

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

- Prepared By -

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

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NORTH FAYETTE COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September, 2005 Election)		
Eugene Nuss	President	2007
Karen Michelson	Vice President	2006
Roy Guenther	Board Member	2005
Judy Heyer	Board Member	2005
Lynn Pleggenkuhle	Board Member	Resigned
Mike Snyder	Board Member, Appointed	2005
Tim O'Brien	Board Member	2006
Raymond Snyder	Board Member	2007
Board of Education (After September, 2005 Election)		
Eugene Nuss	President	2007
Karen Michelson	Vice President	2006
Roy Guenther	Board Member	2008
Judy Heyer	Board Member	2008
Mike Snyder	Board Member	2008
Tim O'Brien	Board Member	2006
Raymond Snyder	Board Member	2007
School Officials		
Ronald O'Kones	Superintendent	June 30, 2006
Sue Thoms	District Secretary/Treasurer	June 30, 2006
Jerim White	Attorney	June 30, 2006



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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
North Fayette 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 the North Fayette 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. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

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.

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 the North Fayette 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, I have also issued my report dated October 13, 2006 on my consideration of the North Fayette 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 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 my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 41 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 the North Fayette 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 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 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.

A handwritten signature in cursive script that reads "Larry Pump".

October 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Fayette 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. I encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

General Fund revenues increased from \$7,750,679 in fiscal 2005 to \$7,933,210 in fiscal 2006, while General Fund expenditures increased from \$7,586,863 in fiscal 2005 to \$7,940,147 in fiscal 2006. The District's General Fund balance decreased from \$920,652 in fiscal 2005 to \$856,137 in fiscal 2006, a 7% decrease.

The increase in General Fund revenues was attributable to an increase in revenue from state and federal sources in fiscal 2006. The increase in expenditures was due primarily to increased costs for instruction and operation and maintenance of plant services. The General Fund balance decreased as a result of the aforementioned increase in expenditures.

An increase in interest rates during the past three fiscal years, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone increasing from \$21,766 in fiscal 2005 to \$89,648 in fiscal 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of North Fayette 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 Fayette 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 Fayette Community School District acts solely as an agent or custodian for the benefit of those outside of the District.

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

Required Supplementary Information further explains and supports the financial statement 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-1
North Fayette Community School District Annual Financial Report

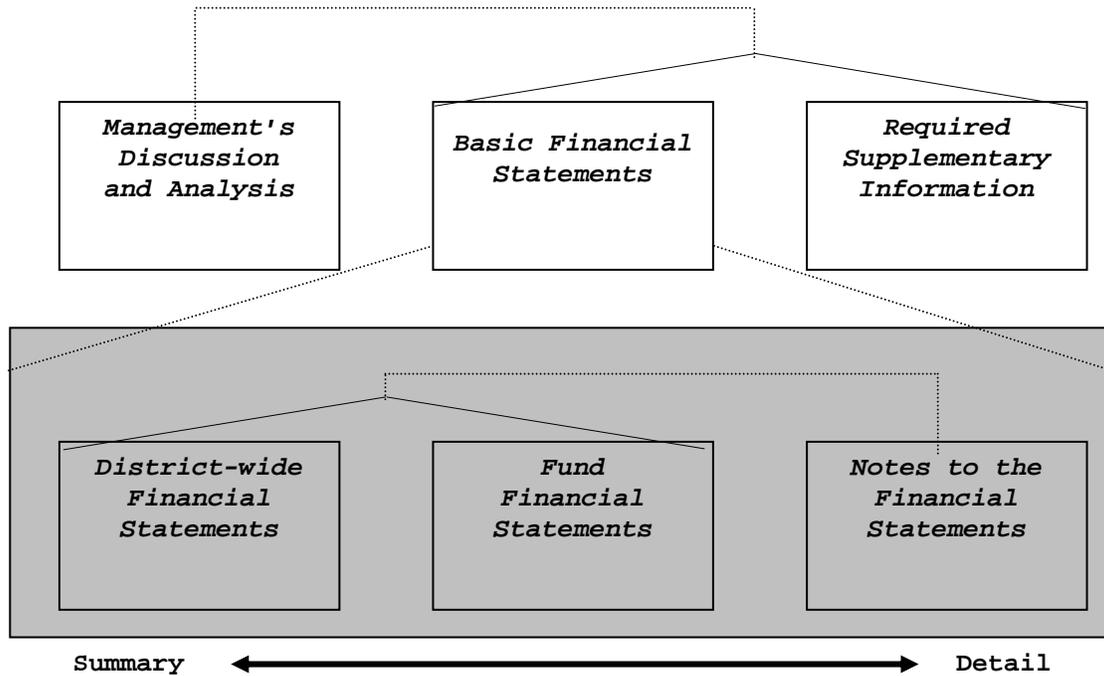


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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
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
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
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
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

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 two 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, Capital Projects Fund, Special Revenue Funds and Debt Service 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.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The table below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

