-term obligations	1,452,112	1,230,117	0	0	1,452,112	1,230,117	18.05%
Other liabilities	8,197,924	7,914,507	9,153	6,529	8,207,077	7,921,036	3.61%
Total liabilities	9,650,036	9,144,624	9,153	6,529	9,659,189	9,151,153	5.55%
Net assets:							
Invested in capital assets, net of related debt	6,268,914	6,104,530	59,284	60,180	6,328,198	6,164,710	2.65%
Restricted	740,773	160,662	0	0	740,773	160,662	361.08%
Unrestricted	548,454	592,089	106,443	104,146	654,897	696,235	-5.94%
Total net assets	\$ 7,558,141	6,857,281	165,727	164,326	7,723,868	7,021,607	10.00%

The District's combined net assets increased by 10%, or \$702,261, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$580,111 or 361.08% over the prior year. The increase was primarily a result of increased local option sales and service tax revenues in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – decreased \$41,338 or 5.94%. This decrease in unrestricted net assets was a result of the increased early retirement benefits payable from the Special Revenue-Management Levy and the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 841,839	913,781	334,514	296,762	1,176,353	1,210,543	-2.82%
Operating grants and contributions and restricted interest	2,110,640	1,867,266	306,826	307,418	2,417,466	2,174,684	11.16%
Capital grants and contributions and restricted interest	16,170	0	0	0	16,170	0	100.00%
General revenues:							
Property tax	6,771,003	6,366,892	0	0	6,771,003	6,366,892	6.35%
Local option sales and services tax	566,425	415	0	0	566,425	415	136387.95%
Unrestricted state grants	7,752,605	7,441,998	0	0	7,752,605	7,441,998	4.17%
Other	36,816	56,486	58,922	619	95,738	57,105	67.65%
Total revenues	18,095,498	16,646,838	700,262	604,799	18,795,760	17,251,637	8.95%
Program expenses:							
Governmental activities:							
Instructional	10,642,648	9,961,051	0	0	10,642,648	9,961,051	6.84%
Support services	5,711,141	5,283,612	0	0	5,711,141	5,283,612	8.09%
Non-instructional programs	2,734	106,179	698,861	557,589	701,595	663,768	5.70%
Other expenses	1,038,115	864,369	0	0	1,038,115	864,369	20.10%
Total expenses	17,394,638	16,215,211	698,861	557,589	18,093,499	16,772,800	7.87%
Changes in net assets before capital contributions	700,860	431,627	1,401	47,210	702,261	478,837	46.66%
Capital contributions	0	0	0	18,771	0	18,771	-100.00%
Changes in net assets	700,860	431,627	1,401	65,981	702,261	497,608	41.13%
Beginning net assets	6,857,281	6,425,654	164,326	98,345	7,021,607	6,523,999	7.63%
Ending net assets	\$ 7,558,141	6,857,281	165,727	164,326	7,723,868	7,021,607	10.00%

In fiscal 2006, property tax and unrestricted state grants account for 80.3% of the revenue from governmental activities while charges for services and operating grants and contributions account for 91.6% of the revenue from business type activities.

The District's total revenues were approximately \$18.8 million of which \$18.1 million was for governmental activities and \$.7 million was for business type activities.

As shown in FigureA-4, the District as a whole experienced an 8.95% increase in revenues and a 7.87% increase in expenses. The increase in expenses related to increases in the negotiated salary and benefits.

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**Governmental Activities**

Revenues for governmental activities were \$18,095,498 and expenses were \$17,394,638.

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

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 10,642,648	8,305,427
Support services	5,711,141	5,709,992
Non-instructional programs	2,734	2,734
Other expenses	1,038,115	407,836
Totals	<u>\$ 17,394,638</u>	<u>14,425,989</u>

- The cost financed by users of the District's programs was \$841,839.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$2,110,640.
- The net cost of governmental activities was financed with \$6,771,003 in property tax, \$566,425 in local option sales and services tax, \$7,752,605 in unrestricted state grants and \$92,959 in interest income.

**Business-Type Activities**

Revenues of the District's business-type activities were \$700,262 and expenses were \$698,861. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

**INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,286,643, well above last year's ending fund balances of \$1,574,022. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to the increased revenues in the Capital Projects Fund, as well as the improved financial position of the General Fund.

**Governmental Fund Highlights**

- The District's improving General Fund financial position is the product of many factors. Increase in tax levy during the year in tax and grants resulted in an increase in revenues. The increase in General Fund expenditures was less than the increase in General Fund revenues ensuring the financial position of the District increase.
- The Physical Plant and Equipment Levy (PPEL) Fund balance decreased from a deficit \$32,643 in fiscal 2005 to a deficit \$343,179 in fiscal 2006. While revenues remained approximately the same, but did increase due to the District receiving a fire safety grant. Expenditures increased

compared to last year, due to the District purchasing new buses, computers and land, and performing land and building improvements.

- The Capital Projects Fund balance increase from \$415 in 2005 to \$551,404 in 2006. The primary reason for this increase was due to the District receiving local option sales and service tax from Jefferson and Van Buren counties.

### Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$164,326 at June 30, 2005 to \$165,727 at June 30, 2006, representing an increase of less than 1%.

## BUDGETARY HIGHLIGHTS

Over the course of the year, Fairfield Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas.

The District's revenues were \$850,462 more than budgeted revenues, a variance of 4.8%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2006, the District had invested \$6.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 1.49% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$511,099.

The original cost of the District's capital assets was \$14.49 million. Governmental funds account for \$14.25 million with the remainder of \$0.24 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the land category. The District's land totaled \$149,402 at June 30, 2006, compared to \$117,882 reported at June 30, 2005. This increase resulted from the land acquisition during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005	2005-06
Land	\$ 149,402	117,882	0	0	149,402	117,882	21.10%
Buildings	5,332,782	5,279,199	0	0	5,332,782	5,279,199	1.00%
Improvements other than buildings	142,151	155,559	0	0	142,151	155,559	-9.43%
Machinery and equipment	657,041	633,099	59,284	60,180	716,325	693,279	3.22%
Total	\$ 6,281,376	6,185,739	59,284	60,180	6,340,660	6,245,919	1.49%

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## Long-Term Debt

At June 30, 2006, the District had \$1,452,112 in other long-term debt outstanding. This represents an increase of 18% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding Tractor Loan indebtedness at June 30, 2006 of \$12,462.

The District also had total outstanding Early Retirement payable from the General and Special Revenue - Management Funds of \$1,439,650 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
Tractor Loan	\$ 12,462	18,307	-31.9%
National School Fitness Loan	0	62,902	-100.0%
Early Retirement	1,439,650	1,148,908	25.3%
Totals	\$ 1,452,112	1,230,117	18.0%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced declining enrollment for a few years. This trend is expected for a minimum of four more years.
- The District continues to utilize At-Risk funding to provide opportunities of support for students.
- The SILO tax passed in the fall of 2005-06, with the first funding in Feb 06.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- All bargaining unit contracts are one-year contracts and open for renegotiations next year. Total 2005-06 salaries and benefits paid from the General Fund represented 78.22% of the total 2005-06 General Fund expenditures.
- The National School Fitness Foundation has declared bankruptcy and is no longer reimbursing districts for their participation in the "Health and Wellness Physical Education Program". This program was designed to equip schools with faculty training and support, education curriculum, and exercise machines. Settlement is unknown at this time.

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## **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 Janne Hunsaker, District Secretary/Treasurer and Business Manager, Fairfield Community School District, 605-607 E Broadway, Fairfield, Iowa, 52556-2996.

