

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14-15
Statement of Activities	B	16-17
Governmental Fund Financial Statements:		
Balance Sheet	C	18
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	19
Statement of Revenues, Expenditures and Changes in Fund Balances	E	20-21
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 Net Assets	H	24
Statement of Cash Flows	I	25
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	26
Statement of Changes in Fiduciary Net Assets	K	27
Notes to Financial Statements		28-37
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary		39
Notes to Required Supplementary Information - Budgetary Reporting		40
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	42
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	43
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	44
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	4	45
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 <u>Government Auditing Standard</u> :		46-47
Schedule of Findings		48-50

Gary E. Horton CPA

PO Box 384

Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

Independent Auditor's Report

To the Board of Education of
North Central Community School District:

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated December 13, 2006, on our consideration of North Central Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

December 13, 2006

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

North Central 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 \$4,035,954 in fiscal 2005 to \$4,076,814 in fiscal 2006, while General Fund expenditures increased from \$3,867,378 in fiscal 2005 to \$4,181,363 in fiscal 2006. The District's General Fund balance decreased from \$586,456 in fiscal 2005 to \$482,057 in fiscal 2006, an 18% decrease.
- The increase in General Fund revenues was attributable to an increase in 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.

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 Central 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 Central 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 Central Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

Figure A-1
North Central Community School District Annual Financial Report

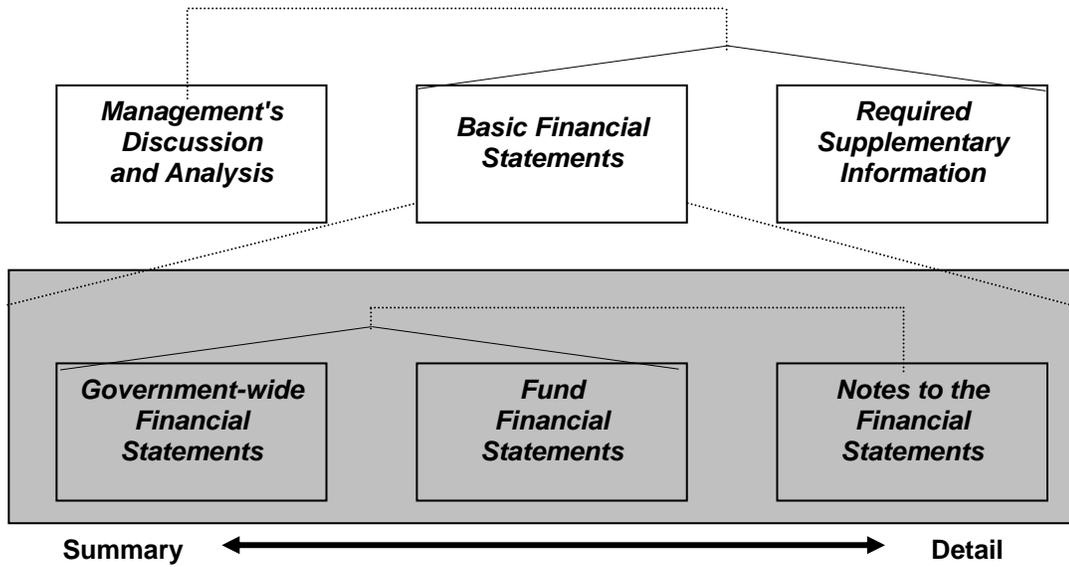


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess

the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The District has 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.

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.

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

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, 2005 compared to June 30, 2006.

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Current and other assets	5,773,458	5,954,538	48,118	41,579	5,821,576	5,996,117	3%
Capital assets	4,137,291	4,556,543	14,924	12,580	4,152,215	4,569,123	10%
Total assets	9,910,749	10,511,081	63,042	54,159	9,973,791	10,565,240	6%
Long-term liabilities	5,254,328	5,550,500	-	-	5,254,328	5,550,500	6%
Other liabilities	2,324,982	2,435,058	1,884	1,813	2,326,866	2,436,871	5%
Total liabilities	7,579,310	7,985,558	1,884	1,813	7,581,194	7,987,371	5%
Net Assets:							
Invested in capital assets, net of related debt	1,457,291	1,456,543	14,924	12,580	1,472,215	1,469,123	0%
Restricted	274,592	473,399	-	-	274,592	473,399	72%
Unrestricted	599,556	595,581	46,234	39,766	645,790	635,347	-2%
TOTAL NET ASSETS	2,331,439	2,525,523	61,158	52,346	2,392,597	2,577,869	8%

The District's combined net assets increased by nearly 8%, or approximately \$185,272 over 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 approximately \$198,807 or 72% over the prior year. The increase was primarily a result of revenue from the local option sales tax that was not spent during the year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$10,443, or 2%.