	Condensed Statement of Net Assets							
	(Expressed in Thousands)							
	Governmental Activities		Business type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
2006	2005	2006	2005	2006	2005	2005 - 2006		
Current and other assets	\$ 7,650	\$ 9,771	\$ 35	\$ 35	\$ 7,685	\$ 9,806	(22)%	
Capital assets	3,581	3,009	44	42	3,625	3,051	19	
Total assets	<u>\$ 11,231</u>	<u>\$12,780</u>	<u>\$ 79</u>	<u>\$ 77</u>	<u>\$11,310</u>	<u>\$12,857</u>	<u>(12)%</u>	
Long-term liabilities	\$ 1,420	\$ 3,895	\$ -	\$ -	\$ 1,420	\$ 3,895	(64)%	
Other liabilities	4,864	4,151	10	10	4,874	4,161	17	
Total Liabilities	<u>\$ 6,284</u>	<u>\$ 8,046</u>	<u>\$ 10</u>	<u>\$ 10</u>	<u>\$ 6,294</u>	<u>\$ 8,056</u>	<u>(22)%</u>	
Net assets:								
Invested in capital assets, net of related debt	\$ 2,959	\$ 2,519	\$ 44	\$ 42	\$ 3,003	\$ 2,561	17%	
Restricted	594	570	-	-	594	570	4	
Unrestricted	<u>1,394</u>	<u>1,645</u>	<u>25</u>	<u>25</u>	<u>1,419</u>	<u>1,670</u>	<u>(15)</u>	
Total net Assets	<u>\$ 4,947</u>	<u>\$ 4,734</u>	<u>\$ 69</u>	<u>\$ 67</u>	<u>\$ 5,016</u>	<u>\$ 4,801</u>	<u>4%</u>	

The District's combined net assets increased by over 4%, or approximately \$215,000, 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 \$24,000, or 4% over the prior year. The increase was primarily a result of increased PPEL Fund balance.

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 \$251,000, or 15%.

The table below shows the change in net assets for the year ended June 30, 2006 and 2005.

	Changes in Net Assets					
	(Expressed in Thousands)					
	Governmental Activities		Business Type Activities		Total District	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenue:						
Charges for service	\$ 1,203	\$ 1,189	\$ 259	\$ 260	\$1,462	\$1,449
Operating grants, contributions and restricted interest	1,019	875	189	182	1,208	1,057
General Revenues:						
Property tax	2,836	2,954	-	-	2,836	2,954
Local option sales and service tax	439	408	-	-	439	408
Unrestricted state grants	3,789	3,579	-	-	3,789	3,579
Unrestricted investment Earnings	89	65	1	-	90	65
Other	10	76	-	-	10	76
Total revenues	<u>\$ 9,385</u>	<u>\$ 9,146</u>	<u>\$ 449</u>	<u>\$ 442</u>	<u>\$9,834</u>	<u>\$9,588</u>
Program expenses:						
Governmental activities:						
Instruction	\$ 5,317	\$ 5,452	\$ -	\$ -	\$5,317	\$5,452
Support services	2,306	2,219	-	-	2,306	2,219
Non-instructional programs	-	-	446	436	446	436
Other expenses	1,549	725	-	-	1,549	725
Total expenses	<u>\$ 9,172</u>	<u>\$ 8,396</u>	<u>\$ 446</u>	<u>\$ 436</u>	<u>\$9,618</u>	<u>\$8,832</u>
Change in net assets	<u>\$ 213</u>	<u>\$ 750</u>	<u>\$ 3</u>	<u>\$ 6</u>	<u>\$ 216</u>	<u>\$ 756</u>

Property tax and unrestricted state grants account for 67% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 79% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$9,385,004 and expenses were \$9,171,620.

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.

	Total and Net Cost of Governmental Activities	
	(Expressed in Thousands)	
	Total Cost	Net Cost
	of Services	of Services
Instruction	\$ 5,317	\$ 3,427
Support services	2,306	2,290
Other expenses	<u>1,549</u>	<u>1,232</u>
Totals	<u>\$ 9,172</u>	<u>\$ 6,949</u>

- The cost financed by users of the District's programs was \$1,203,368.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,019,218.
- The net cost of governmental activities was financed with \$3,274,353 in property and other taxes and \$3,788,961 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$448,395 and expenses were \$445,720. The District's business type activities include the School Nutrition Fund. Revenues of this activity were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, North Fayette 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 \$4,946,805, above last year's ending fund balances of \$4,733,421. However, the primary reason for the increase in combined fund balances in fiscal 2006 is due to increased state operating grants.

Governmental Fund Highlights

The District's decreased General Fund financial position is the result of many factors. General fund revenues increased while at the same time, general fund expenditures increased more. The District will carryover fund balances to meet its financial obligations in the future year.

The General Fund balance decreased from \$920,652 to \$856,137, due in part to increased expenditures for instruction and support services.

The Capital Projects Fund balance decreased due to increased expenditures for capital improvements during fiscal 2006. Fiscal 2006 ended with a balance of \$1,562,202, a decrease of \$130,702 from fiscal year 2005.

Proprietary Fund Highlights

School Nutrition Fund net assets increased from \$67,030 at June 30, 2005 to \$69,705 at June 30, 2006, representing an increase of approximately 4%. Revenue from Federal sources increased during the year. Operating expenses increased slightly compared to the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, North Fayette Community School District did not amend its annual budget.

The District's receipts were \$171,264 more than budgeted receipts, a variance of 2%.

Total expenditures were less than budgeted, due primarily to the District's budget for the Capital Project Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$3,625,232, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. Of this total, \$458,568 represents construction in progress on the Fine Arts and Education Center. (See Figure A-3) This represents a net increase of 19% from last year. More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$295,491.