BASIC FINANCIAL STATEMENTS

FAIRFIELD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments	\$ 3,769,824	88,060	3,857,884
Receivables:			
Property tax:			
Delinquent	119,311	0	119,311
Succeeding year	6,258,302	0	6,258,302
Income surtax	416,228	0	416,228
Accounts	17,860	35	17,895
Due from other governments	345,276	0	345,276
Inventories	0	27,501	27,501
Capital assets, net of accumulated depreciation (Note 4)	6,281,376	59,284	6,340,660
<b>Total Assets</b>	<b>17,208,177</b>	<b>174,880</b>	<b>17,383,057</b>
<b>Liabilities</b>			
Accounts payable	183,542	0	183,542
Salaries and benefits payable	1,420,481	1,361	1,421,842
Anticipatory warrants (Note 5)	335,599	0	335,599
Deferred revenue:			
Succeeding year property tax	6,258,302	0	6,258,302
Unearned revenues	0	7,792	7,792
Long-term liabilities (Note 6):			
Portion due within one year:			
Tractor Loan payable	6,099	0	6,099
Early retirement payable	285,890	0	285,890
Portion due after one year:			
Tractor Loan payable	6,363	0	6,363
Early retirement payable	1,153,760	0	1,153,760
<b>Total Liabilities</b>	<b>9,650,036</b>	<b>9,153</b>	<b>9,659,189</b>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	6,268,914	59,284	6,328,198
Restricted for:			
Talented and gifted	355	0	355
Salary improvement program	1,061	0	1,061
Capital projects	551,404	0	551,404
Other special revenue purposes	187,953	0	187,953
Unrestricted	548,454	106,443	654,897
<b>Total Net Assets</b>	<b>\$ 7,558,141</b>	<b>165,727</b>	<b>7,723,868</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Operating Grants, Contributions and Restricted Interest		Capital Grants, Contributions and Restricted Interest			
		Charges for Services	Interest	Interest	Governmental Activities	Business-Type Activities	
<b>Governmental activities:</b>							
<b>Instruction:</b>							
Regular instruction	\$ 6,948,873	308,746	1,300,194	0	(5,339,933)	0	(5,339,933)
Special instruction	2,234,394	69,764	118,627	0	(2,046,003)	0	(2,046,003)
Other instruction	1,459,381	462,180	77,710	0	(919,491)	0	(919,491)
	<u>10,642,648</u>	<u>840,690</u>	<u>1,496,531</u>	<u>0</u>	<u>(8,305,427)</u>	<u>0</u>	<u>(8,305,427)</u>
<b>Support services:</b>							
Student services	495,708	0	0	0	(495,708)	0	(495,708)
Instructional staff services	974,296	0	0	0	(974,296)	0	(974,296)
Administration services	1,691,186	0	0	0	(1,691,186)	0	(1,691,186)
Operation and maintenance of plant services	1,698,095	0	0	0	(1,698,095)	0	(1,698,095)
Transportation services	851,856	1,149	0	0	(850,707)	0	(850,707)
	<u>5,711,141</u>	<u>1,149</u>	<u>0</u>	<u>0</u>	<u>(5,709,992)</u>	<u>0</u>	<u>(5,709,992)</u>
<b>Non-instructional programs:</b>							
Food service operations	2,734	0	0	0	(2,734)	0	(2,734)
<b>Other expenditures:</b>							
Facilities acquisitions	171,220	0	0	16,170	(155,050)	0	(155,050)
Long-term debt interest	1,769	0	0	0	(1,769)	0	(1,769)
AEA flowthrough	614,109	0	614,109	0	0	0	0
Depreciation(unallocated)*	251,017	0	0	0	(251,017)	0	(251,017)
	<u>1,038,115</u>	<u>0</u>	<u>614,109</u>	<u>16,170</u>	<u>(407,836)</u>	<u>0</u>	<u>(407,836)</u>
Total governmental activities	17,394,638	841,839	2,110,640	16,170	(14,425,989)	0	(14,425,989)
<b>Business-Type activities:</b>							
<b>Non-instructional programs:</b>							
Nutrition services	698,861	334,514	306,826	0	0	(57,521)	(57,521)
Total	<u>\$ 18,093,499</u>	<u>1,176,353</u>	<u>2,417,466</u>	<u>16,170</u>	<u>(14,425,989)</u>	<u>(57,521)</u>	<u>(14,483,510)</u>
<b>General Revenues and Transfers:</b>							
<b>Property tax levied for:</b>							
General purposes				\$ 6,339,386	0	6,339,386	
Capital outlay				431,617	0	431,617	
Local option sales and services tax				566,425	0	566,425	
Unrestricted state grants				7,752,605	0	7,752,605	
Unrestricted investment earnings				92,959	1,358	94,317	
Transfers				(57,564)	57,564	0	
Other				1,421	0	1,421	
Total general revenues				<u>15,126,849</u>	<u>58,922</u>	<u>15,185,771</u>	
Changes in net assets				700,860	1,401	702,261	
Net assets beginning of year				<u>6,857,281</u>	<u>164,326</u>	<u>7,021,607</u>	
Net assets end of year				<u>\$ 7,558,141</u>	<u>165,727</u>	<u>7,723,868</u>	

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Capital Projects	Special Revenue - Management Fund	Special Revenue - PPEL Fund	Other Nonmajor Governmental Funds	Total
<b>Assets</b>						
Cash and pooled investments	\$ 2,305,570	352,205	900,937	136	184,970	3,743,818
Receivables:						
Property tax						
Delinquent	101,127	0	10,120	8,064	0	119,311
Succeeding year	5,176,465	0	795,128	286,709	0	6,258,302
Income surtax	416,228	0	0	0	0	416,228
Accounts	13,125	538	1,214	0	2,983	17,860
Due from other governments	145,886	199,390	0	0	0	345,276
<b>Total Assets</b>	<b>\$ 8,158,401</b>	<b>552,133</b>	<b>1,707,399</b>	<b>294,909</b>	<b>187,953</b>	<b>10,900,795</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	\$ 167,033	729	0	15,780	0	183,542
Salaries and benefits payable	1,420,481	0	0	0	0	1,420,481
Anticipatory warrants (Note 5)	0	0	0	335,599	0	335,599
Deferred revenue:						
Succeeding year property tax	5,176,465	0	795,128	286,709	0	6,258,302
Income surtax	416,228	0	0	0	0	416,228
Total liabilities	<u>7,180,207</u>	<u>729</u>	<u>795,128</u>	<u>638,088</u>	<u>0</u>	<u>8,614,152</u>
Fund balances:						
Reserved for:						
Talanted and gifted	355	0	0	0	0	355
Salary improvement program	1,061	0	0	0	0	1,061
Unreserved fund balances	976,778	551,404	912,271	(343,179)	187,953	2,285,227
Total fund balances	<u>978,194</u>	<u>551,404</u>	<u>912,271</u>	<u>(343,179)</u>	<u>187,953</u>	<u>2,286,643</u>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,158,401</b>	<b>552,133</b>	<b>1,707,399</b>	<b>294,909</b>	<b>187,953</b>	<b>10,900,795</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

