

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Table of Contents  
June 30, 2006

		<u>Page</u>
<b>Officials</b>		1
<b>Independent Auditor's Report</b>		2-3
<b>Management's Discussion and Analysis</b>		4-13
<b>Basic Financial Statements</b>	<u>Exhibit</u>	
Government-wide Financial Statements		
Statement of Net Assets	A	15-16
Statement of Activities	B	17-18
Governmental Fund Financial Statements		
Balance Sheet	C	19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	20
Statement of Revenues, Expenditures and Changes in Fund Balances	E	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	22
Proprietary Fund Financial Statements		
Statement of Net Assets	G	23
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Financial Statements		
Statement of Fiduciary Net Asset	J	26
Statement of Changes in Fiduciary Net Assets	K	27
<b>Notes to Financial Statements</b>		28-39
<b>Required Supplementary Information</b>		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		41
Notes to Required Supplementary Information - Budgetary Reporting		42

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Table of Contents  
June 30, 2006

<b>Other Supplementary Information</b>	<u>Schedule</u>	<u>Page</u>
Nonmajor Governmental Funds		
Combining Balance Sheet	1	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	46-47
Fiduciary Funds		
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	49
 <b>Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters</b>		 50-51
 <b>Schedule of Findings</b>		 52-53
 <b>Audit Staff</b>		 54

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September, 2005 Election)		
Mark Glover	Board President	2005
Duane Stonerook	Board Member	2005
Peggy Kedley	Board Member	2006
Brent Montz	Board Member	2006
Tim Drewelow	Board Member	2007
(After September, 2005 Election)		
Mark Glover	Board President	2008
Peggy Kedley	Board Member	2006
Brent Montz	Board Member	2006
Tim Drewelow	Board Member	2007
Duane Stonerook	Board Member	2008
<b>School Officials</b>		
Gregg Fuerstenau	Superintendent	2006
Jean Esbaum	District Secretary	2006
Brian Gruhn	Attorney	2006

# KAY L. CHAPMAN, CPA PC

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

## Independent Auditor's Report

To the Board of Education  
North Cedar Community School District

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

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

The financial statements of North Cedar Community School Foundation have not been audited and I was not engaged to audit the Foundation financial statements as part of my audit of the North Cedar Community School District's basic financial statements. The Foundation's financial statements are included in the District's financial statements as a discretely presented component unit. Because I was not engaged to audit the Foundation's financial statements and because I did not apply any auditing procedures to the Foundation's financial statements, I do not express an opinion on the discretely presented component unit.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of North Cedar Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated August 18, 2006 on my consideration of North Cedar Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of

my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Cedar Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the year ended June 30, 2003 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
August 18, 2006

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

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North Cedar 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 \$6,813,847 in fiscal 2005 to \$7,120,108 in fiscal 2006, and General Fund expenditures increased from \$6,853,440, in fiscal 2005 to \$7,080,547 in fiscal 2006. The District's General Fund balance increased from \$930,968 in fiscal 2005 to \$970,529 in fiscal 2006, a 4% increase.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- An increase in interest earnings resulted from improved cash flow with more dollars available to be invested. Comparison information from the last three years is shown below.

2003 \$12,707	2004 \$9,668	2005 \$28,729
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### **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 North Cedar 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 North Cedar 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 North Cedar Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