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

Figure A-4

	Change in Net Assets						Percentage Change 2005-2006
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	
Revenues							
Program Revenues:							
Charges for services	259,209	321,672	118,687	129,250	377,896	450,922	19%
Operating grants, contributions and restricted interest	502,996	523,696	115,249	116,706	618,245	640,402	4%
Capital grants & contributions and restricted interest	-	4,161	-	-	-	4,161	0%
General Revenues:							
Property taxes	1,828,085	1,868,148	-	-	1,828,085	1,868,148	2%
Income Surtax	115,697	107,802	-	-	115,697	107,802	-7%
Local option sales tax	315,583	321,181	-	-	315,583	321,181	2%
Unrestricted state grants	1,940,988	1,963,085	-	-	1,940,988	1,963,085	1%
Unrestricted investment earnings	16,577	30,069	109	137	16,686	30,206	81%
Other revenue	1,475	24,165	-	-	1,475	24,165	1538%
Total Revenues	4,980,610	5,163,979	234,045	246,093	5,214,655	5,410,072	4%
Expenses:							
Instruction	2,875,233	2,953,327	-	-	2,875,233	2,953,327	3%
Support services	1,142,660	1,311,205	-	-	1,142,660	1,311,205	15%
Non-instructional programs	-	-	223,329	254,905	223,329	254,905	14%
Other expenditures	638,423	705,363	-	-	638,423	705,363	10%
Total expenses	4,656,316	4,969,895	223,329	254,905	4,879,645	5,224,800	7%
Change in net assets before transfers	324,294	194,084	10,716	(8,812)	335,010	185,272	-45%
Transfers	-	-	-	-	-	-	0%
CHANGE IN NET ASSETS	324,294	194,084	10,716	(8,812)	335,010	185,272	-45%
Net assets beginning of year	2,007,145	2,331,439	50,442	61,158	2,057,587	2,392,597	16%
Net assets end of year	2,331,439	2,525,523	61,158	52,346	2,392,597	2,577,869	8%

Property tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 82% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,163,979 and expenses were \$4,969,895. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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 2005 \$	Total Cost of Services 2006 \$	Net Cost of Services 2005 \$	Net Cost of Services 2006 \$
Instruction	2,875,233	2,953,327	2,334,810	2,330,780
Support Services	1,142,660	1,311,205	1,137,934	1,307,861
Non-instructional Programs	-	-	-	-
Other Expenses	638,423	705,363	421,367	481,725
TOTAL	4,656,316	4,969,895	3,894,111	4,120,366

- The cost financed by users of the District's programs was \$321,672.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$467,036.
- The net cost of governmental activities was financed with \$2,297,131 in property and other taxes and \$1,963,085 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$246,093 and expenses were \$254,905. 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.

INDIVIDUAL FUND ANALYSIS

As previously noted, North Central 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 \$3,473,088, above last year's ending fund balances of \$3,387,247.

Governmental Fund Highlights

- The District's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues which were offset by increase in expenditures.
- The General Fund balance decreased from \$586,456 to \$482,057.
- The Physical Plant and Equipment Levy (PEEL) Fund balance decreased from \$42,716 in fiscal 2005 to \$41,616 in fiscal 2006.

- The Capital Projects Fund balance increased to \$422,108 due to increased local option sales tax revenue.

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$61,158 at June 30, 2005 to \$52,346 at June 30, 2006, representing a decrease of approximately 14%. This change resulted from an increase in salaries and other expenses.

BUDGETARY HIGHLIGHTS

The District's receipts were \$283,397 more than budgeted. The most significant variance resulted from the District receiving more from local sources than originally anticipated.

Total expenditures were more than budgeted, due primarily to the District's capital projects expenditures. 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 all the functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$4,569,123, 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 10% 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 \$174,680.

During the fiscal year the district expended \$328,000 on improvements and had \$172,000 of construction in progress at June 30, 2006.

Figure A-6

Capital Assets (net of depreciation)

	Governmental Activities		Business type Activities		Total School District		Percentage Change 2004-2005
	2005	2006	2005	2006	2005	2006	
	\$	\$	\$	\$	\$	\$	
Land	46,900	45,500	-	-	46,900	45,500	-3%
Construction in progress	-	171,882	-	-	-	171,882	0%
Buildings	3,746,951	3,639,488	-	-	3,746,951	3,639,488	-3%
Improvements	242,437	539,988	-	-	242,437	539,988	122%
Equipment & Furniture	101,003	159,685	14,924	12,580	115,927	172,265	49%
TOTAL	4,137,291	4,556,543	14,924	12,580	4,152,215	4,569,123	10%

Long-Term Debt

At June 30, 2006, the District had \$5,550,500 in general obligation, and other long-term debt outstanding. This represents an increase of approximately 6% 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.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Percentage
	2005	2006	Change
			2005-2006
	\$	\$	
General Obligation Bonds	5,105,000	4,940,000	-3%
Revenue Bonds	-	585,000	0%
Early Retirement	149,328	25,500	-83%
	<u>5,254,328</u>	<u>5,550,500</u>	<u>6%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The District's September 2006 enrollment decreased by one student. This decrease in enrollment will decrease the District's funding for fiscal year 2008.
- Although the District has experienced declining enrollment in the past years, the District expects a slight increase in future enrollment due to a new housing development in progress within the District.
- Costs outside of the Board's control such as continual increases in health insurance and utility costs are worrisome, and employee contract settlements will also have in effect on the District's financial viability.