<b>Total fund balances of governmental funds (page 16)</b>	\$ 2,286,643
 <b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	6,281,376
Blending of the Internal Service Fund to be reflected on an entity-wide basis.	26,006
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	416,228
Long-term liabilities, including tractor loan payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,452,112)</u>
<b>Net assets of governmental activites (page 14)</b>	<u><u>\$ 7,558,141</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	General	Capital Projects	Special Revenue - Management Fund	Special Revenue - PPEL Fund	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>						
Local sources:						
Local tax	\$ 5,716,880	566,425	533,915	431,617	0	7,248,837
Tuition	378,510	0	0	0	0	378,510
Other	239,653	2,453	35,433	3,484	354,396	635,419
State sources	8,974,054	0	355	283	0	8,974,692
Federal sources	810,843	0	0	16,170	0	827,013
Total revenues	16,119,940	568,878	569,703	451,554	354,396	18,064,471
<b>EXPENDITURES:</b>						
Current:						
Instruction:						
Regular instruction	6,271,424	0	187,990	60,000	0	6,519,414
Special instruction	2,189,254	0	45,140	0	0	2,234,394
Other instruction	1,142,916	0	14,755	0	322,620	1,480,291
	9,603,594	0	247,885	60,000	322,620	10,234,099
Support services:						
Student services	492,954	0	24,853	0	0	517,807
Instructional staff services	887,789	0	5,194	97,197	0	990,180
Administration services	1,703,424	0	81,823	10,802	0	1,796,049
Operation and maintenance of plant services	1,505,357	0	159,182	0	0	1,664,539
Transportation services	747,393	0	42,963	118,048	0	908,404
	5,336,917	0	314,015	226,047	0	5,876,979
Non-instructional programs:						
Food service operations	0	0	7,161	0	0	7,161
Other expenditures:						
Facilities acquisitions	0	17,889	0	476,043	0	493,932
Long-term debt:						
Principal	0	0	0	0	68,747	68,747
Interest and fiscal charges	0	0	0	0	1,769	1,769
AEA flowthrough	614,109	0	0	0	0	614,109
	614,109	17,889	0	476,043	70,516	1,178,557
Total expenditures	15,554,620	17,889	569,061	762,090	393,136	17,296,796
Excess(deficiency) of revenues over(under) expenditures	565,320	550,989	642	(310,536)	(38,740)	767,675
Other financing sources(uses):						
Transfers in	0	0	0	0	70,516	70,516
Transfers out	(128,080)	0	0	0	0	(128,080)
Sale of equipment	2,510	0	0	0	0	2,510
Total other financing sources(uses)	(125,570)	0	0	0	70,516	(55,054)
Net change in fund balances	439,750	550,989	642	(310,536)	31,776	712,621
Fund balances beginning of year	538,444	415	911,629	(32,643)	156,177	1,574,022
Fund balances end of year	\$ 978,194	551,404	912,271	(343,179)	187,953	2,286,643

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD 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 18) \$ 712,621

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

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

Capital outlays	\$ 603,291	
Depreciation expense	<u>(507,654)</u>	95,637

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 68,747

Net change in the Internal Service Fund charged back against expenditures made for self-funded insurance at an entity-wide basis. 26,006

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. 88,591

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

Early retirement	<u>(290,742)</u>	
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**Changes in net assets of governmental activities (page 15) \$ 700,860**

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
<b>Assets</b>		
Cash and pooled investments	\$ 88,060	26,006
Accounts receivable	35	0
Inventories	27,501	0
Capital assets, net of accumulated depreciation (Note 4)	59,284	0
<b>Total Assets</b>	<u>174,880</u>	<u>26,006</u>
<b>Liabilities</b>		
Salaries and benefits payable	1,361	0
Unearned revenues	7,792	0
<b>Total Liabilities</b>	<u>9,153</u>	<u>0</u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	59,284	0
Unrestricted	106,443	26,006
<b>Total Net Assets</b>	<u>\$ 165,727</u>	<u>26,006</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 334,514	118,538
TOTAL OPERATING REVENUES	<u>334,514</u>	<u>118,538</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	254,040	0
Benefits	91,049	92,532
Services	500	0
Supplies	342,993	0
Depreciation	9,862	0
TOTAL OPERATING EXPENSES	<u>698,444</u>	<u>92,532</u>
OPERATING INCOME (LOSS)	<u>(363,930)</u>	<u>26,006</u>
NON-OPERATING REVENUES:		
State sources	8,638	0
Federal sources	298,188	0
Interest income	1,358	0
TOTAL NON-OPERATING REVENUES	<u>308,184</u>	<u>0</u>
Change in net assets before other financing sources(uses)	(55,746)	26,006
Other financing sources(uses):		
Loss on disposal of assets	(417)	0
Transfer in	57,564	0
Total other financing sources	<u>57,147</u>	<u>0</u>
Net income	1,401	26,006
Net assets beginning of year	<u>164,326</u>	<u>0</u>
Net assets end of year	<u>\$ 165,727</u>	<u>26,006</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2006