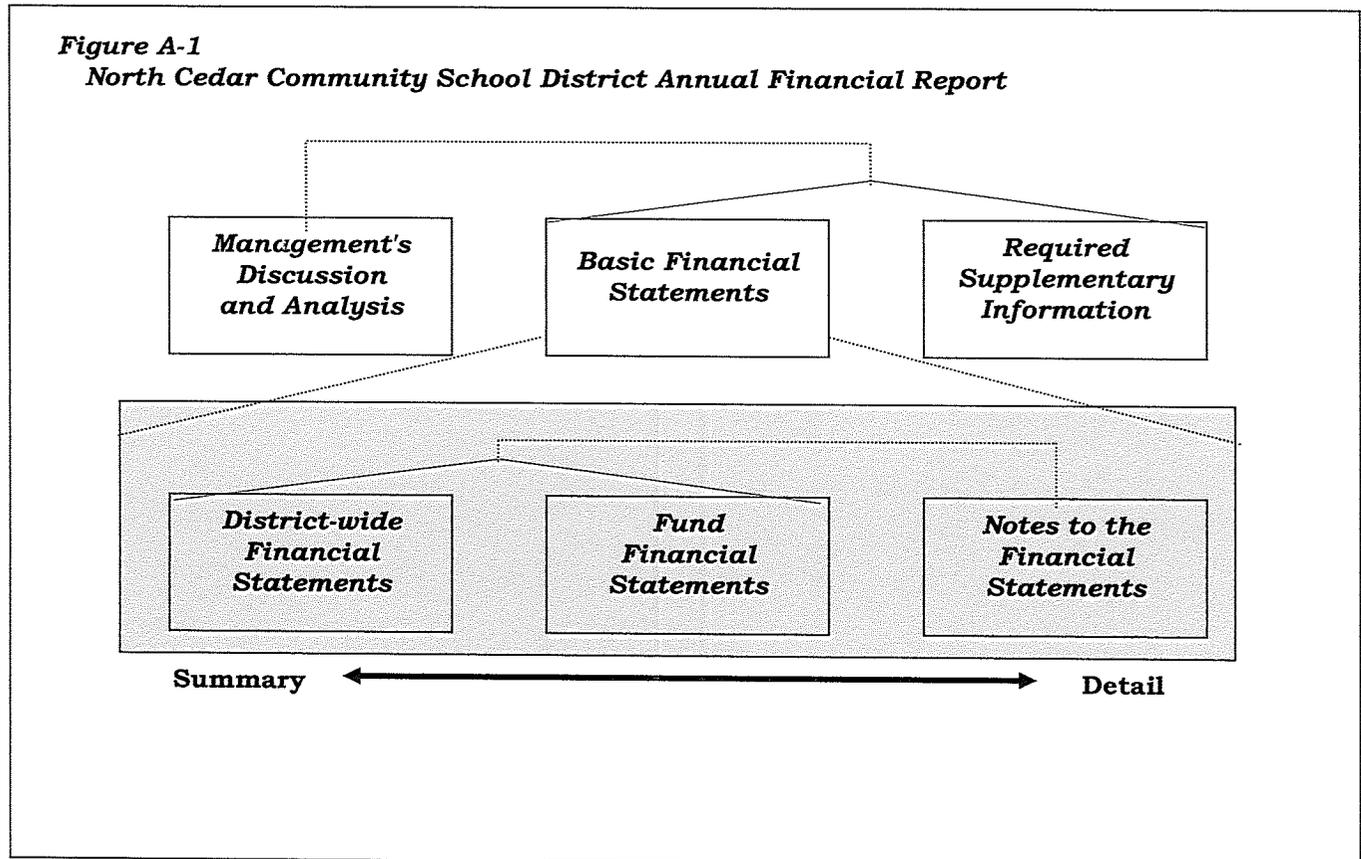


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<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	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <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 net assets</li> <li>• Statement of revenues, expenses and changes in fund 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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

### *Government-wide Financial Statements*

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

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

In the government-wide financial statements, the District's activities are divided into three 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.
- *Component Unit:* This includes the activities of the North Cedar Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

#### *Fund Financial Statements*

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

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

The District has three kinds of funds:

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

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

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

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

other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the employee benefit fund.

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

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

- Private-Purpose Trust Fund - The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund - This is a fund through which the District administers and accounts for employee benefits-health insurance claims on behalf of District employees.

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

The required financial statements for fiduciary funds 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 net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets						
	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Current and other assets	\$ 14,108,786	\$ 14,162,825	\$ 36,304	\$ 46,719	\$ 14,145,090	\$ 14,209,544	-0.45%
Capital assets	<u>803,372</u>	<u>781,403</u>	<u>16,552</u>	<u>19,033</u>	<u>819,924</u>	<u>800,436</u>	2.43%
Total assets	<u>14,912,158</u>	<u>14,944,228</u>	<u>52,856</u>	<u>65,752</u>	<u>14,965,014</u>	<u>15,009,980</u>	-0.30%
Long-term obligations	8,763,406	9,014,609	-	-	8,763,406	9,014,609	-2.79%
Other liabilities	<u>3,495,812</u>	<u>3,196,773</u>	<u>5,357</u>	<u>5,043</u>	<u>3,501,169</u>	<u>3,201,816</u>	9.35%
Total liabilities	<u>12,259,218</u>	<u>12,211,382</u>	<u>5,357</u>	<u>5,043</u>	<u>12,264,575</u>	<u>12,216,425</u>	0.39%
Net assets							
Invested in capital assets, net of related debt	23,489	781,403	5,105	19,033	28,594	800,436	-96.43%
Restricted	1,466,324	926,027	-	-	1,466,324	926,027	58.35%
Unrestricted	<u>1,163,127</u>	<u>1,025,416</u>	<u>42,394</u>	<u>41,676</u>	<u>1,205,521</u>	<u>1,067,092</u>	12.97%
Total net assets	<u>\$ 2,652,940</u>	<u>\$ 2,732,846</u>	<u>\$ 47,499</u>	<u>\$ 60,709</u>	<u>\$ 2,700,439</u>	<u>\$ 2,793,555</u>	-3.33%

The District's combined net assets decreased by approximately 3%, or \$93,116, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$540,297, or approximately 58% over the prior year. The District's restricted net assets increased primarily due to the purchase of technology equipment and capital improvements of its facilities.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$138,429, or approximately 13%. This increase in unrestricted net assets was a result of the District trying to meet its financial obligations and still trying to remain within its budget.

Figure A-4 shows the change in net assets for the years ended June 30, 2006 and 2005.

Figure A-4	Change in Net Assets						Total
	Governmental Activities		Business Type Activities		Total District		Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program revenues							
Charges for service and sales	\$ 414,447	\$ 322,834	\$ 242,007	\$ 236,683	\$ 656,454	\$ 559,517	17.33%
Operating grants and contributions	860,493	741,822	150,084	149,228	1,010,577	891,050	13.41%
General revenues							
Property tax	3,045,514	2,663,289	-	-	3,045,514	2,663,289	14.35%
Local option sales and services tax	356,394	445,763	-	-	356,394	445,763	-20.05%
Unrestricted state grants	3,668,366	3,390,340	-	-	3,668,366	3,390,340	8.20%
Unrestricted investment earnings	396,824	56,084	1,422	217	398,246	56,301	607.35%
Transfers	-	97,697	-	-	-	97,697	-100.00%
Other	250	31,211	-	-	250	31,211	-99.20%
Total revenues	<u>8,742,288</u>	<u>7,749,040</u>	<u>393,513</u>	<u>386,128</u>	<u>9,135,801</u>	<u>8,135,168</u>	<u>12.30%</u>
Program expenses							
Governmental activities							
Instruction	5,002,700	4,933,346	-	-	5,002,700	4,933,346	1.41%
Support services	2,025,762	1,886,121	-	-	2,025,762	1,886,121	7.40%
Non-instructional programs	347	-	406,723	380,447	407,070	380,447	7.00%
Other expenses	<u>1,793,385</u>	<u>796,035</u>	<u>-</u>	<u>-</u>	<u>1,793,385</u>	<u>796,035</u>	<u>125.29%</u>
Total expenses	<u>8,822,194</u>	<u>7,615,502</u>	<u>406,723</u>	<u>380,447</u>	<u>9,228,917</u>	<u>7,995,949</u>	<u>15.42%</u>
Change in net assets	<u>\$ (79,906)</u>	<u>\$ 133,538</u>	<u>\$ (13,210)</u>	<u>\$ 5,681</u>	<u>\$ (93,116)</u>	<u>\$ 139,219</u>	<u>-166.88%</u>

In fiscal 2006, property tax and unrestricted state grants account for approximately 81% of the revenue from governmental activities while charges for service and sales and operating grants account for 99.6% of the revenue from business type activities.

The District's total revenues were approximately \$9.1 million of which \$8.7 million was for governmental activities and approximately \$400,000 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 12.3% increase in revenues and a 15.4% increase in expenses. Property tax increased approximately \$382,225 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District. The increase in revenue can be attributed to receiving the Instructional Support Levy.