The original cost of the District's capital assets was \$9,882,407. Governmental funds account for \$9,781,403, with the remainder of \$101,004 accounted for in the Proprietary, School Nutrition Fund.

Figure A-3
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business type Activities		Total District		Total Change	
	June 30,		June 30,		June 30,		June 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
Land	\$ 88	\$ 88	\$ -	\$ -	\$ 88	\$ 88		0%
Construction in progress	459	-	-	-	459	-		100
Building	2,465	2,266	-	-	2,465	2,266		9
Improvements other than building	127	365	-	-	127	365		(65)
Furniture and equipment	442	289	44	42	486	331		47
Totals	\$ 3,581	\$ 3,008	\$ 44	\$ 42	\$ 3,625	\$3,050		19%

Long-Term Debt

At June 30, 2006, the District had \$1,510,000 in general obligation and revenue debt outstanding. This represents a decrease of approximately 17% from last year. (See Figure A-4) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-4
Outstanding Long-Term Obligations
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
General obligation bonds	\$ 335	\$ 490	(32)%
Revenue Bonds	1,175	1,325	(11)
Capital Lease	287	-	100
Totals	<u>\$ 1,797</u>	<u>\$ 1,815</u>	<u>(1)%</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:

1. Enrollment increased in fiscal 2006, but is expected to decrease in future years.
2. At Risk monies will be utilized better.
3. Further staff reductions will assist with keeping District costs down.

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 Sue Thoms, District Secretary, North Fayette Community School District, West Union, Iowa, 52175.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Total</u>
ASSETS:			
Cash and investments	\$ 4,066,077	\$ 29,677	\$ 4,095,754
Receivables:			
Property tax:			
Delinquent	65,223	-	65,223
Succeeding year	3,203,123	-	3,203,123
Accounts	1,385	992	2,377
Income surtaxes	215,060	-	215,060
Due from other governments	99,634	-	99,634
Inventories	-	4,488	4,488
Capital assets, net of accumulated depreciation	<u>3,580,960</u>	<u>44,272</u>	<u>3,625,232</u>
Total assets	<u>\$11,231,462</u>	<u>\$ 79,429</u>	<u>\$11,310,891</u>
LIABILITIES:			
Accounts payable	\$ 140,921	\$ 4,646	\$ 145,567
Salaries and benefits payable	843,129	5,078	848,207
Early retirement payable	85,032	-	85,032
Deferred revenue:			
Succeeding year property tax	3,203,123	-	3,203,123
Other	215,060	-	215,060
Long term liabilities:			
Portion due within one year:			
General obligation bonds payable	165,000	-	165,000
Revenue bonds payable	155,000	-	155,000
Notes payable	57,478	-	57,478
Portion due after one year:			
General obligation bonds payable	170,000	-	170,000
Revenue bonds payable	1,020,000	-	1,020,000
Notes payable	229,914	-	229,914
Total liabilities	<u>\$ 6,284,657</u>	<u>\$ 9,724</u>	<u>\$ 6,294,381</u>
NET ASSETS:			
Invested in capital assets	\$ 2,958,568	\$ 44,272	\$ 3,002,840
Restricted for:			
Management levy	157,527	-	157,527
Physical plant and equipment levy	436,715	-	436,715
Unrestricted	<u>1,393,995</u>	<u>25,433</u>	<u>1,419,428</u>
Total net assets	<u>\$ 4,946,805</u>	<u>\$ 69,705</u>	<u>\$ 5,016,510</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Activities
Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$3,592,400	\$ 744,801	\$ 640,964	\$ -
Special instruction	1,020,967	22,665	54,460	-
Other instruction	703,412	419,565	6,849	-
	<u>\$5,316,779</u>	<u>\$1,187,031</u>	<u>\$ 702,273</u>	<u>\$ -</u>
Support services:				
Student services	\$ 272,124	\$ -	\$ -	\$ -
Instructional staff Services	230,290	-	-	-
Administration Services	774,339	-	-	-
Operation and maintenance of plant services	649,256	-	-	-
Transportation services	380,414	16,337	-	-
	<u>\$2,306,423</u>	<u>\$ 16,337</u>	<u>\$ -</u>	<u>\$ -</u>
Other expenditures:				
Facilities acquisition	\$ 864,959	\$ -	-	\$ -
Long-term debt interest	71,740	-	-	-
AEA flowthrough	316,945	-	316,945	-
Depreciation(unallocated)*	294,774	-	-	-
	<u>\$1,548,418</u>	<u>\$ -</u>	<u>\$ 316,945</u>	<u>\$ -</u>
Total governmental Activities	\$9,171,620	\$1,203,368	\$1,019,218	\$ -
Business type activities:				
Non-instructional programs:				
Food service operations	<u>445,720</u>	<u>258,995</u>	<u>188,899</u>	<u>-</u>
Total	<u>\$9,617,340</u>	<u>\$1,462,363</u>	<u>\$1,208,117</u>	<u>\$ -</u>

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

(Continued)