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 Bruce A. Burton, Superintendent, North Central Community School District, 105 S East Street, Manly, Iowa, 50456.

BASIC FINANCIAL STATEMENTS

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	272,621	-	272,621
Other	1,003,318	25,654	1,028,972
Cash with fiscal agent	2,514,124	-	2,514,124
Receivables:			
Property tax:			
Delinquent	31,000	-	31,000
Succeeding year	1,847,615	-	1,847,615
Accounts	1,087	168	1,255
Accrued interest:			
ISCAP	85	-	85
Due from other governments	265,093	-	265,093
Inventories	-	15,757	15,757
Unamortized bond issue costs	19,595	-	19,595
Capital assets, net of accumulated depreciation	4,556,543	12,580	4,569,123
Total assets	10,511,081	54,159	10,565,240
Liabilities			
Accounts payable	243,136	-	243,136
Salaries and benefits payable	2,031	-	2,031
Accrued interest payable	67,132	-	67,132
Deferred revenue:			
Succeeding year property tax	1,847,615	-	1,847,615
Other	-	1,813	1,813
ISCAP warrants payable	273,000	-	273,000
ISCAP accrued interest payable	67	-	67
ISCAP premium	2,077	-	2,077
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	175,000	-	175,000
Revenue bonds payable	60,000	-	60,000
Termination benefits	25,500	-	25,500
Portion due after one year:			
General obligation bonds payable	4,765,000	-	4,765,000
Revenue bonds payable	525,000	-	525,000
Total liabilities	7,985,558	1,813	7,987,371

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	1,456,543	12,580	1,469,123
Restricted for:			
Management levy	5,215	-	5,215
Physical plant and equipment levy	41,616	-	41,616
Other special revenue purposes	42,358	-	42,358
Local option sales tax capital projects	283,451	-	283,451
Debt service	100,759	-	100,759
Unrestricted	<u>595,581</u>	<u>39,766</u>	<u>635,347</u>
Total net assets	<u><u>2,525,523</u></u>	<u><u>52,346</u></u>	<u><u>2,577,869</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>	
			<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
	\$	\$	\$	\$
Governmental activities:				
Instruction:				
Regular instruction	2,073,072	204,040	227,757	-
Special instruction	504,024	8,615	29,382	-
Other instruction	376,231	107,954	44,799	-
	<u>2,953,327</u>	<u>320,609</u>	<u>301,938</u>	<u>-</u>
Support services:				
Student services	53,783	-	-	-
Instructional staff services	134,532	-	-	-
Administration services	494,306	-	-	-
Operation and maintenance of plant services	410,156	1,063	-	-
Transportation services	218,428	-	2,281	-
	<u>1,311,205</u>	<u>1,063</u>	<u>2,281</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	138,231	-	-	4,161
Long-term debt interest	265,797	-	56,660	-
AEA flowthrough	162,817	-	162,817	-
Depreciation (unallocated)*	138,518	-	-	-
	<u>705,363</u>	<u>-</u>	<u>219,477</u>	<u>4,161</u>
Total governmental activities	4,969,895	321,672	523,696	4,161
Business type activities:				
Non-instructional programs:				
Food service operations	254,905	129,250	116,706	-
Total	<u>5,224,800</u>	<u>450,922</u>	<u>640,402</u>	<u>4,161</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year

Net assets end of year

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

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business Type Activities	Total
\$	\$	\$
(1,641,275)	-	(1,641,275)
(466,027)	-	(466,027)
(223,478)	-	(223,478)
<u>(2,330,780)</u>	<u>-</u>	<u>(2,330,780)</u>
(53,783)	-	(53,783)
(134,532)	-	(134,532)
(494,306)	-	(494,306)
(409,093)	-	(409,093)
(216,147)	-	(216,147)
<u>(1,307,861)</u>	<u>-</u>	<u>(1,307,861)</u>
(134,070)	-	(134,070)
(209,137)	-	(209,137)
-	-	-
<u>(138,518)</u>	<u>-</u>	<u>(138,518)</u>
<u>(481,725)</u>	<u>-</u>	<u>(481,725)</u>
(4,120,366)	-	(4,120,366)
<u>-</u>	<u>(8,949)</u>	<u>(8,949)</u>
<u>(4,120,366)</u>	<u>(8,949)</u>	<u>(4,129,315)</u>
1,455,588	-	1,455,588
368,558	-	368,558
44,002	-	44,002
107,802	-	107,802
321,181	-	321,181
1,963,085	-	1,963,085
30,069	137	30,206
24,165	-	24,165
<u>4,314,450</u>	<u>137</u>	<u>4,314,587</u>
194,084	(8,812)	185,272
<u>2,331,439</u>	<u>61,158</u>	<u>2,392,597</u>
<u>2,525,523</u>	<u>52,346</u>	<u>2,577,869</u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2006