### Governmental Activities

Revenues for governmental activities were \$8,742,288 and expenses were \$8,822,194. In a difficult budget year, the District was unable to balance the budget due to expense from the building project and negotiated salary/benefit expenses.

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		
	<u>2006</u>	<u>2005</u>	<u>Change</u> <u>2005-2006</u>	<u>2006</u>	<u>2005</u>	<u>Change</u> <u>2005-2006</u>
Instruction	\$ 5,002,700	\$ 4,933,346	1.4%	\$ 4,049,483	\$ 4,150,909	-2.4%
Support services	2,025,762	1,886,121	7.4%	1,998,988	1,883,872	6.1%
Non-instructional programs	347	-	0.0%	347	-	0.0%
Other expenses	<u>1,793,385</u>	<u>796,035</u>	<u>125.3%</u>	<u>1,498,436</u>	<u>516,065</u>	<u>190.4%</u>
Total expenses	<u>\$ 8,822,194</u>	<u>\$ 7,615,502</u>	<u>15.8%</u>	<u>\$ 7,547,254</u>	<u>\$ 6,550,846</u>	<u>15.2%</u>

- The cost financed by users of the District's programs was \$414,447.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$860,493.
- The net cost of governmental activities was financed with \$3,401,908 in property and other taxes and \$3,668,366 in unrestricted state grants.

## **Business Type Activities**

Revenues for business type activities were \$393,513 representing a 1.9 percent increase over the year while expenses totaled \$406,723, a 6.9 percent increase over the prior year. 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.

During the year ended June 30, 2006, the District did not increase meal prices. The District does consider meal price increases only when deemed necessary to meet the obligations of the School Nutrition Fund. However, food and salary/benefit costs continue to increase.

## **INDIVIDUAL FUND ANALYSIS**

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$10,427,488, well below last year's ending fund balances of \$10,878,735. The primary reason for the decrease in combined fund balances in fiscal 2006 is due to the building project, salary/benefits increases and declining enrollment.

### **Governmental Fund Highlights**

- The District's improving General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. The increase in revenues was more than the District's increase in General Fund expenditures.
- The General Fund balance increased from \$930,968 to \$970,529, due in part to the Instructional Support Levy and no assistance from the General Fund to the health insurance program.
- The Capital Project Fund balance decreased significantly due to expenditures associated with the building project.

### **Proprietary Fund Highlights**

School Nutrition Fund net assets decreased from \$60,709 at June 30, 2005 to \$47,499 at June 30, 2006, representing a decrease of approximately 21.8%. This is due primarily to equipment purchases and salary/benefit increases.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, North Cedar Community School District amended its annual budget one time to reflect additional expenditures associated with unexpected increased costs of operations.

The District's revenues were \$303,549 more than budgeted revenues, a variance of 3.4%. The most significant variance resulted from the District receiving more in state aid and grants than originally anticipated.

Total expenditures were \$858,827 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the Other Expenditures functional area due to unanticipated expenses for the building project.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2006, the District had invested \$819,923, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of 2.43% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$163,225.

The original cost of the District's capital assets was \$5,005,563. Governmental funds account for \$4,878,505, with the remainder of \$127,058 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category. The District's furniture and equipment totaled \$434,131 at June 30, 2006, compared to \$376,689 at June 30, 2005. This increase resulted from several purchases in transportation, safety and technology equipment. These purchase included a school bus, a car for special education, fire alarm system at one of our elementary schools, and a computer lab at one of our elementary schools.

Figure A-6

#### Capital Assets, Net of Depreciation

	Governmental		Business type		Total		Total Change
	Activities		Activities		School District		
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
Land	\$ 63,072	\$ 63,071	\$ -	\$ -	\$ 63,072	\$ 63,071	0.00%
Buildings and improvements	267,452	306,053	-	-	267,452	306,053	-12.61%
Improvements, other than buildings	55,268	54,623	-	-	55,268	54,623	1.18%
Furniture and equipment	<u>417,580</u>	<u>357,656</u>	<u>16,551</u>	<u>19,033</u>	<u>434,131</u>	<u>376,689</u>	15.25%
Totals	<u>\$803,372</u>	<u>\$ 781,403</u>	<u>\$16,551</u>	<u>\$19,033</u>	<u>\$819,923</u>	<u>\$ 800,436</u>	2.43%

At June 30, 2006, the District had \$8,763,406 in general obligation and other long-term debt outstanding. This represents a decrease of 2.8% from last year (see Figure A-7). Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In June 2005, the District's voters authorized the issuance of \$8,990,000 in general obligation bonds to pay for construction of new elementary building and to remodel and construct an addition to other school buildings. The bonds were sold and the planning for the project started in fiscal 2005. The construction phase of the projects began in late fiscal 2006 and are expected to be completed in fiscal 2007.

Figure A-7  
Outstanding Long-term Obligations

	Total School District		Total Change
	<u>2006</u>	<u>2005</u>	<u>2005-2006</u>
General obligation bonds	\$ 8,705,000	\$ 8,990,000	-3.17%
Early retirement	<u>58,406</u>	<u>24,609</u>	137.34%
Total	<u>\$ 8,763,406</u>	<u>\$ 9,014,609</u>	-2.79%

## **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:

- Enrollment must remain stable or increase. District funding is driven by enrollment, therefore future enrollment stability is a critical element in maintaining a sound financial foundation. The District anticipates a decline in K-12 enrollment and a greater number of open-enrolled out students than open-enrolled in students.
- The District will negotiate a new agreement with the North Cedar Education Association (NCEA) for fiscal 2008. Settlements in excess of "new money" or allowable growth in state funding for Certified as well as Classified staff will have an adverse effect on the District's General budget and related fund balance. The District is currently undergoing construction projects at three sites. Due to increased construction costs, the District will need to allocate additional funds to complete the project over the next two fiscal years.

## **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 Jean Esbaum, District Secretary/Treasurer and Business Manager, North Cedar Community School District, 400 Ball Street, Clarence, Iowa, 52216.