	Business-Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 334,271	0
Cash received from miscellaneous operating activities	1,903	118,538
Cash payments to employees for services	(343,728)	(92,532)
Cash payments to suppliers for goods or services	(296,814)	0
Net cash provided by(used in) operating activities	<u>(304,368)</u>	<u>26,006</u>
Cash flows from non-capital financing activities:		
State grants received	8,638	0
Federal grants received	260,667	0
Transfers from the general fund	57,564	0
Net cash provided by non-capital financing activities	<u>326,869</u>	<u>0</u>
Cash flows from capital financing activities:		
Acquisition of capital assets	(9,383)	0
Cash flows from investing activities:		
Interest on investment	1,358	0
Net increase in cash and cash equivalents	14,476	26,006
Cash and cash equivalents at beginning of year	73,584	0
Cash and cash equivalents at end of year	<u>\$ 88,060</u>	<u>26,006</u>
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (363,930)	26,006
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	37,521	0
Depreciation	9,862	0
Decrease in inventories	9,590	0
Increase in accounts receivable	(35)	0
Decrease in accounts payable	(432)	0
Increase in salary and benefits payable	1,361	0
Increase in unearned revenue	1,695	0
Net cash provided by(used in) operating activities	<u>\$ (304,368)</u>	<u>26,006</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and investments	<u>\$ 88,060</u>	<u>26,006</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		

During the year ended June 30, 2006, the District received Federal commodities valued of \$37,521.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Agency</u>
<b>Assets</b>	
Cash and pooled investments	\$ 1,996
	<u>          </u>
<b>Liabilities</b>	
Due to other groups	\$ 1,996
	<u>          </u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

FAIRFIELD COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

The Fairfield 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 Fairfield, Iowa, and the predominate agricultural territory in Van Buren, Washington, Henry, Wapello, and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Van Buren, Washington, Henry, Wapello, and Jefferson Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self-funded health insurance plan.

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

#### C. Measurement Focus and Basis of Accounting

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

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

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

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

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement

grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

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

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

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

D. Assets, Liabilities and Fund Balances

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Pooled Investments**

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

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and

instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

**(3) Transfers**

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

Transfer to	Transfer from	Amount
Debt Service	General	\$ 70,516
Enterprise - School Nutrition	General	<u>57,564</u>
Total		<u>\$ 128,080</u>

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

**(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	\$ 117,882	31,520	0	149,402
Total capital assets not being depreciated	<u>117,882</u>	<u>31,520</u>	<u>0</u>	<u>149,402</u>
Capital assets being depreciated:				
Buildings	10,477,617	291,192	0	10,768,809
Land improvements	327,738	0	0	327,738
Machinery and equipment	2,859,482	283,089	138,762	3,003,809
Total capital assets being depreciated	<u>13,664,837</u>	<u>574,281</u>	<u>138,762</u>	<u>14,100,356</u>
Less accumulated depreciation for:				
Buildings	5,198,418	237,609	0	5,436,027
Land improvements	172,179	13,408	0	185,587
Machinery and equipment	2,226,383	250,220	129,835	2,346,768
Total accumulated depreciation	<u>7,596,980</u>	<u>501,237</u>	<u>129,835</u>	<u>7,968,382</u>
Total capital assets being depreciated, net	<u>6,067,857</u>	<u>73,044</u>	<u>8,927</u>	<u>6,131,974</u>
Governmental activities capital assets, net	<u>\$ 6,185,739</u>	<u>104,564</u>	<u>8,927</u>	<u>6,281,376</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 230,560	9,383	500	239,443
Less accumulated depreciation	170,380	9,862	83	180,159
Business-type activities capital assets, net	\$ 60,180	(479)	417	59,284

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 118,962
Support services:		
Instructional staff		4,656
Administration		1,535
Operation and maintenance		17,796
Transportation		107,271
		<u>250,220</u>
Unallocated depreciation		<u>251,017</u>
Total governmental activities depreciation expense		<u>\$ 501,237</u>
Business-type activities:		
Food services		<u>\$ 9,862</u>

**(5) Anticipatory Warrants**

Anticipatory warrant activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year
Special Revenue - Physical Plant and Equipment Levy	\$ 297	560,138	224,836	<u>335,599</u>

**(6) Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Tractor Loan	\$ 18,307	0	5,845	12,462	6,099
National School Fitness Loan	62,902	0	62,902	0	0
Early Retirement	1,148,908	617,678	326,936	1,439,650	285,890
Total	\$ 1,230,117	617,678	395,683	1,452,112	291,989

Tractor Loan

Details of the District's June 30, 2006 Tractor Loan indebtedness is as follows:

Year Ending June 30,	Interest Rate		Principal	Interest	Total
2007	4.33	% \$	6,099	412	6,511
2008	4.33		6,363	148	6,511
Total		\$	12,462	560	13,022

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application within a seven-year window of eligibility. This application is required to be approved by the Board of Education. The district will pay the retiree a monthly payment beginning the first month of retirement and continuing for a maximum of 84 months. The early retirement incentive for each eligible employee is equal to .020 times the annual salary received by the retiree during the fiscal year immediately preceding retirement. "Annual salary" refers to compensation which the retiree received under Schedule A of the Master Contract, between the Fairfield Community School District and the Fairfield Community Education Association, the annual salary for administrators, and the annual salary for non-certified staff. It excludes all supplemental pay, extra-duty pay and extended contract pay. Early retirement benefits paid during the year ended June 30, 2006, totaled \$326,936.

**(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 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 \$569,192, \$582,893 and \$516,503 respectively, equal to the required contributions for each year.

**(8) Risk Management**

Fairfield 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.