	General Fund \$	Debt Service \$	Capital Projects Local Option Sales Tax \$	Nonmajor Governmental Funds \$	Total \$
Assets					
Cash and pooled investments:					
ISCAP	272,621	-	-	-	272,621
Other	474,204	57,249	359,119	112,746	1,003,318
Cash with fiscal agent	-	2,375,467	138,657	-	2,514,124
Receivables:					
Property tax:					
Delinquent	21,765	5,967	-	3,268	31,000
Succeeding year	1,336,328	312,138	-	199,149	1,847,615
Accounts	1,087	-	-	-	1,087
Accrued interest - ISCAP	85	-	-	-	85
Interfund receivable	-	15,551	-	-	15,551
Due from other governments	142,601	-	122,492	-	265,093
Total assets	2,248,691	2,766,372	620,268	315,163	5,950,494
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	59,202	-	182,609	1,325	243,136
Salaries and benefits payable	2,031	-	-	-	2,031
Interfund payable	-	-	15,551	-	15,551
ISCAP warrants payable	273,000	-	-	-	273,000
ISCAP accrued interest payable	67	-	-	-	67
ISCAP premium	2,077	-	-	-	2,077
Deferred revenue:					
Succeeding year property tax	1,336,328	312,138	-	199,149	1,847,615
Other	93,929	-	-	-	93,929
Total liabilities	<u>1,766,634</u>	<u>312,138</u>	<u>198,160</u>	<u>200,474</u>	<u>2,477,406</u>
Fund balances:					
Reserved for:					
Debt service	-	2,454,234	138,657	-	2,592,891
Unreserved reported in:					
General fund	482,057	-	-	-	482,057
Special revenue funds	-	-	-	114,689	114,689
Capital projects funds	-	-	283,451	-	283,451
Total fund balances	<u>482,057</u>	<u>2,454,234</u>	<u>422,108</u>	<u>114,689</u>	<u>3,473,088</u>
Total liabilities and fund balances	2,248,691	2,766,372	620,268	315,163	5,950,494

See notes to financial statements.