## Basic Financial Statements

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

Exhibit A

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 10,779,344	\$ 31,199	\$ 10,810,543	
Receivables				
Property tax				
Delinquent	42,836	-	42,836	-
Succeeding year	3,120,195	-	3,120,195	-
Accounts receivable	8,412	-	8,412	-
Due from other governments	157,999	-	157,999	-
Inventories	-	5,105	5,105	-
Capital assets, net of accumulated depreciation	803,372	16,552	819,924	-
Total assets	<u>14,912,158</u>	<u>52,856</u>	<u>14,965,014</u>	<u>162,836</u>
<b>LIABILITIES</b>				
Accounts payable	346,067	-	346,067	-
Accrued interest payable	29,550	-	29,550	-
Deferred revenue - succeeding year property tax	3,120,195	-	3,120,195	-
Deferred revenue - other	-	5,357	5,357	-
Long-term liabilities				
Portion due within one year				
General obligation bonds payable	305,000	-	305,000	-
Early retirement	22,303	-	22,303	-

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

Exhibit A

	Primary Government		Component Unit
	Governmental Activities	Business Type Activities	
<b>LIABILITIES (continued)</b>			
Long-term liabilities (continued)			
Portion due after one year			
General obligation bonds payable	\$ 8,400,000	\$ -	\$ 8,400,000
Early retirement	36,103	-	36,103
Total liabilities	<u>12,259,218</u>	<u>5,357</u>	<u>12,264,575</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	23,489	5,105	28,594
Restricted for			
Management levy	105,765	-	105,765
Physical plant and equipment levy	317,406	-	317,406
Other special revenue purposes	121,482	-	121,482
Capital projects	921,671	-	921,671
Unrestricted	<u>1,163,127</u>	<u>42,394</u>	<u>1,205,521</u>
Total net assets	<u>\$ 2,652,940</u>	<u>\$ 47,499</u>	<u>\$ 2,700,439</u>

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

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

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	
<b><u>Functions/Programs</u></b>								
<b><u>Primary Government</u></b>								
Governmental activities								
Instruction								
Regular instruction	\$ 3,111,935	\$ 288,020	\$ 380,892	\$ -	\$ (2,443,023)	\$ -	\$ (2,443,023)	\$ -
Special instruction	1,091,624	125,627	153,798	-	(812,199)	-	(812,199)	-
Other instruction	799,141	-	4,880	-	(794,261)	-	(794,261)	-
	<u>5,002,700</u>	<u>413,647</u>	<u>539,570</u>	<u>-</u>	<u>(4,049,483)</u>	<u>-</u>	<u>(4,049,483)</u>	<u>-</u>
Support services								
Student services	139,387	-	-	-	(139,387)	-	(139,387)	-
Instructional staff services	94,777	-	-	-	(94,777)	-	(94,777)	-
Administration services	808,788	-	-	-	(808,788)	-	(808,788)	-
Operation and maintenance of plant services	694,510	800	25,000	-	(668,710)	-	(668,710)	-
Transportation services	288,300	-	974	-	(287,326)	-	(287,326)	-
	<u>2,025,762</u>	<u>800</u>	<u>25,974</u>	<u>-</u>	<u>(1,998,988)</u>	<u>-</u>	<u>(1,998,988)</u>	<u>-</u>
Non-instructional programs	347	-	-	-	(347)	-	(347)	-
Other expenditures								
Facilities acquisition	1,080,699	-	-	-	(1,080,699)	-	(1,080,699)	-
Long-term debt interest	365,049	-	-	-	(365,049)	-	(365,049)	-
AEA flowthrough	294,949	-	294,949	-	-	-	-	-
Depreciation (unallocated)*	52,688	-	-	-	(52,688)	-	(52,688)	-
	<u>1,793,385</u>	<u>-</u>	<u>294,949</u>	<u>-</u>	<u>(1,498,436)</u>	<u>-</u>	<u>(1,498,436)</u>	<u>-</u>
Total governmental activities	<u>8,822,194</u>	<u>414,447</u>	<u>860,493</u>	<u>-</u>	<u>(7,547,254)</u>	<u>-</u>	<u>(7,547,254)</u>	<u>-</u>

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2006

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Primary Government			
					Governmental Activities	Business Type Activities	Total	
<b><u>Functions/Programs (continued)</u></b>								
<b><u>Primary Government (continued)</u></b>								
Business type activities								
Non-instructional programs								
Food service operations	\$ 406,723	\$ 242,007	\$ 150,084	\$ -	\$ -	\$ (14,632)	\$ -	-
Total primary government	<u>\$ 9,228,917</u>	<u>\$ 656,454</u>	<u>\$ 1,010,577</u>	<u>\$ -</u>	<u>(7,547,254)</u>	<u>(14,632)</u>	<u>(7,561,886)</u>	-
<b><u>Component Unit</u></b>								
Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(12,043)</u>
<b><u>General Revenues</u></b>								
Property tax levied for								
General purposes					2,314,149	-	2,314,149	-
Capital projects					232,945	-	232,945	-
Debt service					498,420	-	498,420	-
Local option sales and services tax					356,394	-	356,394	-
Unrestricted state grants					3,668,366	-	3,668,366	-
Unrestricted investment earnings					396,824	1,422	398,246	9,468
Other					250	-	250	15,271
Total general revenues					<u>7,467,348</u>	<u>1,422</u>	<u>7,468,770</u>	<u>24,739</u>
Change in net assets					(79,906)	(13,210)	(93,116)	12,696
Net assets, beginning of year					2,732,846	60,709	2,793,555	150,140
Net assets, end of year					<u>\$ 2,652,940</u>	<u>\$ 47,499</u>	<u>\$ 2,700,439</u>	<u>\$ 162,836</u>

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

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Balance Sheet  
Governmental Funds  
June 30, 2006