**Net (Expense) Revenue
And Changes in Net Assets**

Governmental Activities	Business Type Activities	Total
\$ (2,206,635)	\$ -	\$ (2,206,635)
(943,842)	-	(943,842)
(276,998)	-	(276,998)
\$ (3,427,475)	\$ -	\$ (3,427,475)
\$ (272,124)	\$ -	\$ (272,124)
(230,290)	-	(230,290)
(774,339)	-	(774,339)
(649,256)	-	(649,256)
(364,077)	-	(364,077)
\$ (2,290,086)	\$ -	\$ (2,290,086)
\$ (864,959)	\$ -	\$ (864,959)
(71,740)	-	(71,740)
-	-	-
(294,774)	-	(294,774)
\$ (1,231,473)	\$ -	\$ (1,231,473)
\$ (6,949,034)	\$ -	\$ (6,949,034)
-	2,174	2,174
\$ (6,949,034)	\$ 2,174	\$ (6,946,860)

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Activities
Year ended June 30, 2006

General Revenues:

Property tax levied for:
 General purposes
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Other

Total general revenues

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

**Net (Expense) Revenue
And Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 2,835,635	\$ -	\$ 2,835,635
438,718	-	438,718
3,788,961	-	3,788,961
89,091	501	89,592
<u>10,013</u>	<u>-</u>	<u>10,013</u>
<u>\$ 7,162,418</u>	<u>\$ 501</u>	<u>\$ 7,162,919</u>
\$ 213,384	\$ 2,675	\$ 216,059
<u>4,733,421</u>	<u>67,030</u>	<u>4,800,451</u>
<u>\$ 4,946,805</u>	<u>\$ 69,705</u>	<u>\$ 5,016,510</u>

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

	<u>General</u>	<u>Capital Projects</u>
ASSETS:		
Cash and investments	\$1,605,980	\$1,642,404
Receivables:		
Property taxes:		
Current year delinquent	53,837	-
Succeeding year	2,642,510	-
Income surtaxes	215,060	-
Accounts receivable	534	-
Due from other governments	<u>67,325</u>	<u>32,309</u>
Total assets	<u>\$4,585,246</u>	<u>\$1,674,713</u>
 LIABILITIES AND FUND BALANCES:		
Liabilities:		
Accounts payable	\$ 28,410	\$ 112,511
Salaries and benefits payable	843,129	-
Early retirement payable	-	-
Deferred revenue:		
Succeeding year property tax	2,642,510	-
Income surtaxes	215,060	-
Total liabilities	<u>\$3,729,109</u>	<u>\$ 112,511</u>
Fund balances:		
Unreserved:		
Undesignated	<u>856,137</u>	<u>1,562,202</u>
Total liabilities and fund balances	<u>\$4,585,246</u>	<u>\$1,674,713</u>

See Notes to Financial Statements.

<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 817,693	\$4,066,077
11,386	65,223
560,613	3,203,123
-	215,060
851	1,385
-	99,634
<u>\$1,390,543</u>	<u>\$7,650,502</u>
\$ -	\$ 140,921
-	843,129
85,032	85,032
560,613	3,203,123
-	215,060
\$ 645,645	\$4,487,265
744,898	3,163,237
<u>\$1,390,543</u>	<u>\$7,650,502</u>

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

Total fund balances of governmental funds (page 19) \$ 3,163,237

*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. 3,580,960

Long-term liabilities, including bonds and notes payable and
 compensated absences, are not due and payable in the
 current period and, therefore, are not reported in the funds. (1,797,392)

Net assets of governmental activities (page 13) \$ 4,946,805

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
Local sources:				
Local tax	\$2,835,635	\$ 438,718	\$ 554,319	\$3,828,672
Tuition	178,189	-	-	178,189
Other	115,108	11,538	446,752	573,398
Intermediate sources	750	-	-	750
State sources	4,487,707	-	465	4,488,172
Federal sources	315,821	-	-	315,821
Total revenues	<u>\$7,933,210</u>	<u>\$ 450,256</u>	<u>\$1,001,536</u>	<u>\$9,385,002</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$3,592,400	\$ -	\$ 145,295	\$3,737,695
Special instruction	1,020,967	-	-	1,020,967
Other instruction	703,412	-	410,701	1,114,113
	<u>\$5,316,779</u>	<u>\$ -</u>	<u>\$ 555,996</u>	<u>\$5,872,775</u>
Support services:				
Student services	\$ 272,124	\$ -	\$ -	\$ 272,124
Instructional staff services	230,290	-	-	230,290
Administration services	774,339	-	-	774,339
Operation and maintenance of plant services	649,256	-	66,142	715,398
Transportation services	380,414	-	15,836	396,250
	<u>\$2,306,423</u>	<u>\$ -</u>	<u>\$ 81,978</u>	<u>\$2,388,401</u>
Other expenditures:				
Facilities acquisition	\$ -	\$ 380,641	\$ 151,542	\$ 532,183
Long-term debt				
Principal	-	-	362,478	362,478
Interest and fiscal charges	-	-	71,740	71,740
AEA flowthrough	316,945	-	-	316,945
	<u>\$ 316,945</u>	<u>\$ 380,641</u>	<u>\$ 585,760</u>	<u>\$1,283,346</u>
Total expenditures	<u>\$7,940,147</u>	<u>\$ 380,641</u>	<u>\$1,223,734</u>	<u>\$9,544,522</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (6,937)</u>	<u>\$ 69,615</u>	<u>\$ (222,198)</u>	<u>\$ (159,520)</u>
Other financing sources (uses):				
Operating transfers in	\$ -	\$ -	\$ 434,218	\$ 434,218
Operating transfers out	(57,578)	(200,317)	(176,323)	(434,218)
Total other financing sources (uses)	<u>\$ (57,578)</u>	<u>\$ (200,317)</u>	<u>\$ 257,895</u>	<u>\$ -</u>
Net change in fund balances	\$ (64,515)	\$ (130,702)	\$ 35,697	\$ (159,520)
Fund balances beginning of year	<u>920,652</u>	<u>1,692,904</u>	<u>709,201</u>	<u>3,322,757</u>
Fund balances end of year	<u>\$ 856,137</u>	<u>\$1,562,202</u>	<u>\$ 744,898</u>	<u>\$3,163,237</u>

See Notes to Financial Statements.