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

June 30, 2006

	\$
Total fund balances of governmental funds (Exhibit C)	
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	3,473,088
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,556,543
Bond issue costs are expensed when incurred for the fund financial statements, but are capitalized and expensed over the life of the bonds for the Statement of Net Assets.	19,595
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	93,929
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.	(67,132)
Long-term liabilities, including bonds payable and termination benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(5,550,500)</u>
Net assets of governmental activities (Exhibit A)	<u><u>2,525,523</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Debt Service	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	1,417,286	368,558	321,181	196,978	2,304,003
Tuition	90,901	-	-	-	90,901
Other	138,662	56,660	10,429	116,325	322,076
State sources	2,295,510	101	-	55	2,295,666
Federal sources	134,455	-	-	-	134,455
Total revenues	<u>4,076,814</u>	<u>425,319</u>	<u>331,610</u>	<u>313,358</u>	<u>5,147,101</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	2,020,658	-	-	176,242	2,196,900
Special instruction	504,024	-	-	-	504,024
Other instruction	247,715	-	-	128,516	376,231
	<u>2,772,397</u>	<u>-</u>	<u>-</u>	<u>304,758</u>	<u>3,077,155</u>
Support services:					
Student services	53,783	-	-	-	53,783
Instructional staff services	134,532	-	-	-	134,532
Administration services	489,766	-	-	2,759	492,525
Operation and maintenance of plant services	374,587	-	-	32,929	407,516
Transportation services	193,481	-	-	74,769	268,250
	<u>1,246,149</u>	<u>-</u>	<u>-</u>	<u>110,457</u>	<u>1,356,606</u>
Other expenditures:					
Facilities acquisition	-	-	663,710	7,885	671,595
Long-term debt:					
Principal	-	165,000	-	-	165,000
Interest and fiscal charges	-	238,238	-	-	238,238
AEA flowthrough	162,817	-	-	-	162,817
	<u>162,817</u>	<u>403,238</u>	<u>663,710</u>	<u>7,885</u>	<u>1,237,650</u>
Total expenditures	<u>4,181,363</u>	<u>403,238</u>	<u>663,710</u>	<u>423,100</u>	<u>5,671,411</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(104,549)</u>	<u>22,081</u>	<u>(332,100)</u>	<u>(109,742)</u>	<u>(524,310)</u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	General Fund	Debt Service	Capital Projects Local Option Sales Tax	Nonmajor Governmental Funds	Total
	\$	\$	\$	\$	\$
Other financing sources (uses):					
Bonds issued	-	-	585,000	-	585,000
Sales of real estate equipment	150	-	-	25,001	25,151
Total other financing sources (uses)	150	-	585,000	25,001	610,151
Net change in fund balances	(104,399)	22,081	252,900	(84,741)	85,841
Fund balances beginning of year	586,456	2,432,153	169,208	199,430	3,387,247
Fund balances end of year	<u>482,057</u>	<u>2,454,234</u>	<u>422,108</u>	<u>114,689</u>	<u>3,473,088</u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	\$	\$
Net change in fund balances - total governmental funds (Exhibit E)		85,841
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense and cost of land sold in the year as follows:		
Expenditures for capital assets	592,988	
Cost of land sold	(1,400)	
Depreciation expense	<u>(172,336)</u>	419,252
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of activities.		(6,873)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		165,000
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.		(27,559)
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, as follows:		
Early retirement		123,828
Bond issue costs are expensed when incurred for the fund financial statements, but are capitalized and expensed over the life of the bonds for the Statement of Net Assets.		19,595
Proceeds from issuing long-term liabilities are included in the governmental funds but increase long-term liabilities in the Statement of Net Assets.		<u>(585,000)</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>194,084</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Assets	
Cash and cash equivalents	25,654
Accounts receivable	168
Inventories	15,757
Capital assets, net of accumulated depreciation	<u>12,580</u>
Total assets	54,159
Liabilities	
Deferred revenue	<u>1,813</u>
Net assets	
Invested in capital assets, net of related debt	12,580
Unrestricted	<u>39,766</u>
Total net assets	<u><u>52,346</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition <u> </u> \$
Operating revenue:	
Local sources:	
Charges for service	<u>129,250</u>
Operating expenses:	
Non-instructional programs:	
Salaries	93,623
Benefits	45,264
Supplies	113,674
Depreciation	<u>2,344</u>
	<u>254,905</u>
Operating gain (loss)	<u>(125,655)</u>
Non-operating revenue:	
State sources	3,253
Federal sources	113,453
Interest income	<u>137</u>
Total non-operating revenue	<u>116,843</u>
Change in net assets	(8,812)
Net assets beginning of year	<u>61,158</u>
Net assets end of year	<u><u>52,346</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Nonmajor School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	129,151
Cash payments to employees for services	(138,887)
Cash payments to suppliers for goods or services	(87,247)
Net cash used by operating activities	<u>(96,983)</u>
Cash flows from non-capital financing activities:	
State grants received	3,253
Federal grants received	88,574
Net cash provided by non-capital financing activities	<u>91,827</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>137</u>
Net increase (decrease) in cash and cash equivalents	(5,019)
Cash and cash equivalents at beginning of year	<u>30,673</u>
Cash and cash equivalents at end of year	<u><u>25,654</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(125,655)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	24,879
Depreciation	2,344
Decrease (increase) in inventories	1,548
Decrease (increase) in accounts receivable	(28)
(Decrease) increase in deferred revenue	<u>(71)</u>
Net cash used in operating activities	<u><u>(96,983)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$24,879 of federal commodities.

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust Scholarship
	<u>\$</u>
Assets	
Cash and pooled investments	19,060
Liabilities	
	<u>-</u>
Net Assets	
Reserved for scholarships	<u><u>19,060</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	Private Purpose Trust Scholarship <u> </u> \$
Additions:	
Local sources:	
Interest	<u>638</u>
Deductions:	
Support services:	
Scholarships awarded	650
Other expense	<u>6,996</u>
	<u>7,646</u>
Change in net assets	(7,008)
Net assets beginning of year	<u>26,068</u>
Net assets end of year	<u><u>19,060</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

1. Summary of Significant Accounting Policies

North Central 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 City of Manly, Iowa and the predominately agricultural territory in a portion of Worth and Cerro Gordo Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the 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 that are imposed by management, but can be removed or modified.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

Property tax revenue recognized in these funds became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005, through June 30, 2006, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	500
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	3,500

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-15 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been

recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, as well as property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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 Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the instruction, support services, non-instructional programs and other expenditures functions exceeded the amounts budgeted.

2. **Cash and Pooled Investments**

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

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

At June 30, 2006, the District had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
	\$	
US Treasury Notes	17,641	Nov. 1, 2006
US Treasury Notes	2,357,826	May 1, 2007
Goldman Sachs Financial Square Treasury Obligations Fund	138,657	N/A

Interest rate risk: The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk: The investment in the Goldman Sachs Financial Square Treasury Obligations Fund was rated Aaa by Moody's Investors Service.

3. Interfund Receivables and Payables

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

Receivable Fund	Payable Fund	Amount
		\$
Debt Service	Capital Projects, Local Option Sales Tax	15,551

The interfund receivable/payable represents amounts that will be transferred for revenue bond payments.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
			\$	\$	\$	\$
2006-07A	6/28/06	6/28/07	272,621	85	273,000	67

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
	%	%
2005-06A	4.000	3.903
2006-07A	4.500	5.676

5. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	-	171,882	-	171,882
Land	46,900	-	1,400	45,500
Total capital assets not being deprec.	<u>46,900</u>	<u>171,882</u>	<u>1,400</u>	<u>217,382</u>
Capital assets being depreciated:				
Buildings	5,544,348	-	-	5,544,348
Improvements other than buildings	398,700	328,606	-	727,306
Furniture and equipment	526,719	92,500	47,070	572,149
Total capital assets being deprec.	<u>6,469,767</u>	<u>421,106</u>	<u>47,070</u>	<u>6,843,803</u>
Less accumulated depreciation for:				
Buildings	1,797,397	107,463	-	1,904,860
Improvements other than buildings	156,263	31,055	-	187,318
Furniture and equipment	425,716	33,818	47,070	412,464
Total accumulated depreciation	<u>2,379,376</u>	<u>172,336</u>	<u>47,070</u>	<u>2,504,642</u>
Total capital assets being depreciated, net	<u>4,090,391</u>	<u>248,770</u>	<u>-</u>	<u>4,339,161</u>
Governmental activities capital assets, net	<u>4,137,291</u>	<u>420,652</u>	<u>1,400</u>	<u>4,556,543</u>
	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	28,124	-	-	28,124
Less accumulated depreciation	<u>13,200</u>	<u>2,344</u>	<u>-</u>	<u>15,544</u>
Business type activities capital assets, net	<u>14,924</u>	<u>(2,344)</u>	<u>-</u>	<u>12,580</u>

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Support Services:	
Operation and maintenance of plant services	2,640
Transportation	31,178
	33,818
Unallocated depreciation	138,518
	172,336
 Business type activities:	
Food services	2,344
	2,344

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	5,105,000	-	165,000	4,940,000	175,000
Revenue bonds	-	585,000	-	585,000	60,000
Termination benefits	149,328	25,500	149,328	25,500	25,500
 Total	5,254,328	610,500	314,328	5,550,500	260,500

Termination Benefits

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least ten years of continuous service to the District and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Education.

Early retirement benefits are equal to the difference between the current contract salary and the BA base rate on the current salary schedule.

Early retirement benefits will be paid in one installment in the year following the start of retirement.

At June 30, 2006, the District has obligations to one participant with a total liability of \$25,500. Actual early retirement expenditures for the year ended June 30, 2006 totaled \$149,328.

General Obligation Bonds Payable

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

Bond Issue of March 1997				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	5.75	175,000	136,888	311,888
2008	5.10	185,000	126,825	311,825
2009	5.25	195,000	117,390	312,390
2010	5.30	205,000	107,152	312,152
2011	5.35	215,000	96,288	311,288
2012-2016	5.30-5.55	1,250,000	294,828	1,544,828
2017	5.60	290,000	16,240	306,240
		<u>2,515,000</u>	<u>895,611</u>	<u>3,410,611</u>

Refunding Bond Issue April 29, 2004				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	-	-	91,063	91,063
2008	2.50	220,000	91,062	311,062
2009	2.75	225,000	85,562	310,562
2010	4.00	230,000	79,375	309,375
2011	4.0	240,000	70,175	310,175
2012-2016	3.6-4.5	1,335,000	192,670	1,527,670
217	3.8	175,000	6,650	181,650
		<u>2,425,000</u>	<u>616,557</u>	<u>3,041,557</u>

On April 29, 2004 the District issued \$2,425,000 of general obligation crossover refunding bonds with interest rates ranging between 2.50% to 3.80%. The District will use the proceeds to advance refund \$2,340,000 of the outstanding March 1997 general obligation bonds in May 2007. The District used the net proceeds to purchase U.S. government securities. The crossover refunding reduced total debt service payments over twelve years by \$148,228. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$112,274.

Revenue Bonds Payable

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

Bond Issue of May 2001				
Year Ending June 30,	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2007	3.0	60,000	27,473	87,473
2008	3.2	65,000	18,440	83,440
2009	3.4	65,000	16,295	81,295
2010	3.6	65,000	14,020	79,020
2011	3.7	70,000	11,555	81,555
2012-2015	3.8-4.0	260,000	18,930	278,930
		<u>585,000</u>	<u>106,713</u>	<u>691,713</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. The debt, however, is subject to the constitutional debt limitation of the District.

The resolution providing for the issuance of the local option sales and services revenue bonds include the following provisions:

- \$58,500 of the proceeds from the bond issue have been placed in a reserve account with a trustee. The reserve account may be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The reserve account is part of the Capital Projects Local Option Sales Tax Fund.
- Proceeds from the local option sales and services tax shall be placed in a revenue account. Monthly transfers, equal to 1/12 of the next principal payment plus 1/6 of the next interest payment, are to go from the revenue account to the sinking account. Money in the sinking account shall be used to pay the interest and principal on the bonds. The sinking account is part of the Capital Projects Local Option Sales Tax Fund.

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$130,826, \$130,262 and \$126,530 respectively, equal to the required contributions for each year.