Exhibit C

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>ASSETS</b>				
Cash and pooled investments	\$ 1,073,969	\$ 8,882,095	\$ 608,244	\$ 10,564,308
Receivables				
Property tax				
Delinquent	32,918	-	9,918	42,836
Succeeding year	2,617,160	-	503,035	3,120,195
Accounts receivable	8,412	-	-	8,412
Due from other funds	-	8,000	-	8,000
Due from other governments	99,252	58,738	9	157,999
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets and other debits	<u>\$ 3,831,711</u>	<u>\$ 8,948,833</u>	<u>\$ 1,121,206</u>	<u>\$ 13,901,750</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 244,022	\$ 102,045	\$ -	\$ 346,067
Due to other fund	-	-	8,000	8,000
Deferred revenue				
Succeeding year property tax	2,617,160	-	503,035	3,120,195
Total liabilities	<u>2,861,182</u>	<u>102,045</u>	<u>511,035</u>	<u>3,474,262</u>
Fund balances				
Reserved for				
Debt service	-	-	7,112	7,112
Unreserved				
Special revenue	-	-	603,059	603,059
Other governmental	970,529	8,846,788	-	9,817,317
Total fund balances	<u>970,529</u>	<u>8,846,788</u>	<u>610,171</u>	<u>10,427,488</u>
Total liabilities and fund balances	<u>\$ 3,831,711</u>	<u>\$ 8,948,833</u>	<u>\$ 1,121,206</u>	<u>\$ 13,901,750</u>

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

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

Exhibit D

Total fund balances of governmental funds	\$ 10,427,488
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	803,372
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(29,550)
Long-term liabilities, including early retirement and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(8,763,406)
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	<u>215,036</u>
Net assets of governmental activities	<u>\$ 2,652,940</u>

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2006

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$2,264,085	\$ 356,394	\$ 781,427	\$ 3,401,906
Tuition	244,152	-	-	244,152
Other	108,010	303,563	155,796	567,369
State sources	4,325,048	-	-	4,325,048
Federal sources	178,813	-	25,000	203,813
Total revenues	<u>7,120,108</u>	<u>659,957</u>	<u>962,223</u>	<u>8,742,288</u>
Expenditures				
Current				
Instruction				
Regular instruction	3,156,807	-	16,330	3,173,137
Special instruction	1,089,512	-	-	1,089,512
Other instruction	719,848	-	79,293	799,141
	<u>4,966,167</u>	<u>-</u>	<u>95,623</u>	<u>5,061,790</u>
Support services				
Student services	138,542	-	-	138,542
Instructional staff services	67,956	26,821	-	94,777
Administration services	798,317	-	6,448	804,765
Operation and maintenance of plant services	552,942	-	104,138	657,080
Transportation services	261,674	-	83,895	345,569
	<u>1,819,431</u>	<u>26,821</u>	<u>194,481</u>	<u>2,040,733</u>
Other expenditures				
Facilities acquisition	-	1,064,883	80,240	1,145,123
Debt services				
Principal	-	-	285,000	285,000
Interest and other fees	-	-	365,940	365,940
AEA flowthrough	294,949	-	-	294,949
	<u>294,949</u>	<u>1,064,883</u>	<u>731,180</u>	<u>2,091,012</u>
Total expenditures	<u>7,080,547</u>	<u>1,091,704</u>	<u>1,021,284</u>	<u>9,193,535</u>
Excess (deficiency) of revenues over (under) expenditures	39,561	(431,747)	(59,061)	(451,247)
Other financing sources				
Interfund operating transfers in (out)	-	(152,500)	152,500	-
Net change in fund balances	39,561	(584,247)	93,439	(451,247)
Fund balance, beginning of year	<u>930,968</u>	<u>9,431,035</u>	<u>516,732</u>	<u>10,878,735</u>
Fund balance, end of year	<u>\$ 970,529</u>	<u>\$ 8,846,788</u>	<u>\$ 610,171</u>	<u>\$ 10,427,488</u>

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

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

Exhibit F

Net change in fund balances - total governmental funds \$ (451,247)

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	\$ 182,712	
Depreciation expense	<u>(160,743)</u>	21,969

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 285,000

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

Early retirement		(33,797)
------------------	--	----------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 891

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. 97,278

Change in net assets of governmental activities \$ (79,906)

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

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

Exhibit G

	Business Type <u>Activities</u> Enterprise- School <u>Nutrition</u>	Governmental <u>Activities</u>  Internal <u>Service</u>
<b>ASSETS</b>		
Cash and pooled investments	\$ 31,199	\$ 215,036
Inventories	5,105	-
Capital assets, net of accumulated depreciation	<u>16,552</u>	<u>-</u>
Total assets	<u>52,856</u>	<u>215,036</u>
<b>LIABILITIES</b>		
Deferred revenue	<u>5,357</u>	<u>-</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	5,105	-
Unreserved retained earnings	<u>42,394</u>	<u>215,036</u>
Total net assets	<u>\$ 47,499</u>	<u>\$ 215,036</u>

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

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

Exhibit H

	Business Type <u>Activities</u> Enterprise- School <u>Nutrition</u>	Governmental <u>Activities</u>  Internal <u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$ 242,007	\$ -
Employee contributions	-	697,949
Total operating revenue	<u>242,007</u>	<u>697,949</u>
Operating expenses		
Non-instructional programs		
Salaries	157,380	-
Benefits	43,280	539,685
Purchased services	8,973	
Supplies	194,608	-
Miscellaneous	-	60,986
Depreciation	2,482	-
Total operating expenses	<u>406,723</u>	<u>600,671</u>
Operating income (loss)	<u>(164,716)</u>	<u>97,278</u>
Non-operating revenue		
Interest income	1,422	-
State sources	5,337	-
Federal sources	144,747	-
Total non-operating revenue	<u>151,506</u>	<u>-</u>
Change in net assets	(13,210)	97,278
Net assets, beginning of year	<u>60,709</u>	<u>117,758</u>
Net assets, end of year	<u>\$ 47,499</u>	<u>\$215,036</u>

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

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

Exhibit I

	<u>Business Type</u> <u>Activities</u>	<u>Governmental</u> <u>Activities</u>
Cash flows from operating activities		
Cash received from sale of meals	\$ 242,320	\$ -
Cash received from miscellaneous operating activities	-	697,949
Cash payments to employees for services	(200,660)	(676,696)
Cash payments to suppliers for goods and services	<u>(182,436)</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>(140,776)</u>	<u>21,253</u>
Cash flows from non-capital financing activities		
State grants received	5,337	-
Federal grants received	<u>125,679</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>131,016</u>	<u>-</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Interest on investments	<u>1,422</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(8,338)	21,253
Cash and cash equivalents, beginning of year	<u>39,537</u>	<u>193,783</u>
Cash and cash equivalents, end of year	<u>\$ 31,199</u>	<u>\$ 215,036</u>
 <b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>		
Operating income (loss)	\$ (164,716)	\$ 97,278
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	2,482	-
Commodities used	19,068	-
Decrease in inventories	2,076	-
Increase in deferred revenue	314	-
(Decrease) in health claims payable	<u>-</u>	<u>(76,025)</u>
Net cash provided by (used in) operating activities	<u>\$ (140,776)</u>	<u>\$ 21,253</u>

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

During the year ended June 30, 2006, the District received \$19,068 of federal commodities.