NORTH FAYETTE 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 \$(159,520)
 (page 21)

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 867,045	
Depreciation expense	<u>(294,774)</u>	572,271

Certain delinquent property tax not collected for several months after year end is not considered available revenue and is deferred in the governmental funds. (274,453)

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. Current year issues exceeded repayments, as follows:

Issued	(287,392)	
Repaid	<u>362,478</u>	<u>75,086</u>

Change in net assets of governmental activities (page 17) \$ 213,384

See Notes to Financial Statements.

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

	<u>Enterprise Fund School Nutrition</u>	<u>Internal Service Fund Employee Health</u>
ASSETS:		
Cash and investments	\$ 29,677	\$ 8,489
Accounts receivable	992	-
Inventories	4,488	-
Capital assets, net of accumulated depreciation	<u>44,272</u>	<u>-</u>
Total assets	<u>\$ 79,429</u>	<u>\$ 8,489</u>
LIABILITIES:		
Salaries and benefits payable	\$ 5,078	-
Deferred revenue:		
Other	4,646	-
Total liabilities	<u>\$ 9,724</u>	<u>\$ -</u>
NET ASSETS:		
Invested in capital assets	\$ 44,272	\$ -
Unrestricted	<u>25,433</u>	<u>8,489</u>
Total net assets	<u>\$ 69,705</u>	<u>\$ 8,489</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Year ended June 30, 2006

	<u>Enterprise Fund School Nutrition</u>	<u>Internal Service Fund Employee Health</u>
Operating revenue:		
Local sources	\$ 258,995	\$ 55,880
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries and benefits	\$ 226,026	\$ -
Supplies	212,778	-
Depreciation	717	-
Other	6,199	57,357
Total operating expenses	<u>\$ 445,720</u>	<u>\$ 57,357</u>
Operating loss	<u>\$(186,725)</u>	<u>\$ (1,477)</u>
Non-operating revenues:		
State sources	\$ 6,311	\$ -
Federal sources	182,588	-
Interest income	501	55
Total non-operating revenues	<u>\$ 189,400</u>	<u>\$ 55</u>
Change in net assets	\$ 2,675	\$ (1,422)
Net assets beginning of year	<u>67,030</u>	<u>9,911</u>
Net assets end of year	<u>\$ 69,705</u>	<u>\$ 8,489</u>

See Notes to Financial Statements.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2006

	Enterprise Fund School Nutrition	Internal Service Fund Employee Health
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 260,809	\$ -
Cash paid to employees for services	(226,580)	-
Cash paid to suppliers for goods or services	(202,003)	-
Cash reimbursed by operating fund	-	55,880
Cash payments for medical expenses	-	(57,357)
Net cash used by operating activities	<u>\$(167,774)</u>	<u>\$ (1,477)</u>
Cash flows from non-capital financing activities:		
State grants received	\$ 6,311	\$ -
Federal grants received	<u>163,566</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>\$ 169,877</u>	<u>\$ -</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>\$ (2,954)</u>	<u>\$ -</u>
Cash flows from investing activities:		
Interest on investments	<u>\$ 501</u>	<u>\$ 55</u>
Net decrease in cash and cash equivalents	\$ (350)	\$ (1,422)
Cash and cash equivalents beginning of year	<u>30,027</u>	<u>9,911</u>
Cash and cash equivalents end of year	<u><u>\$ 29,677</u></u>	<u><u>\$ 8,489</u></u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$(186,725)	\$ (1,477)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Commodities used	17,640	-
Depreciation	717	-
Increase in inventories	(388)	-
Decrease in accounts receivable	1,675	-
Decrease in salaries and benefits payable	(554)	-
Decrease in deferred revenues	<u>(139)</u>	<u>-</u>
Net cash used by operating activities	<u>\$(167,774)</u>	<u>\$ (1,477)</u>
Non-cash investing, capital and financing activities:		
During the year ended June 30, 2006, the District received \$19,022 of federal commodities.		

See Notes to Financial Statements.

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

(1) Summary of Significant Accounting Policies

The North Fayette Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of West Union, Fayette and Hawkeye, Iowa and the predominate agricultural territory in Fayette 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, the North Fayette 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 Fayette Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

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

(1) Summary of Significant Accounting Policies - continued

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

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

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

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

(1) Summary of Significant Accounting Policies - continued

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

(1) Summary of Significant Accounting Policies - continued

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 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, have a maturity date no longer than three months.

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

(1) Summary of Significant Accounting Policies - continued

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

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

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

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

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

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

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

(1) Summary of Significant Accounting Policies - continued

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

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

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

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

(1) Summary of Significant Accounting Policies - continued

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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. Budgets and Budgetary Accounting

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

(2) Cash and 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.

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

(2) **Cash and Investments** - continued

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

	<u>Amortized Cost</u>
Diversified Portfolio	\$ 3,867,898

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

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

(3) **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. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/05	6/30/06	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06A	\$ -	\$ -	\$ -	\$ -

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

(3) Iowa School Cash Anticipation Program (ISCAP) - continued

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	3.500%	3.903%

(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	General	\$ 57,578
	Special Revenue:	
	Physical Plant and equipment levy	176,323
	Capital Projects	<u>200,317</u>
Total		<u>\$ 434,218</u>

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

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

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 88,450	\$ -	\$ -	\$ 88,450
Construction in progress	-	458,567	-	458,567
Total capital assets not being depreciated	\$ 88,450	458,567	-	\$ 547,017
Capital assets being depreciated:				
Buildings	\$ 448,905	\$ -	\$ -	\$ 448,905
Improvements other than buildings	4,461,362	63,410	-	4,524,772
Furniture and equipment	3,915,641	345,067	-	4,260,708
Total capital assets being depreciated	\$ 8,825,908	\$ 408,477	\$ -	\$ 9,234,385
Less accumulated depreciation for:				
Buildings	\$ 303,286	\$ 18,852	\$ -	\$ 322,138
Improvements	1,975,875	83,443	-	2,059,318
Furniture and equipment	3,626,507	192,479	-	3,818,986
Total accumulated depreciation	\$ 5,905,668	\$ 294,774	\$ -	\$ 6,200,442
Total capital assets being depreciated, net	\$ 2,920,240	\$ 113,703	\$ -	\$ 3,033,943
Governmental activities capital assets, net	\$ 3,008,690	\$ 572,270	\$ -	\$ 3,580,960
Business type activities:				
Furniture and equipment	\$ 98,050	\$ 2,954	\$ -	\$ 101,004
Less accumulated depreciation	56,015	717	-	56,732
Business type activities capital assets, net	\$ 42,035	\$ 2,237	\$ -	\$ 44,272
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				\$ 294,774
Business type activities:				
Food service operations				\$ 717

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

(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	\$ 490,000	\$ -	\$ 155,000	\$ 335,000	\$ 165,000
Revenue bonds	<u>1,325,000</u>	<u>-</u>	<u>150,000</u>	<u>1,175,000</u>	<u>155,000</u>
Total	<u>\$1,815,000</u>	<u>\$ -</u>	<u>\$ 305,000</u>	<u>\$1,510,000</u>	<u>\$ 320,000</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay. Early retirement benefits of \$92,194 were paid during the year ended June 30, 2006.

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 July 1, 1998		
	Interest Rate	Principal	Interest
2007	4.35%	\$ 165,000	\$ 14,658
2008	4.40	<u>170,000</u>	<u>7,480</u>
		<u>\$ 335,000</u>	<u>\$ 22,138</u>

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2004		
	Interest Rate	Principal	Interest
2007	3.10%	\$ 155,000	\$ 45,818
2008	3.40	155,000	41,013
2009	3.75	160,000	35,743
2010	4.00	165,000	29,743
2011	4.15	175,000	23,143
2012	4.30	180,000	15,880
2013	4.40	185,000	8,140
		<u>\$1,175,000</u>	<u>\$ 199,478</u>

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

(6) Long-Term Liabilities - Continued

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. However, the debt is subject to the constitutional debt limitation of the District.

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

- a) \$16,639 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Capital Lease

The District leases school buses under capital leases. Future minimum payments for the leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2007	\$ 57,478
2008	57,478
2009	57,478
2010	57,478
2011	57,478
	<u>\$287,390</u>
Less: Current Maturities	<u>57,478</u>
Long-Term Debt	<u><u>\$229,912</u></u>

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

(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 salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$284,218, \$277,956 and \$286,701 respectively, equal to the required contributions for each year.

(8) **Risk Management**

North Fayette 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 \$316,945 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) **Related Party Transactions**

The District had business transactions between the District and District officials or employees, totaling \$556 during the year ended June 30, 2006.

(11) **Construction Commitment**

The District has entered into contracts totaling \$3,048,890 for the construction of a fine arts and education center. As of June 30, 2006, costs of \$331,947 had been incurred against the contracts. The balance of \$2,716,943 remaining at June 30, 2006 will be paid as work on the project progresses.

Required Supplementary Information

NORTH FAYETTE 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
Year ended June 30, 2006

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
RECEIPTS:		
Local sources	\$4,580,259	\$ 259,496
State sources	4,488,172	6,311
Intermediary sources	750	-
Federal sources	315,821	182,588
Total receipts	<u>\$9,385,002</u>	<u>\$ 448,395</u>
DISBURSEMENTS:		
Instruction	\$5,872,775	\$ -
Support services	2,388,401	-
Non-instructional programs	-	445,720
Other expenditures	1,283,346	-
Total disbursements	<u>\$9,544,522</u>	<u>\$ 445,720</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (159,520)	\$ 2,675
Balance beginning of year	<u>3,322,757</u>	<u>67,030</u>
Balance end of year	<u>\$3,163,237</u>	<u>\$ 69,705</u>

See Accompanying Independent Auditor's Report.

Total Actual	Budgeted Amounts		Final to Actual Variance
	Original	Final	
\$4,839,755	\$ 4,639,259	\$ 4,639,259	\$ 200,496
4,494,483	4,554,674	4,554,674	(60,191)
750	46,200	46,200	(45,450)
498,409	422,000	422,000	76,409
<u>\$9,833,397</u>	<u>\$ 9,662,133</u>	<u>\$ 9,662,133</u>	<u>\$ 171,264</u>
\$5,872,775	\$ 6,065,262	\$ 6,065,262	\$ 192,487
2,388,401	2,758,500	2,758,500	370,099
445,720	527,485	527,485	81,765
1,283,346	3,135,004	3,135,004	1,851,658
<u>\$9,990,242</u>	<u>12,486,251</u>	<u>\$12,486,251</u>	<u>\$2,496,009</u>
\$ (156,845)	\$(2,824,118)	\$(2,824,118)	\$2,667,273
<u>3,389,787</u>	<u>3,195,075</u>	<u>3,195,075</u>	<u>194,712</u>
<u>\$3,232,942</u>	<u>\$ 370,957</u>	<u>\$ 370,957</u>	<u>\$2,861,985</u>

NORTH FAYETTE 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 the Capital Projects Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual 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 ended June 30, 2006, the District did not amend the original budget.

Other Supplementary Information

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

	<u>Management</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
ASSETS:				
Cash and investments	\$236,879	\$149,805	\$431,009	\$ 817,693
Receivables:				
Property tax:				
Delinquent	5,680	-	5,706	11,386
Succeeding year	275,000	-	285,613	560,613
Accounts	-	851	-	851
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$517,559</u>	<u>\$150,656</u>	<u>\$722,328</u>	<u>\$1,390,543</u>
 LIABILITIES AND FUND EQUITY:				
Liabilities:				
Early retirement payable	\$ 85,032	\$ -	\$ -	\$ 85,032
Deferred revenue:				
Succeeding year				
property tax	275,000	-	285,613	560,613
Total liabilities	<u>\$360,032</u>	<u>\$ -</u>	<u>\$285,613</u>	<u>\$ 645,645</u>
Fund equity:				
Unreserved fund balance	<u>157,527</u>	<u>150,656</u>	<u>436,715</u>	<u>744,898</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund equity	<u>\$517,559</u>	<u>\$150,656</u>	<u>\$722,328</u>	<u>\$1,390,543</u>

See Accompanying Independent Auditor's Report.

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2006

	<u>Schoolhouse</u>	<u>Management</u>	<u>Student Activity</u>
REVENUES:			
Local sources:			
Local tax	\$ -	\$274,963	\$ -
Other	2,152	6,007	421,902
State sources	-	231	-
Total revenues	<u>\$ 2,152</u>	<u>\$281,201</u>	<u>\$421,902</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	\$ -	\$145,295	\$ -
Other instruction	-	-	410,701
Support services:			
Operation and maintenance of plant service	-	65,992	-
Transportation services		15,836	-
Long term debt:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Other expenditures:			
Facilities acquisition	<u>78,706</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$ 78,706</u>	<u>\$227,123</u>	<u>\$410,701</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$(76,554)</u>	<u>\$ 54,078</u>	<u>\$ 11,201</u>
Other financing sources (uses):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$(76,554)</u>	<u>\$ 54,078</u>	<u>\$ 11,201</u>
Balance beginning of year	<u>76,554</u>	<u>103,449</u>	<u>139,455</u>
Balance end of year	<u><u>\$ -</u></u>	<u><u>\$157,527</u></u>	<u><u>\$150,656</u></u>

See Accompanying Independent Auditor's Report.

<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	<u>Total</u>
\$ 279,356	\$ -	\$ 554,319
16,691	-	446,752
234	-	465
<u>\$ 296,281</u>	<u>\$ -</u>	<u>\$1,001,536</u>
\$ -	\$ -	\$ 145,295
-	-	410,701
150	-	66,142
-	-	15,836
-	362,478	362,478
-	71,740	71,740
<u>72,836</u>	<u>-</u>	<u>151,542</u>
<u>\$ 72,986</u>	<u>\$ 434,218</u>	<u>\$1,223,734</u>
<u>\$ 223,295</u>	<u>\$(434,218)</u>	<u>\$ (222,198)</u>
\$ -	\$ 434,218	\$ 434,218
<u>(176,323)</u>	<u>-</u>	<u>(176,323)</u>
<u>\$ (176,323)</u>	<u>\$ 434,218</u>	<u>\$ 257,895</u>
\$ 46,972	\$ -	\$ 35,697
<u>389,743</u>	<u>-</u>	<u>709,201</u>
<u>\$ 436,715</u>	<u>\$ -</u>	<u>\$ 744,898</u>

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
Year ended June 30, 2006

<u>Account</u>	<u>Balance</u> <u>Beginning of year</u>	<u>Revenues</u>
Elementary School Activities:		
Playground	\$ 10,607	\$ -
Fayette attendance	1,021	654
Hawkeye attendance	1,557	160
West Union attendance	1,706	554
Interest	165	31
Middle School Activities:		
Athletics	3,609	712
Steering Committee	941	314
Micro Society	2,956	24
Science Club	175	-
Pop Machine	3,160	904
School Store	883	453
FRCYSE -at RISK	1,414	8
Mentoring	320	-
High School Activities:		
Athletics	69,421	104,089
Interest	1,997	1,955
Speech	186	351
Speech contest	2,186	18,519
Speech fall play	1,533	-
Vocal music	1,253	4,969
Musical	1,200	7,057
Band	3,723	2,294
Art club	283	1,210
Yearbook	1,471	15,941
BPA	451	14,764
FFA	6,302	41,219
FHA	272	1,508
Honor society	336	776
Student council	1,631	7,167
Shop & I tech	406	-
Math/science	368	6,301
Technology club	471	427
German	2,637	3,102
German bound	-	2,053
British	1,216	20,847
Spanish	1,432	1,213
Spanish bound	-	1,970
Cheerleading	1,262	8,725
Dance line	468	6,302
Class of:		
2005	1,350	-
2006	861	973
2007	248	5,969
2008	241	618
2009	-	508
Activity ticket	3,570	4,876
Graduation fees	-	5,815
STW - Enterprise	3,445	75,599
Mini Arts Festival	204	919
Post prom	986	3,645
	<u> </u>	<u> </u>
Total	<u>\$ 139,924</u>	<u>\$375,495</u>

See Accompanying Independent Auditor's Report.

<u>Expenditures</u>	<u>Intrafund Transfers</u>	<u>Balance End of year</u>
\$ -	\$ (4,323)	\$ 6,284
76	480	2,079
37	(249)	1,431
115	(749)	1,396
-	146	342
340	(2,708)	1,273
250	(218)	787
2,241	4,274	5,013
-	-	175
556	1,917	5,425
392	201	1,145
-	-	1,422
-	-	320
102,681	(3,547)	67,282
-	(2,500)	1,452
2,639	6,588	4,486
17,627	(3,078)	-
299	-	1,234
5,763	700	1,159
7,030	(20)	1,207
2,074	-	3,943
1,180	-	313
15,932	5,570	7,050
14,814	36	437
39,578	-	7,943
1,553	-	227
1,154	160	118
6,613	-	2,185
-	-	406
5,880	-	789
509	30	419
1,744	(404)	3,591
2,400	400	53
20,721	(83)	1,259
1,170	-	1,475
1,085	-	885
10,106	398	279
5,735	393	1,428
1,246	-	104
575	(12)	1,247
4,376	(21)	1,820
259	(10)	590
222	-	286
756	(2,088)	5,602
1,821	(3,276)	718
78,941	1,993	2,096
1,078	-	45
3,514	-	1,117
<u>\$ 365,082</u>	<u>\$ -</u>	<u>\$ 150,337</u>

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

	<u>Modified Accrual Basis</u>			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues:				
Local sources:				
Local tax	\$3,828,672	\$3,871,344	\$3,509,239	\$3,017,254
Tuition	178,189	168,181	211,671	218,357
Other	573,398	528,874	386,880	400,483
Intermediate sources	750	51,640	34,507	31,837
State sources	4,488,172	4,231,743	4,226,749	4,380,646
Federal sources	315,821	279,263	242,120	224,013
Total	<u>\$9,385,002</u>	<u>\$9,131,045</u>	<u>\$8,611,166</u>	<u>\$8,272,590</u>
Expenditures:				
Instruction:				
Regular instruction	\$3,737,695	\$3,786,343	\$4,041,208	\$3,866,487
Special instruction	1,020,967	869,707	849,384	839,138
Other instruction	1,114,113	933,325	826,454	786,979
Support services:				
Student services	272,124	224,712	213,058	205,997
Instructional staff services	230,290	256,867	270,129	249,890
Administration services	774,339	677,941	679,503	640,251
Operation and maintenance of plant services	715,398	776,970	694,658	742,441
Transportation services	396,250	401,072	319,469	381,888
Central support services	-	-	-	4,445
Other expenditures:				
Facilities acquisition	532,183	105,727	353,368	28,340
Long term debt:				
Principal	362,478	295,000	191,401	183,816
Interest and fiscal charges	71,740	134,404	39,425	47,820
AEA flowthrough	316,945	313,183	319,528	343,191
Total	<u>\$9,544,522</u>	<u>\$8,775,251</u>	<u>\$8,797,585</u>	<u>\$8,320,683</u>

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education of the
North Fayette 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 the North Fayette 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 October 13, 2006. 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 the 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 a certain matter involving the internal control over financial reporting and its operation that I consider to be a reportable condition. A reportable condition involves 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. The reportable condition is described in Part II 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, I believe the reportable condition described above, item II-A-06, is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Fayette Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 noncompliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance or other matters that are described in part IV 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 Fayette 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 us by personnel of the North Fayette 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.



October 13, 2006

NORTH FAYETTE COMMUNITY SCHOOL DISTRICT
Schedule of Findings
Year Ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements, which was a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITION:

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

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

Response - We will continue to review procedures and make changes to improve internal control where possible.

Conclusion - Response accepted.

Part III: Findings and Questioned Costs for Federal Awards:

Not applicable.

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-06 Certified Budget - Expenditures for the year ended June 30, 2006 did not exceed the amounts budgeted.
- IV-B-06 Questionable Expenditures - No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

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Part IV: Other Findings Related to Statutory Reporting: - continued

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

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Karen Michelson, board member	Substitute aide	\$ 556

This transaction may represent a conflict of interest.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

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

IV-F-06 Board Minutes - No transactions were found that I believe should have been approved in the Board minutes but were not.

IV-G-06 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-H-06 Deposits and Investments - 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 were noted.

IV-I-06 Certified Annual Report - The Certified Annual Report was certified to the Iowa Department of Education timely.