8. Risk Management

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

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$162,817 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Construction Commitment

The District has entered into a contract totaling \$320,751 for a science room renovation. As of June 30, 2006 costs of \$148,869 had been incurred against the contracts. The balance remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures, and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	2,716,980	129,387	2,846,367	2,575,135	2,575,135	271,232
State sources	2,295,666	3,253	2,298,919	2,306,736	2,306,736	(7,817)
Federal sources	134,455	113,453	247,908	227,926	227,926	19,982
Total revenues	<u>5,147,101</u>	<u>246,093</u>	<u>5,393,194</u>	<u>5,109,797</u>	<u>5,109,797</u>	<u>283,397</u>
Expenditures:						
Instruction	3,077,155	-	3,077,155	2,923,589	2,923,589	(153,566)
Support services	1,356,606	-	1,356,606	1,119,760	1,119,760	(236,846)
Non-instructional programs	-	254,905	254,905	230,000	230,000	(24,905)
Other expenditures	1,237,650	-	1,237,650	637,497	637,497	(600,153)
Total expenditures	<u>5,671,411</u>	<u>254,905</u>	<u>5,926,316</u>	<u>4,910,846</u>	<u>4,910,846</u>	<u>(1,015,470)</u>
Excess (deficiency) of revenues over (under) expenditures	(524,310)	(8,812)	(533,122)	198,951	198,951	(732,073)
Other financing sources (uses) net	<u>610,151</u>	<u>-</u>	<u>610,151</u>	<u>-</u>	<u>-</u>	<u>610,151</u>
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	85,841	(8,812)	77,029	198,951	198,951	(121,922)
Balance beginning of year	<u>3,387,247</u>	<u>61,158</u>	<u>3,448,405</u>	<u>961,133</u>	<u>961,133</u>	<u>2,487,272</u>
Balance end of year	<u><u>3,473,088</u></u>	<u><u>52,346</u></u>	<u><u>3,525,434</u></u>	<u><u>1,160,084</u></u>	<u><u>1,160,084</u></u>	<u><u>2,365,350</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2006

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

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

During the year ended June 30, 2006, expenditures in the instruction, support services, non-instructional programs, and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

Assets	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
		Fund	Equipment	
	\$	\$	Levy	\$
Cash and pooled investments	29,484	42,358	40,904	112,746
Receivables:				
Property tax:				
Delinquent	2,556	-	712	3,268
Succeeding year	150,000	-	49,149	199,149
Total assets	182,040	42,358	90,765	315,163
Liabilities & Fund Balances				
Liabilities:				
Accounts payable	1,325	-	-	1,325
Deferred revenue:				
Succeeding year property tax	150,000	-	49,149	199,149
Total liabilities	151,325	-	49,149	200,474
Fund balances:				
Unreserved reported in:				
Special revenue funds	30,715	42,358	41,616	114,689
Total liabilities and fund balances	182,040	42,358	90,765	315,163

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2006

	Special Revenue Funds			Total
	Management	Student	Physical	
	Levy	Activity	Plant and	
	\$	Fund	Equipment	\$
	\$	\$	Levy	\$
Revenues:				
Local sources:				
Local tax	152,977	-	44,001	196,978
Other	7,848	108,206	271	116,325
State sources	43	-	12	55
Total revenues	<u>160,868</u>	<u>108,206</u>	<u>44,284</u>	<u>313,358</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	176,242	-	-	176,242
Other instruction	-	128,516	-	128,516
Support services:				
Administration services	2,759	-	-	2,759
Operation and maintenance of plant services	32,929	-	-	32,929
Transportation services	12,269	-	62,500	74,769
Other expenditures:				
Facilities acquisition	-	-	7,885	7,885
Total expenditures	<u>224,199</u>	<u>128,516</u>	<u>70,385</u>	<u>423,100</u>
Excess (deficiency) of revenues over (under) expenditures	(63,331)	(20,310)	(26,101)	(109,742)
Other financing sources (uses):				
Sales of real property	-	-	25,001	25,001
Net change in fund balances	(63,331)	(20,310)	(1,100)	(84,741)
Fund balances beginning of year	<u>94,046</u>	<u>62,668</u>	<u>42,716</u>	<u>199,430</u>
Fund balances end of year	<u><u>30,715</u></u>	<u><u>42,358</u></u>	<u><u>41,616</u></u>	<u><u>114,689</u></u>

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Boys basketball	5,879	5,780	3,825	(5,800)	2,034
Football	3,614	9,926	10,218	(2,305)	1,017
Baseball	(3,357)	5,242	8,641	6,462	(294)
Boys track	2,001	2,021	1,824	(1,000)	1,198
Boys golf	147	261	401	100	107
Coop wrestling	3,390	9,865	10,092	(2,000)	1,163
JH wrestling	(77)	79	909	2,000	1,093
Volleyball	2,593	5,149	5,661	(457)	1,624
Softball	(1,384)	4,236	3,316	346	(118)
Girls track	1,662	2,010	4,274	1,454	852
Girls golf	123	41	835	742	71
Girls basketball	3,758	7,936	8,387	(2,242)	1,065
Athletic fundraiser	(1,448)	3,015	3,572	2,700	695
Cross country	649	371	806	-	214
French club	-	-	35	35	-
Honor society	13	-	180	(35)	(202)
Pep club	520	360	425	(79)	376
Student council	(1,232)	5,654	4,548	79	(47)
TAG/FPS	6,387	1,927	2,258	-	6,056
Drama & speech	(315)	1,355	839	500	701
Dance team	1,102	1,633	2,462	(676)	(403)
Elementary activities	5,395	2,005	-	70	7,470
Art	332	-	-	-	332
Cheerleading	(781)	4,885	7,542	676	(2,762)
Middle school	157	-	-	-	157
Senior class	(290)	1,144	1,195	300	(41)
Junior class	4,441	7,797	4,386	(370)	7,482
Sophomore class	399	372	442	-	329
Freshman class	1,035	355	424	-	966
Interest	2,525	252	23	(500)	2,254
Magazine JH	9,452	10,479	11,814	(5,291)	2,826
Magazine elementary	9,151	-	13,077	5,291	1,365
Vocal music	42	5,210	5,406	-	(154)
Show choir	(80)	-	-	200	120
Choir robes	749	292	-	(200)	841
Instrumental music	2,009	1,053	1,967	-	1,095
Band uniforms	4,509	-	-	(100)	4,409
Jazz band	(19)	-	128	100	(47)
Elementary music	830	-	-	-	830
Yearbook	(1,309)	7,501	8,534	-	(2,342)
District football	96	-	70	-	26
Total	62,668	108,206	128,516	-	42,358

See accompanying independent auditor's report.

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,304,003	2,249,521	2,014,596	2,039,867
Tuition	90,901	100,997	106,440	120,861
Other	322,076	234,162	154,584	210,831
State sources	2,295,666	2,252,353	1,952,442	1,971,558
Federal sources	134,455	133,733	130,051	98,111
Total revenues	<u>5,147,101</u>	<u>4,970,766</u>	<u>4,358,113</u>	<u>4,441,228</u>
Expenditures:				
Instruction:				
Regular instruction	2,196,900	2,080,015	2,011,759	1,932,210
Special instruction	504,024	485,229	467,646	396,098
Other instruction	376,231	309,989	294,463	329,093
Support services:				
Student services	53,783	51,978	59,364	54,945
Instructional staff services	134,532	30,699	28,814	39,516
Administration services	492,525	465,518	452,412	457,070
Operation and maintenance of plant services	407,516	380,568	341,097	330,810
Transportation services	268,250	164,091	188,258	159,698
Other expenditures:				
Facilities acquisition	671,595	111,175	82,998	60,295
Long-term debt:				
Principal	165,000	155,000	145,000	140,000
Interest and other charges	238,238	247,656	163,925	170,925
AEA flowthrough	162,817	159,158	154,194	164,874
Total expenditures	<u>5,671,411</u>	<u>4,641,076</u>	<u>4,389,930</u>	<u>4,235,534</u>

Gary E. Horton CPA

PO Box 384
Clarion, IA 50525-0384

(515)532-6681 Phone

(515) 532-2405 Fax

BETCO@mchsi.com E-mail

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

To the Board of Education of
North Central Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Central Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Compliance and Other Matters

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

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

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

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

December 13, 2006

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

06-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as 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. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we 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: We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures and investigate methods to increase monitoring activities to obtain the maximum internal control possible under the circumstances.

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

06-I-B Signature Stamp: We noted that a stamp bearing the signature of the Board President is used to cosign checks. The stamp is under the care, custody, and control of the administrative office. This practice negates the internal control procedure established by requiring two signatures on a check.

Recommendation: We recommend that this practice cease. The board may designate a person other than the board president to cosign checks. If a signature stamp is used, it should remain under the control of the person whose name the stamp bears at all times.

District Response: We will discuss methods to limit access to the signature stamp.

Conclusion: Response accepted.

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

06-II-A Certified Budget: Expenditures for the year ended June 30, 2006, exceeded the amounts budgeted in the instruction, support services, non-instructional programs and other expenditures functional area.

Recommendation: The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

District Response: We will amend future budgets before expenditures exceed the budget.

Conclusion: Response accepted.

06-II-B Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

06-II-C Travel Expenses: 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.

06-II-D Business Transactions: No transactions between the District and District officials or employees were noted.

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

06-II-F Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.

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

06-II-H Deposits and Investments: We 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.

06-II-I Certified Annual Report (CAR): The Certified Annual Report was certified to the Iowa Department of Education timely.

06-II-J Financial Condition: The Student Activity Fund has several accounts with deficit balances at June 30, 2006.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: The District's policy is to allocate monies within the Student Activity Fund at the beginning of the year to cover accounts with deficits.

Conclusion: Response accepted.

NORTH CENTRAL COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting (continued):

06-II-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extracurricular student activity program. We noted accounts in the Student Activity Fund that may belong more appropriately in other funds.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.