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2006

Exhibit J

	Private Purpose Trust <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 94,341
Liabilities	<u>-</u>
Net assets	
Reserved for scholarships	<u>\$ 94,341</u>

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
For the Year Ended June 30, 2006

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$      2
Gifts and contributions	<u>5,776</u>
Total additions	<u>5,778</u>
 Deductions	
Instruction	267
Non-instructional	<u>1,500</u>
Total deductions	<u>1,767</u>
 Change in net assets	4,011
Net assets, beginning of year	<u>90,330</u>
 Net assets, end of year	<u>\$ 94,341</u>

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

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Notes to Financial Statements  
June 30, 2006

**Note 1. Summary of Significant Accounting Policies**

The North Cedar Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Mechanicsville, Stanwood, Clarence and Lowden, Iowa, and the agricultural territory in Cedar County. 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, North Cedar Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District.

These financial statements present the North Cedar Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The North Cedar Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements. The Foundation financial statements are shown in the Statement of Net Assets and the Statement of Activities in separate columns. As explained in the Independent Auditor's opinion, the Foundation financial statements have not been audited.

### Jointly Governed Organizations

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

### B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following major proprietary fund:

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

Additionally, the District reports a nonmajor proprietary fund. The Internal Service Fund is utilized to account for employee flexible benefits.

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

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

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

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

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

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

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

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

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

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

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

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

#### D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

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

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

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

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

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

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

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the other expenditures function exceed the amount budgeted. However, the District did not exceed its General Fund unspent authorized budget.

**Note 2. Cash and Pooled Investments**

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

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

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

	Amortized Cost
Diversified Portfolio	<u>\$ 10,404,700</u>

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

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

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

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 8,000

The Debt Service Fund loaned \$8,000 to the Capital Projects Fund for payment of bond and interest. The balance will be repaid by June 30, 2007.

#### Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	\$ 152,500

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

#### Note 5. Capital Assets

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

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 63,071	\$ 1	\$ -	\$ 63,072
Total capital assets, not being depreciated	<u>63,071</u>	<u>1</u>	<u>-</u>	<u>63,072</u>
Capital assets being depreciated:				
Buildings and improvements	2,963,771	-	-	2,963,771
Improvements other than buildings	364,467	12,747	-	377,214
Furniture and equipment	<u>1,417,804</u>	<u>169,964</u>	<u>(113,320)</u>	<u>1,474,448</u>
Total capital assets being depreciated	<u>4,746,042</u>	<u>182,711</u>	<u>(113,320)</u>	<u>4,815,433</u>
Less accumulated depreciation for:				
Buildings and improvements	2,657,718	38,601	-	2,696,319
Improvements other than buildings	309,844	12,102	-	321,946
Furniture and equipment	<u>1,060,148</u>	<u>110,040</u>	<u>(113,320)</u>	<u>1,056,868</u>
Total accumulated depreciation	<u>4,027,710</u>	<u>160,743</u>	<u>(113,320)</u>	<u>4,075,133</u>
Total capital assets being depreciated, net	<u>718,332</u>	<u>21,968</u>	<u>-</u>	<u>740,300</u>
Governmental activities capital assets, net	<u>\$ 781,403</u>	<u>\$ 21,969</u>	<u>\$ -</u>	<u>\$ 803,372</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 127,058	\$ -	\$ -	\$ 127,058
Less accumulated depreciation	<u>108,025</u>	<u>2,482</u>	<u>-</u>	<u>110,507</u>
Business type activities capital assets, net	<u>\$ 19,033</u>	<u>\$ (2,482)</u>	<u>\$ -</u>	<u>\$ 16,551</u>

Depreciation expense was charged to the following functions:

**Governmental activities**

Instruction		
Regular	\$	2,279
Special		2,112
Support services		
Support services		845
Administration		4,023
Operation and maintenance of plant		37,430
Transportation		61,019
Non-instructional programs		347
Unallocated		<u>52,688</u>
Total governmental activities depreciation expense	\$	<u>160,743</u>

**Business type activities**

Food services	\$	<u>2,482</u>
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**Note 6. Long-term Liabilities**

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
General obligation bonds	\$ 8,990,000	\$ -	\$ 285,000	\$ 8,705,000	\$ 305,000
Early retirement	<u>24,609</u>	<u>42,000</u>	<u>8,203</u>	<u>58,406</u>	<u>22,303</u>
Totals	<u>\$ 9,014,609</u>	<u>\$ 42,000</u>	<u>\$ 293,203</u>	<u>\$ 8,763,406</u>	<u>\$ 327,303</u>

Early retirement

The District offers a voluntary early retirement plan to its certified employees. An employee is deemed to be eligible for this program when they have completed at least fifteen years of contract service as a full-time certificated employee with the North Cedar Community School District by June 30 of the current fiscal year and will have attained at least fifty-six years of age on or before June 30 of the current fiscal year. An employee will be deemed to be in their first year of eligibility during the fiscal year in which they meet both longevity and age criteria for the first time.

The early retirement pay for each eligible full-time certified staff member, as defined by the Master Contract or individual contract, shall be calculated based on the current salary schedule, excluding any extra-curricular, Phase II and Phase III monies. An eligible employee, upon early retirement, shall receive an early retirement benefit representing eighty-one days' pay subject to a pro-ration formula.

Additionally, an eligible employee may receive additional per diem pay for unused/accumulated sick leave based on a pro-ration formula. This separation pay shall be made in three equal payments made on July 15<sup>th</sup> of the three years following early retirement; one third in July of the retirement year, one third in July of the second year and one third in July of the third year.