**(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 \$614,109 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Deficit Fund Balance**

The Special Revenue - Physical Plant and Equipment Levy (PPEL) fund had a deficit undesignated fund balance of \$343,179 at June 30, 2006.

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to Actual Variance
	Funds	Fund		Original	Final	
	Actual	Actual				
<b>Revenues:</b>						
Local sources	\$ 8,262,766	335,872	8,598,638	7,794,694	7,794,694	803,944
State sources	8,974,692	8,638	8,983,330	8,983,473	8,983,473	(143)
Federal sources	827,013	298,188	1,125,201	1,078,540	1,078,540	46,661
Total revenues	<u>18,064,471</u>	<u>642,698</u>	<u>18,707,169</u>	<u>17,856,707</u>	<u>17,856,707</u>	<u>850,462</u>
<b>Expenditures:</b>						
Instruction	10,234,099	0	10,234,099	10,760,746	10,857,780	623,681
Support services	5,876,979	0	5,876,979	5,476,834	5,938,870	61,891
Non-instructional programs	7,161	698,444	705,605	689,353	791,200	85,595
Other expenditures	1,178,557	0	1,178,557	1,343,923	1,380,763	202,206
Total expenditures	<u>17,296,796</u>	<u>698,444</u>	<u>17,995,240</u>	<u>18,270,856</u>	<u>18,968,613</u>	<u>973,373</u>
Excess(deficiency) of revenues over(under) expenditures	767,675	(55,746)	711,929	(414,149)	(1,111,906)	1,823,835
Other financing sources, net	(55,054)	57,147	2,093	0	0	2,093
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	712,621	1,401	714,022	(414,149)	(1,111,906)	1,825,928
Balance beginning of year	1,574,022	164,326	1,738,348	2,434,509	2,434,509	(696,161)
Balance end of year	<u>\$ 2,286,643</u>	<u>165,727</u>	<u>2,452,370</u>	<u>2,020,360</u>	<u>1,322,603</u>	<u>1,129,767</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$697,757.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds		
	Student Activity	Expendable Trust	Total Special Revenue Funds
<b>Assets</b>			
Cash and pooled investments	\$ 180,396	4,574	184,970
Accounts receivable	2,983	0	2,983
<b>Total Assets</b>	<b>\$ 183,379</b>	<b>4,574</b>	<b>187,953</b>
<b>Fund Balances</b>			
Unreserved fund balances	\$ 183,379	4,574	187,953
<b>Total Fund Balances</b>	<b>\$ 183,379</b>	<b>4,574</b>	<b>187,953</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total
	Student Activity	Expendable Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	\$ 0	0	0	0	0
Other	351,806	2,590	354,396	0	354,396
TOTAL REVENUES	<u>351,806</u>	<u>2,590</u>	<u>354,396</u>	<u>0</u>	<u>354,396</u>
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	322,620	0	322,620	0	322,620
Other expenditures:					
Long-term debt:					
Principal	0	0	0	68,747	68,747
Interest	0	0	0	1,769	1,769
Total other expenditures	0	0	0	70,516	70,516
TOTAL EXPENDITURES	<u>322,620</u>	<u>0</u>	<u>322,620</u>	<u>70,516</u>	<u>393,136</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	29,186	2,590	31,776	(70,516)	(38,740)
Other financing sources:					
Transfers in	0	0	0	70,516	70,516
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	29,186	2,590	31,776	0	31,776
Fund balance beginning of year	154,193	1,984	156,177	0	156,177
Fund balance end of year	<u>\$ 183,379</u>	<u>4,574</u>	<u>187,953</u>	<u>0</u>	<u>187,953</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Drama	\$ 3,446	7,431	7,246	3,631
MS Drama	3,963	912	695	4,180
HS Vocal Music	7,608	20,423	15,073	12,958
MS Vocal Music	2,036	493	80	2,449
HS Band 1000	8,265	7,348	8,323	7,290
MS Band	1,529	4,603	6,132	0
HS Band Inst Rent	522	0	522	0
HS Musical	5,864	11,616	9,112	8,368
HS Athletics	(9,983)	86,279	75,987	309
MS Athletics	845	5,132	5,207	770
Libertyville	116	4,493	2,073	2,536
Lincoln	747	634	(568)	1,949
Pence	6,567	16,689	17,069	6,187
Washington	4,253	13,539	9,898	7,894
MS Library	1,804	3,825	4,625	1,004
MS Student Council	720	351	0	1,071
MS Pop/Juice	2,239	6,425	6,421	2,243
MS Activity Ticket	3,870	1,680	1,636	3,914
MS Ice Cream	1,637	2,735	3,508	864
MS Cheerleader Org.	600	2,079	1,024	1,655
MS Yearbook	2,684	4,309	2,777	4,216
MS Interest	3,841	0	1,034	2,807
HS CD/Interest	6,614	5,459	9,351	2,722
MS Environment	238	0	0	238
HS FBLA Club	661	2,141	1,602	1,200
HS FCA Club	8,337	0	0	8,337
HS Ice Cream	667	1,839	1,076	1,430
HS Concessions	2,484	22,963	24,749	698
HS Cheerleaders	2,365	732	3,047	50
HS Los Gringos	3,395	250	447	3,198
HS FFA	2,805	39,733	42,220	318
HS FHA	2,971	0	(73)	3,044
HS Dance-Drill	3	2,284	1,437	850
HS Library	0	1,187	0	1,187
HS Quill	7,222	11,227	8,201	10,248
HS Science Club	1,309	0	0	1,309
HS Student Council	8,255	15,126	7,910	15,471
HS Resource	6,220	373	1,713	4,880
HS Torch Club	1,267	0	(50)	1,317

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Troy Banner Org.	833	413	294	952
HS SADD Club	1,659	0	0	1,659
HS Vica Club	(43)	112	(783)	852
HS Student Assembly	5,560	0	0	5,560
HS Student Act/Ath	7,700	11,000	11,099	7,601
HS Class 2009 Org.	3,171	4,079	4,692	2,558
HS Class 2008 Org.	3,964	0	553	3,411
HS Class 2007 Org.	3,389	1,444	2,233	2,600
HS Class 2006 Org.	0	80	80	0
Wall of Honor	1,518	3,191	967	3,742
HS Pep Club	800	200	(394)	1,394
HS Career Club	682	0	(1,395)	2,077
HS French Club	12,166	0	0	12,166
HS Stud. Welfare	1,167	3,141	1,818	2,490
HS Sp/Forensics	2,062	3,286	2,751	2,597
HS Act. Ticket	40	19,705	19,745	0
HS Class 2004 Org.	444	0	444	0
HS Class 2005 Org.	292	0	292	0
Home School Assist.	0	595	595	0
HS Art Club	803	250	125	928
Total	<u>\$ 154,193</u>	<u>351,806</u>	<u>322,620</u>	<u>183,379</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FAIRFIELD 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
<b><u>ADMINISTRATOR</u></b>				
ASSETS				
Cash and pooled investments	\$ 290	167	233	224
LIABILITIES				
Due to other groups	\$ 290	167	233	224
<b><u>ALUMNI</u></b>				
ASSETS				
Cash and pooled investments	\$ 636	0	0	636
LIABILITIES				
Due to other groups	\$ 636	0	0	636
<b><u>HIGH SCHOOL FACULTY</u></b>				
ASSETS				
Cash and pooled investments	\$ 178	410	439	149
LIABILITIES				
Due to other groups	\$ 178	410	439	149
<b><u>ATHLETIC TOURNAMENT</u></b>				
ASSETS				
Cash and pooled investments	\$ 0	12,394	11,589	805
LIABILITIES				
Due to other groups	\$ 0	12,394	11,589	805
<b><u>STUDENT INSURANCE</u></b>				
ASSETS				
Cash and pooled investments	\$ 82	1,925	1,825	182
LIABILITIES				
Due to other groups	\$ 82	1,925	1,825	182

FAIRFIELD 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
<b><u>RETIREE</u></b>				
<b>ASSETS</b>				
Cash and pooled investments	\$ 758	0	758	0
<b>LIABILITIES</b>				
Due to other groups	\$ 758	0	758	0
<b><u>FLEX</u></b>				
<b>ASSETS</b>				
Cash and pooled investments	\$ 23,558	0	23,558	0
<b>LIABILITIES</b>				
Due to other groups	\$ 23,558	0	23,558	0
<b><u>TOTALS - ALL AGENCY FUNDS</u></b>				
<b>ASSETS</b>				
Cash and pooled investments	\$ 25,502	14,896	38,402	1,996
<b>LIABILITIES</b>				
Due to other groups	\$ 25,502	14,896	38,402	1,996

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 7,248,837	6,376,510	6,252,144	6,074,356
Tuition	378,510	325,494	365,228	373,888
Other	635,419	665,816	539,195	640,917
State sources	8,974,692	8,537,210	7,883,952	7,777,229
Federal sources	827,013	751,011	738,468	453,708
Total	<u>\$ 18,064,471</u>	<u>16,656,041</u>	<u>15,778,987</u>	<u>15,320,098</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 6,519,414	6,078,027	6,212,554	6,278,271
Special instruction	2,234,394	2,073,310	2,216,619	2,135,047
Other instruction	1,480,291	1,633,795	942,069	1,065,196
Support services:				
Student services	517,807	314,393	493,244	497,905
Instructional staff services	990,180	889,753	654,740	591,107
Administration services	1,796,049	1,767,470	1,562,814	1,529,050
Operation and maintenance of plant services	1,664,539	1,578,778	1,483,756	1,437,818
Transportation services	908,404	901,805	770,661	721,612
Central support services	0	0	3,279	2,832
Non-instructional programs	7,161	111,196	98,757	84,677
Other expenditures:				
Facilities acquisitions	493,932	35,741	54,606	898
Long-term debt:				
Principal	68,747	79,331	76,273	36,802
Interest and other charges	1,769	4,233	7,291	3,513
AEA flow-through	614,109	590,231	579,419	613,713
Total	<u>\$ 17,296,796</u>	<u>16,058,063</u>	<u>15,156,082</u>	<u>14,998,441</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 06	\$ <u>37,521</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 06	33,961
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 06	<u>226,706</u>
			<u>260,667</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-G	284,657
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2169-GC	51,996
			<u>336,653</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 06	<u>36,439</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 06	<u>15,134</u>
FUND FOR THE IMPROVEMENT OF EDUCATION (ESL TRAINING)	84.215	FY 06	<u>1,178</u>
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 05	1,244
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 06	16,170
			<u>17,414</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 06	<u>5,710</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 06	<u>270</u>
ADVANCE PLACEMENT PROGRAM	84.330	FY 06	<u>104</u>

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF EDUCATION (CONT):			
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 06	<u>118,631</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	3,052
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 06	<u>11,712</u>
			<u>14,764</u>
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 06	<u>118,627</u>
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	93.778	FY 06	<u>160,996</u>
OFFICE OF AIR AND RADIATION:			
ENVIRONMENTAL PROTECTION AGENCY:			
SURVEYS, STUDIES, INVESTIGATIONS, DEMONSTRATIONS AND SPECIAL PURPOSE ACTIVITIES RELATING TO THE CLEAN AIR ACT (CLEAN SCHOOL BUS PROGRAM)			
	66.034	FY 06	<u>4,788</u>
TOTAL			<u>\$ 1,128,626</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the  
Fairfield 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 Fairfield Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 23, 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 Fairfield Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

### Compliance and Other Matters

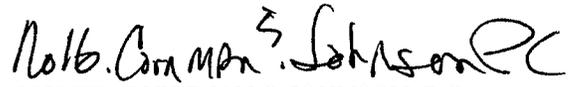
As part of obtaining reasonable assurance about whether Fairfield Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain

immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Fairfield Community School District and other parties to whom Fairfield 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 Fairfield Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

August 23, 2006

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

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### Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

To the Board of Education of  
Fairfield Community School District:

#### Compliance

We have audited the compliance of Fairfield 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. Fairfield 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 Fairfield Community School District's management. Our responsibility is to express an opinion on Fairfield 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 Fairfield 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 Fairfield Community School District's compliance with those requirements.

In our opinion, Fairfield 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.

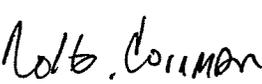
#### Internal Control Over Compliance

The management of Fairfield 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 Fairfield 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 non-compliance with applicable requirements of laws, regulations, contracts, and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving 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 Fairfield Community School District and other parties to whom Fairfield Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.

   
NOLTE, CORNMAN & JOHNSON, P.C.

August 23, 2006

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (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 program was as follows:
  - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Fairfield Community School District qualified as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

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

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

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

Conclusion - Response accepted.

II-B-06 Authorized Check Signatures - Checks written from the Student Activity Fund have two signatures; however, the Board President and Board Secretary are not signing these checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 and 291.8 of the Code of Iowa. The Board President can designate an authorized signer other than himself; however, the Board Secretary may not delegate this duty.

Response - The District requires the expenditures be pre-approved by the Board and each check issued requires two signatures (high school secretary who processes the check and the high school principal). The District feels segregation of duties are being implemented. The District will look at available options.

Conclusion - Response accepted.

II-C-06 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements of the Activity fund to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis. Any reconciling items should be resolved and necessary adjustments made timely.

Response - The District will reconcile bank statement balances to financial statement bank balances on a monthly basis in the Activity fund. In addition, the reconciling items and necessary adjustments will be resolved timely.

Conclusion - Response accepted.

II-D-06 Student Activity Fund - We noted during our audit that the Student Activity Fund included two interest accounts.

Recommendation - The interest earned in the Student Activity Fund needs to be allocated to the student activity accounts that earned the interest.

Response - We will make the necessary changes in the Student Activity Fund.

Conclusion - Response accepted.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No reportable conditions were reported.

IV-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-06 Financial Condition - The District had a deficit undesignated fund balance of \$343,179 in the Special Revenue - Physical Plant Equipment Levy fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit. The District should consider a workout plan to bring the PPEL to a solvent position.

Response - We are monitoring the expenditures in the PPEL fund and are monitoring required repayment amounts to keep our borrowings within the remainder of Voted-PPEL which serves as our source for repayment.

Conclusion - Response accepted.

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

Part IV: Other Findings Related to Statutory Reporting

IV-A-06 Certified Budget - District expenditures for the year ended June 30, 2006, did not exceed the amount budgeted.

IV-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Gary Geades, Board Member Part owner of The Landscaper	Purchased Services	\$840
Jon Hesseltine, Custodian Owner of Jon's Janitorial	Carpet Cleaning	\$555
Joe Stever, Board Member Affiliated with Waste Management	Purchased Services	\$518
Dr. Terry Cochran, Board President Affiliated with Medical Arts Clinic	Purchased Service	\$2,902
Sandy Worley, Board Member Works at First National Bank	Fees	\$42
Steve Triplett, Superintendent Board Member of Iowa State Bank		

In accordance with Chapter 279.7A of the code of Iowa, the above transactions with the board members do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the custodian and superintendent do not appear to represent a conflict of interest.

IV-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.