### General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of June 1, 2005			
	Interest Rates	Principal	Interest	Total
2007	4.00%	\$ 305,000	\$ 354,602	\$ 659,602
2008	4.00%	315,000	342,402	657,402
2009	4.00%	330,000	329,802	659,802
2010	4.00%	345,000	316,602	661,602
2011	4.00%	360,000	302,802	662,802
2012	4.00%	380,000	288,402	668,402
2013	4.00%	395,000	273,202	668,202
2014	4.00%	410,000	257,402	667,402
2015	4.00%	430,000	241,002	671,002
2016	4.00%	450,000	223,802	673,802
2017	4.00%	465,000	205,802	670,802
2018	4.00%	485,000	187,202	672,202
2019	4.00%	505,000	167,802	672,802
2020	4.05%	525,000	147,602	672,602
2021	4.10%	550,000	126,340	676,340
2022	4.15%	575,000	103,790	678,790
2023	4.20%	600,000	79,928	679,928
2024	4.25%	625,000	54,728	679,728
2025	4.30%	655,000	28,166	683,166
Totals		<u>\$ 8,705,000</u>	<u>\$ 4,031,380</u>	<u>\$ 12,736,380</u>

## Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$240,657 \$235,588 and \$232,185 respectively, equal to the required contributions for each year.

## Note 8. Risk Management

The District has a self-funded health insurance plan for its employees. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$15,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three calendar years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$49,304 at October 31, 2005, the last date for which information is available. There was no liability for incurred and unrecorded claims reported in the plan at June 30, 2006.

The change in the incurred but not reported and unpaid claims liability for the year ended June 30, 2006 is as follows:

Balance, beginning of year	\$ 76,025
Incurred claims and claim adjustments	524,645
Payment of claims	<u>(600,670)</u>
Balance, end of year	<u>\$ -</u>

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

**Note 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 \$294,949 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Required Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual  
 All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
						Original	Final	
<b>Revenues</b>								
Local sources	\$ 4,213,427	\$ 941,378	\$ 5,154,805	\$ (697,949)	\$ 4,456,856	\$ 4,107,883	\$ 4,107,883	\$ 348,973
State sources	4,325,048	5,337	4,330,385	-	4,330,385	4,434,369	4,434,369	(103,984)
Federal sources	203,813	144,747	348,560	-	348,560	290,000	290,000	58,560
Total revenues	<u>8,742,288</u>	<u>1,091,462</u>	<u>9,833,750</u>	<u>(697,949)</u>	<u>9,135,801</u>	<u>8,832,252</u>	<u>8,832,252</u>	<u>303,549</u>
<b>Expenditures</b>								
Instruction	5,061,790	-	5,061,790	-	5,061,790	5,842,109	5,842,109	780,319
Support services	2,040,733	-	2,040,733	-	2,040,733	2,476,587	2,476,587	435,854
Non-instructional programs	-	1,007,394	1,007,394	(600,671)	406,723	406,100	700,000	293,277
Other expenditures	2,091,012	-	2,091,012	-	2,091,012	1,440,389	1,440,389	(650,623)
Total expenditures	<u>9,193,535</u>	<u>1,007,394</u>	<u>10,200,929</u>	<u>(600,671)</u>	<u>9,600,258</u>	<u>10,165,185</u>	<u>10,459,085</u>	<u>858,827</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>								
Balance, beginning of year	(451,247)	84,068	(367,179)	(97,278)	(464,457)	(1,332,933)	(1,626,833)	1,162,376
Balance, end of year	<u>10,878,735</u>	<u>178,467</u>	<u>11,057,202</u>	<u>(117,758)</u>	<u>10,939,444</u>	<u>1,465,266</u>	<u>1,465,266</u>	<u>9,474,178</u>
	<u>\$ 10,427,488</u>	<u>\$ 262,535</u>	<u>\$ 10,690,023</u>	<u>\$ (215,036)</u>	<u>\$ 10,474,987</u>	<u>\$ 132,333</u>	<u>\$ (161,567)</u>	<u>\$ 10,636,554</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Notes to Required Supplementary Information – Budgetary Reporting  
For the Year Ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund, Capital Projects 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 Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$293,900.

During the year ended June 30, 2006, District expenditures exceeded the amount budgeted in the Other Expenditures function. However, the General Fund expenditures did not exceed the unspent authorized budget.

## Other Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2006

Schedule 1

	Special Revenue				<u>Total</u>
	<u>Management</u>	<u>Student Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Debt Service</u>	
<b>ASSETS</b>					
Cash and pooled investments	\$ 163,442	\$ 121,482	\$ 315,398	\$ 7,922	\$ 608,244
Receivables					
Property tax					
Delinquent	728	-	2,007	7,183	9,918
Succeeding year	100,000	-	143,432	259,603	503,035
Due from other governments	<u>1</u>	<u>-</u>	<u>1</u>	<u>7</u>	<u>9</u>
Total assets	<u>\$ 264,171</u>	<u>\$ 121,482</u>	<u>\$ 460,838</u>	<u>\$ 274,715</u>	<u>\$ 1,121,206</u>
 <b>LIABILITIES AND FUND BALANCES</b>					
Liabilities					
Deferred revenue					
Succeeding year property tax	\$ 100,000	\$ -	\$ 143,432	\$ 259,603	\$ 503,035
Due to other fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,000</u>	<u>8,000</u>
Total liabilities	<u>100,000</u>	<u>-</u>	<u>143,432</u>	<u>267,603</u>	<u>511,035</u>
Fund balance					
Reserved for debt service	-	-	-	7,112	7,112
Unreserved fund balances	<u>164,171</u>	<u>121,482</u>	<u>317,406</u>	<u>-</u>	<u>603,059</u>
Total fund balance	<u>164,171</u>	<u>121,482</u>	<u>317,406</u>	<u>7,112</u>	<u>610,171</u>
Total liabilities and fund balance	<u>\$ 264,171</u>	<u>\$ 121,482</u>	<u>\$ 460,838</u>	<u>\$ 274,715</u>	<u>\$ 1,121,206</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

	Special Revenue				
	Management	Student Activity	Physical Plant and Equipment Levy	Debt Service	Total
Revenues					
Local sources					
Local taxes	\$ 50,062	\$ -	\$ 232,945	\$ 498,420	\$ 781,427
Other	125	121,358	34,312	1	155,796
Federal sources	-	-	25,000	-	25,000
Total revenues	50,187	121,358	292,257	498,421	962,223
Expenditures					
Current					
Instruction					
Regular instruction	16,330	-	-	-	16,330
Other instruction	-	79,293	-	-	79,293
Support services					
Administration services	6,448	-	-	-	6,448
Operation and maintenance of plant services	96,087	-	8,051	-	104,138
Transportation services	-	-	83,895	-	83,895
Other expenditures					
Facilities acquisition	-	-	80,240	-	80,240
Debt services					
Principal	-	-	-	285,000	285,000
Interest and other fees	-	-	-	365,940	365,940
Total expenditures	118,865	79,293	172,186	650,940	1,021,284
Excess (deficiency) of revenues over (under) expenditures	(68,678)	42,065	120,071	(152,519)	(59,061)
Other financing sources					
Interfund operating transfers in	-	-	-	152,500	152,500
Net change in fund balances	(68,678)	42,065	120,071	(19)	93,439
Fund balances, beginning of year	232,849	79,417	197,335	7,131	516,732
Fund balances, end of year	\$ 164,171	\$ 121,482	\$ 317,406	\$ 7,112	\$ 610,171

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
District-wide				
Interest	\$ 1,161	\$ 1,625	\$ 1,107	\$ 1,679
Elementary				
Student productions	10,879	1,951	2,418	10,412
Pop sales	-	3,794	-	3,794
Middle school				
Publications	-	13,241	-	13,241
Pop sales	-	414	-	414
Student clubs	2,560	525	296	2,789
Cheerleading	727	26	109	644
Student council	2,263	132	180	2,215
Health education	150	-	-	150
Trail blazers	5,271	1,685	2,036	4,920
EPA grant	1,744	-	160	1,584
High school				
Student clubs	3,478	347	581	3,244
Drama/speech	2,391	3,707	3,464	2,634
Vocal	2,698	4,173	4,818	2,053
Instrumental	3,111	5,955	2,139	6,927
Cross country	304	578	-	882
Basketball	1,134	5,412	4,037	2,509
Rigby athletic fund	3,257	24,010	21,794	5,473
Volleyball	496	2,250	675	2,071
Football	3,594	7,227	4,933	5,888
Baseball/softball	2,243	3,233	2,224	3,252
Track	490	137	-	627
Golf	125	11	-	136
Wrestling	1,779	5,153	5,156	1,776
Cheerleading	3,612	729	1,191	3,150
FFA	2,509	7,419	8,632	1,296
National Honor Society	8	400	298	110
Peer counselors	88	-	-	88

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of Year
High school (continued)				
Publications	\$ -	\$ 2,785	\$ -	\$ 2,785
Student council	3,296	4,184	4,399	3,081
Alumni	3,512	1,234	34	4,712
Canteen	-	2,875	-	2,875
Pop sales	-	2,861	-	2,861
Athletic pop	-	2,022	-	2,022
Math club	-	718	445	273
Class of				
2005	1,034	-	1,034	-
2006	1,607	90	808	889
2007	3,632	5,809	6,123	3,318
2008	2,792	1,387	126	4,053
2009	2,702	540	11	3,231
2010	3,055	882	-	3,937
2011	1,093	610	-	1,703
2012	-	769	-	769
Spanish club	622	458	65	1,015
Totals	<u>\$ 79,417</u>	<u>\$ 121,358</u>	<u>\$ 79,293</u>	<u>\$ 121,482</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund  
 For the Year Ended June 30, 2006

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 26,298</u>	<u>\$ 51,583</u>	<u>\$ 77,881</u>	<u>\$ -</u>
Liabilities				
Due to others	<u>\$ 26,298</u>	<u>\$ 51,583</u>	<u>\$ 77,881</u>	<u>\$ -</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 3,401,906	\$ 3,106,785	\$ 2,730,841	\$ 2,713,681
Tuition	244,152	194,874	175,749	156,928
Other	567,369	184,044	193,447	179,169
State sources	4,325,048	3,946,757	3,673,241	3,653,004
Federal sources	203,813	187,672	301,235	172,545
Total revenues	<u>\$ 8,742,288</u>	<u>\$ 7,620,132</u>	<u>\$ 7,074,513</u>	<u>\$ 6,875,327</u>
Expenditures				
Instruction				
Regular instruction	3,173,137	3,184,214	3,062,973	3,065,516
Special instruction	1,089,512	962,134	1,238,792	1,062,780
Other instruction	799,141	885,192	544,278	568,390
Support services				
Student services	138,542	132,330	131,344	117,595
Instructional staff services	94,777	58,408	48,312	62,946
Administration services	804,765	734,989	607,643	551,263
Operation and maintenance of plant services	657,080	601,210	717,959	871,962
Transportation services	345,569	301,780	250,476	238,092
Central support services	-	5,471	96,916	57,135
Other expenditures				
Facilities acquisition	1,145,123	131,472	766	475
Long-term debt				
Principal	285,000	-	-	-
Interest and other charges	365,940	-	-	-
AEA flowthrough	294,949	279,970	276,820	289,071
Total expenditures	<u>\$ 9,193,535</u>	<u>\$ 7,277,170</u>	<u>\$ 6,976,279</u>	<u>\$ 6,885,225</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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

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  
North Cedar Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of North Cedar Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued my report thereon dated August 18, 2006. I did not issue an opinion on the North Cedar Community School Foundation, which is included as a discretely presented component unit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal

control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item (A) Segregation of Duties, is a material weakness.

#### Compliance and Other Matters

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the North Cedar Community School District and other parties to whom the District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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



Kay L. Chapman, CPA PC  
August 18, 2006

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

**Part I. Findings Related to the Financial Statements**

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

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

Conclusion - Response accepted.

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

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.
2. Certified Budget - Expenditures for the year ended June 30, 2005 exceeded the amended amount budgeted in the Other Expenditures functional area.

Recommendation - The District should have amended the budget in a sufficient amount before expenditures were allowed to exceed the budget.

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

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

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - No business transactions between the District and District officials or employees were noted.
6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant