

NORTH-LINN COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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NORTH-LINN COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2006

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
(Before September 2005 Election)		
Richard Balster	Board President	2007
Richard Bell	Board Member	2005
Douglas Winn	Board Member	2005
Dennis Price	Board Member	2006
Elizabeth Benesch	Board Member	2006
Michael L. Schatzle	Board Member	2006
James Meisheid	Board Member	2007
(After September 2005 Election)		
Richard Balster	Board Member	2007
Dennis Price	Board Member	2006
Elizabeth Benesch	Board Member	2006
Michael L. Schatzle	Board Member	2006
James Meisheid	Board Member	2007
Mark Waring	Board Member	2008
Douglas Winn	Board Member	2008
<b>School Officials</b>		
Larry Boer	Superintendent	2006
Joyce Miller	District Secretary/Treasurer	2006
Brian Gruhn	Attorney	2006

# KAY L. CHAPMAN, CPA PC

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

## Independent Auditor's Report

To the Board of Education  
North-Linn Community School District

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

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 North-Linn Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, I have also issued my report dated September 6, 2006 on my consideration of North-Linn Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 40 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North-Linn 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 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC  
September 6, 2006

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

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North-Linn 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 \$5,418,501 in fiscal 2005 to \$5,560,337 in fiscal 2006, while General Fund expenditures increased from \$5,338,923 in fiscal 2005 to \$5,703,444 in fiscal 2006. The District's General Fund balance decreased from \$749,174 in fiscal 2005 to \$606,067 in fiscal 2006, a 19% decrease.
- The increase in General fund revenue was attributable to an increase in state and tuition revenue in fiscal year 2006. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.

### **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-Linn 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-Linn 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-Linn Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

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

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

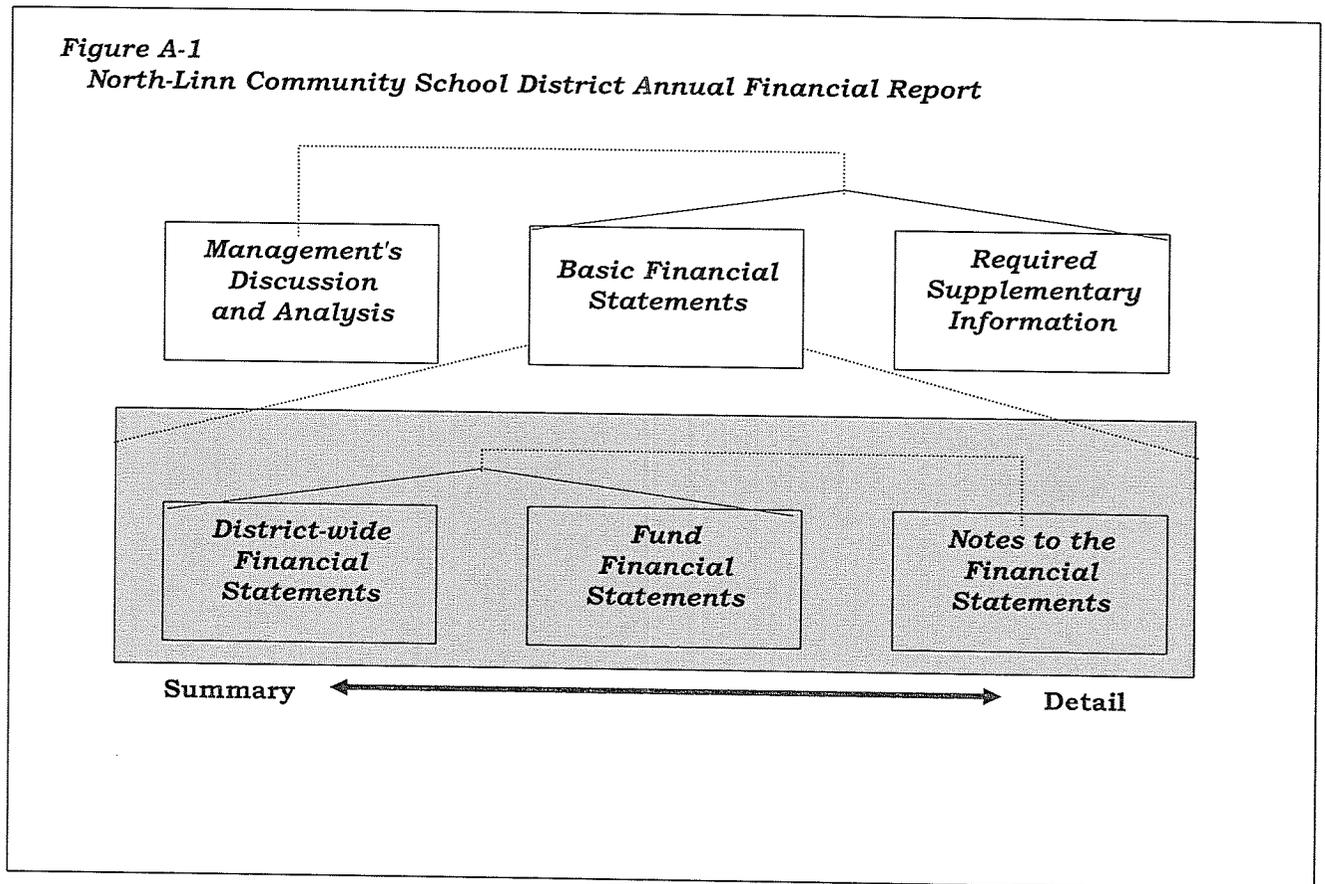


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

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

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

In the government-wide financial statements, the District's activities are divided into 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 and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations and activities of various student groups in this fund.
- Agency Fund – This is the fund through which the District administers and accounts for certain revenues and expenditures on behalf of other organizations.

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 includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Current and other assets	\$ 3,846,891	\$ 3,773,626	\$ 82,604	\$ 65,352	\$ 3,929,495	\$ 3,838,978	2.36%
Capital assets	<u>4,129,271</u>	<u>4,008,967</u>	<u>30,971</u>	<u>34,893</u>	<u>4,160,242</u>	<u>4,043,860</u>	2.88%
Total assets	<u>7,976,162</u>	<u>7,782,593</u>	<u>113,575</u>	<u>100,245</u>	<u>8,089,737</u>	<u>7,882,838</u>	2.62%
Long-term obligations	3,019,144	3,124,312	-	-	3,019,144	3,124,312	-3.37%
Other liabilities	<u>2,855,873</u>	<u>2,702,534</u>	<u>23,317</u>	<u>19,319</u>	<u>2,879,190</u>	<u>2,721,853</u>	5.78%
Total liabilities	<u>5,875,017</u>	<u>5,826,846</u>	<u>23,317</u>	<u>19,319</u>	<u>5,898,334</u>	<u>5,846,165</u>	0.89%
Net assets							
Invested in capital assets, net of related debt	1,274,271	928,967	30,971	34,893	1,305,242	963,860	35.42%
Restricted	329,800	308,901	-	-	329,800	308,901	6.77%
Unrestricted	<u>497,074</u>	<u>717,879</u>	<u>59,287</u>	<u>46,033</u>	<u>556,361</u>	<u>763,912</u>	-27.17%
Total net assets	<u>\$ 2,101,145</u>	<u>\$ 1,955,747</u>	<u>\$ 90,258</u>	<u>\$ 80,926</u>	<u>\$ 2,191,403</u>	<u>\$ 2,036,673</u>	7.60%

The District's combined net assets increased by approximately 8%, or \$154,730, from the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$20,899, or approximately 7% over the prior year. The increase was primarily a result of professional development funding from the state.

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 \$207,551, or approximately 27%. This decrease in unrestricted net assets was due to a reduction in general fund balance and increased early retirement payable. Figure A-4 shows the change in net assets for the year ended June 30, 2006.

Figure A-4  
Change in Net Assets

	Governmental Activities		Business Type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues							
Program revenues							
Charges for service and sales	\$ 486,690	\$ 538,362	\$ 197,777	\$ 194,853	\$ 684,467	\$ 733,215	-6.65%
Operating grants	592,995	551,460	105,877	103,232	698,872	654,692	6.75%
General revenues							
Property tax	2,171,664	2,269,536	-	-	2,171,664	2,269,536	-4.31%
Local option sales and service tax	94,937	93,182	-	-	94,937	93,182	1.88%
Unrestricted state grants	3,019,767	2,839,022	-	-	3,019,767	2,839,022	6.37%
Unrestricted investment earnings	32,547	10,909	786	294	33,333	11,203	197.54%
Contributions and donations	3,101	-	-	-	3,101	-	0.00%
Sale of materials	1,104	-	-	-	1,104	-	0.00%
Other	10,136	8,638	-	-	10,136	8,638	17.34%
Gain on sale of real estate	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	0.00%
Total revenues	<u>6,427,941</u>	<u>6,311,109</u>	<u>304,440</u>	<u>298,379</u>	<u>6,732,381</u>	<u>6,609,488</u>	1.86%
Program expenses							
Governmental activities							
Instruction	4,037,147	3,630,147	-	-	4,037,147	3,630,147	11.21%
Support services	1,800,390	1,672,010	-	-	1,800,390	1,672,010	7.68%
Non-instructional programs	-	-	295,108	291,467	295,108	291,467	1.25%
Other expenses	<u>445,006</u>	<u>532,438</u>	<u>-</u>	<u>-</u>	<u>445,006</u>	<u>532,438</u>	-16.42%
Total expenses	<u>6,282,543</u>	<u>5,834,595</u>	<u>295,108</u>	<u>291,467</u>	<u>6,577,651</u>	<u>6,126,062</u>	7.37%
Change in net assets	<u>\$ 145,398</u>	<u>\$ 476,514</u>	<u>\$ 9,332</u>	<u>\$ 6,912</u>	<u>\$ 154,730</u>	<u>\$ 483,426</u>	-67.99%

In fiscal 2006, property tax and unrestricted state grants account for approximately 81% of the revenue from governmental activities while charges for

service and sales and operating grants and contributions account for 99.7% of the revenue from business type activities.

The District's total revenues were \$6,732,381 of which \$6,427,941 was for governmental activities and \$304,440 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 1.86% increase in revenues and a 7.37% increase in expenses. Investment earnings increased \$21,638 as a result of competitive bidding between banking institutions both within the North-Linn District and in nearby communities. The increase in expenses is related to negotiated salary and benefits.

### Governmental Activities

Revenues for governmental activities were \$6,427,941 and expenses were \$6,282,543. In this budget year a staff reduction was made to offset the revenue loss due to declining enrollment; however we were unable to fully offset the loss of revenue due to negotiated salary and benefits. District management team will continue to monitor fluctuations in enrollment and adjust accordingly.

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

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2006	2005	Change 2005-2006	2006	2005	Change 2005-2006
Instruction	\$ 4,037,147	\$ 3,630,147	11.2%	\$ 3,191,732	\$ 2,770,038	15.2%
Support services	1,800,390	1,672,010	7.7%	1,785,461	1,659,776	7.6%
Non-instructional programs	-	-	0.0%	-	-	0.0%
Other expenses	<u>445,006</u>	<u>532,438</u>	-16.4%	<u>225,665</u>	<u>314,959</u>	-28.4%
Total expenses	<u>\$ 6,282,543</u>	<u>\$ 5,834,595</u>	7.7%	<u>\$ 5,202,858</u>	<u>\$ 4,744,773</u>	9.7%

- The cost financed by users of the District's programs was \$486,690.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$592,995.
- The net cost of governmental activities was financed with \$2,266,601 in property taxes and \$3,019,767 in unrestricted state grants.

### Business Type Activities

Revenues for business type activities were \$304,440, representing a 2% increase over the prior year while expenses were \$295,108, a 1.2% increase over the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2006, the School Nutrition Fund was able to maintain a balanced budget, due to careful planning by the Food Service Director.

## **INDIVIDUAL FUND ANALYSIS**

As previously noted, North-Linn 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 \$998,866, below last year's ending fund balances of \$1,073,033. The combined fund balance decreased, but the loss was offset by a modest increase in the non-major governmental funds. The ending combined fund balance decreased primarily due to declining enrollment and negotiated salary and benefits.

### **Governmental Fund Highlights**

- The District's deteriorating General Fund financial position is a result of declining enrollment and negotiated salary and benefits.
- The General Fund balance decreased from \$749,174 to \$606,067 due to increased instructional and energy costs.
- **Proprietary Fund Highlights**

Enterprise Fund net assets increased from \$80,926 at June 30, 2005 to \$90,258 at June 30, 2006, representing an increase of approximately 11.5%. The increase was due to increased student lunch prices generating additional revenue.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, North-Linn Community School District amended its annual budget one time to reflect additional expenditures associated with increases in fuel, utilities and maintenance costs.

The District's receipts were \$97,804 more than budgeted receipts, a variance of 1.5%. A conservative approach is taken during the development of revenue projections, which increases the possibility of exceeding estimated budgeted revenues.

Total expenditures were \$481,786 less than budgeted, due primarily to the District's conservative approach to budgeting.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$4,160,242, 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 approximately 3% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$198,091.

The original cost of the District's capital assets was \$7,706,203. Governmental funds account for \$7,630,075, with the remainder of \$76,128 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category due to the addition of a wrestling practice facility.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-2006
Land	\$ 30,487	\$ 30,487	\$ -	\$ -	\$ 30,487	\$ 30,487	0.00%
Construction in progress	130,196	-	-	-	130,196	-	100.00%
Buildings and improvements	3,572,709	3,656,382	-	-	3,572,709	3,656,382	-2.29%
Improvements, other than buildings	193,928	197,398	-	-	193,928	197,398	-1.76%
Furniture and equipment	<u>201,951</u>	<u>124,700</u>	<u>30,971</u>	<u>34,893</u>	<u>232,922</u>	<u>159,593</u>	45.95%
Totals	<u>\$4,129,271</u>	<u>\$4,008,967</u>	<u>\$30,971</u>	<u>\$34,893</u>	<u>\$4,160,242</u>	<u>\$4,043,860</u>	2.88%

**Long-Term Debt**

At June 30, 2006, the District had \$3,019,144 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 3% from last year. (See Figure A-7). Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The decrease in long-term debt was a result of payment on principal of the District's general obligation bonds.

The decrease in early retirement payable was due to personnel not electing to participate in the early retirement program for certified staff.

Figure A-7

Outstanding Long-term Obligations

	Total School District		Total Change
	2006	2005	2005-2006
General obligation bonds	\$ 2,855,000	\$ 3,080,000	-7.31%
Early retirement	<u>164,144</u>	<u>44,312</u>	270.43%
Total	<u>\$ 3,019,144</u>	<u>\$ 3,124,312</u>	-3.37%

## **ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

- The overall projection of a declining enrollment trend will affect the District's budgetary abilities, and result in lower revenues received from state funding.
- The District will negotiate a new agreement with the North-Linn Education Association during fiscal year 2007. Negotiated salary and benefits in excess of "new money" or allowable growth in state funding will have an adverse affect on the District's General Fund budget and related fund balance.

## **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 Joyce Miller, District Secretary/Treasurer and Business Manager, North-Linn Community School District, 3033 Lynx Drive, P.O. Box 200, Troy Mills, Iowa 52344.

## Basic Financial Statements

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

Exhibit A

	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,455,574	\$ 68,390	\$ 1,523,964
Receivables			
Property tax			
Delinquent	41,159	-	41,159
Succeeding year	2,211,420	-	2,211,420
Accrued interest	5,319	-	5,319
Accounts receivable	2,632	-	2,632
Due from other governments	128,887	7,751	136,638
Prepays	1,900	-	1,900
Inventories	-	6,463	6,463
Capital assets, net of accumulated depreciation	4,129,271	30,971	4,160,242
Total assets	7,976,162	113,575	8,089,737
<b>LIABILITIES</b>			
Accounts payable	187,966	2,316	190,282
Salaries and benefits payable	448,639	18,714	467,353
Accrued interest payable	7,848	-	7,848
Deferred revenue - succeeding year property tax	2,211,420	-	2,211,420
Deferred revenue - other	-	2,287	2,287
Long-term liabilities		-	
Portion due within one year			
Bonds payable	225,000	-	225,000
Early retirement payable	20,389	-	20,389
Portion due after one year			
Bonds payable	2,630,000	-	2,630,000
Early retirement payable	143,755	-	143,755
Total liabilities	5,875,017	23,317	5,898,334

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

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

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 1,274,271	\$ 30,971	\$ 1,305,242
Restricted for			
Capital projects	99,786	-	99,786
Debt service	11,762	-	11,762
Physical plant and equipment levy	105,873	-	105,873
Other special revenue purposes	112,379	-	112,379
Unrestricted	<u>497,074</u>	<u>59,287</u>	<u>556,361</u>
Total net assets	<u>\$ 2,101,145</u>	<u>\$ 90,258</u>	<u>\$ 2,191,403</u>

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

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

Exhibit B

<u>Functions/Programs</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Governmental activities						
Instruction						
Regular instruction	\$ 2,921,012	\$ 397,302	\$ 264,307	\$(2,259,403)	\$ -	\$(2,259,403)
Special instruction	696,405	74,459	96,104	(525,842)	-	(525,842)
Other instruction	419,730	-	13,243	(406,487)	-	(406,487)
	<u>4,037,147</u>	<u>471,761</u>	<u>373,654</u>	<u>(3,191,732)</u>	<u>-</u>	<u>(3,191,732)</u>
Support services						
Student services	121,449	-	-	(121,449)	-	(121,449)
Instructional staff services	201,581	-	-	(201,581)	-	(201,581)
Administration services	606,137	-	-	(606,137)	-	(606,137)
Operation and maintenance of plant services	563,019	-	-	(563,019)	-	(563,019)
Transportation services	308,204	14,929	-	(293,275)	-	(293,275)
Central support services	-	-	-	-	-	-
	<u>1,800,390</u>	<u>14,929</u>	<u>-</u>	<u>(1,785,461)</u>	<u>-</u>	<u>(1,785,461)</u>
Other expenditures						
Facilities acquisition	-	-	-	-	-	-
Long-term debt interest	107,237	-	-	(107,237)	-	(107,237)
AEA flowthrough	219,341	-	219,341	-	-	-
Depreciation (unallocated)*	118,428	-	-	(118,428)	-	(118,428)
	<u>445,006</u>	<u>-</u>	<u>219,341</u>	<u>(225,665)</u>	<u>-</u>	<u>(225,665)</u>
Total governmental activities	<u>6,282,543</u>	<u>486,690</u>	<u>592,995</u>	<u>(5,202,858)</u>	<u>-</u>	<u>(5,202,858)</u>

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

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

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Business Type Activities Total
<b>Functions/Programs (continued)</b>				
Business type activities				
Non-instructional programs				
Food service operations	\$ 295,108	\$ 197,777	\$ -	\$ 8,546
Total	<u>\$ 6,577,651</u>	<u>\$ 698,872</u>	<u>\$ -</u>	<u>\$ (5,194,312)</u>
<b>General Revenues</b>				
Property tax levied for				
General purposes				1,705,812
Debt service				325,544
Capital outlay				140,308
Local option sales and service tax				94,937
Unrestricted state grants				3,019,767
Unrestricted investment earnings				32,547
Contributions and donations				3,101
Sale of materials				1,104
Other				10,136
Total general revenues				<u>5,333,256</u>
Special item				786
Gain on sale of real estate				-
Total general revenues and special item				<u>5,348,256</u>
Change in net assets				9,332
Net assets, beginning of year				80,926
Net assets, end of year				<u>\$ 2,101,145</u>
				<u>\$ 2,191,403</u>

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

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

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

Exhibit C

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments	\$ 1,058,552	\$ 397,022	\$ 1,455,574
Receivables			
Property tax			
Delinquent	29,907	11,252	41,159
Succeeding year	1,568,341	643,079	2,211,420
Accounts receivable	1,192	1,440	2,632
Accrued interest	4,630	689	5,319
Prepaid expenses	1,900	-	1,900
Due from other governments	104,609	24,278	128,887
Total assets and other debits	<u>\$ 2,769,131</u>	<u>\$ 1,077,760</u>	<u>\$ 3,846,891</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
Liabilities			
Accounts payable	\$ 146,084	\$ 41,882	\$ 187,966
Salaries and benefits payable	448,639	-	448,639
Deferred revenue - Succeeding year property tax	1,568,341	643,079	2,211,420
Total liabilities	<u>2,163,064</u>	<u>684,961</u>	<u>2,848,025</u>
 Fund balances			
Reserved for			
Debt service	-	19,610	19,610
Unreserved			
Special revenue	-	273,403	273,403
Capital projects	-	99,786	99,786
Other governmental	606,067	-	606,067
Total fund balances	<u>606,067</u>	<u>392,799</u>	<u>998,866</u>
Total liabilities and fund balances	<u>\$ 2,769,131</u>	<u>\$ 1,077,760</u>	<u>\$ 3,846,891</u>

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

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

Exhibit D

Total fund balances of governmental funds	\$ 998,866
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.	4,129,271
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.	(7,848)
Long-term liabilities, including early retirement and bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(3,019,144)</u>
Net assets of governmental activities	<u>\$ 2,101,145</u>

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

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

Exhibit E

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Local sources			
Local tax	\$ 1,718,481	\$ 687,948	\$ 2,406,429
Tuition	292,486	-	292,486
Other	77,125	161,696	238,821
State sources	3,325,441	2,708	3,328,149
Federal sources	146,804	-	146,804
Total revenues	<u>5,560,337</u>	<u>852,352</u>	<u>6,412,689</u>
Expenditures			
Current			
Instruction			
Regular instruction	2,610,017	181,563	2,791,580
Special instruction	704,901	-	704,901
Other instruction	425,199	-	425,199
	<u>3,740,117</u>	<u>181,563</u>	<u>3,921,680</u>
Support services			
Student services	128,534	-	128,534
Instructional staff services	191,175	8,635	199,810
Administration services	598,891	7,246	606,137
Operation and maintenance of plant services	528,768	72,471	601,239
Transportation services	296,618	55,150	351,768
	<u>1,743,986</u>	<u>143,502</u>	<u>1,887,488</u>
Other expenditures			
Facilities acquisition	-	147,017	147,017
Long-term debt			
Principal	-	225,000	225,000
Interest and fiscal charges	-	101,330	101,330
AEA flowthrough	219,341	-	219,341
	<u>219,341</u>	<u>473,347</u>	<u>692,688</u>
Total expenditures	<u>5,703,444</u>	<u>798,412</u>	<u>6,501,856</u>
Excess (deficiency) of revenues over (under) expenditures	(143,107)	53,940	(89,167)
Other financing sources			
Proceeds from sale of real estate	-	15,000	15,000
Net change in fund balances	(143,107)	68,940	(74,167)
Fund balance, beginning of year	749,174	323,859	1,073,033
Fund balance, end of year	<u>\$ 606,067</u>	<u>\$ 392,799</u>	<u>\$ 998,866</u>

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

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

Exhibit F

Net change in fund balances - total governmental funds \$ (74,167)

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

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

Capital outlay	\$ 322,719	
Depreciation expense	<u>(202,415)</u>	120,304

Repayment of long-term debt principal is an expenditure in the governmental  
 funds, but it reduces long-term liabilities in the Statement of Net Assets. 225,000

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

Early retirement	(119,832)
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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. (5,907)

Change in net assets of governmental activities	<u>\$ 145,398</u>
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See notes to financial statements and Independent Auditor's Report.

NORTH-LINN COMMUNITY SCHOOL DISTRICT  
Statement of Net Assets  
Proprietary Fund  
June 30, 2006

Exhibit G

	<u>School Nutrition</u>
<b>ASSETS</b>	
Cash and pooled investments	\$ 68,390
Due from other governments	7,751
Inventories	6,463
Capital assets, net of accumulated depreciation	<u>30,971</u>
Total assets	<u>113,575</u>
 <b>LIABILITIES</b>	
Accounts payable	2,316
Salaries and benefits payable	18,714
Deferred revenue	<u>2,287</u>
Total liabilities	<u>23,317</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	30,971
Unrestricted	<u>59,287</u>
Total net assets	<u>\$ 90,258</u>

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

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

Exhibit H

	<u>School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 197,777</u>
Operating expenses	
Non-instructional programs	
Salaries	117,606
Benefits	15,859
Purchased services	1,549
Supplies	154,207
Depreciation	<u>5,887</u>
Total operating expenses	<u>295,108</u>
Operating loss	<u>(97,331)</u>
Non-operating revenue	
Interest income	786
State sources	4,174
Federal sources	<u>101,703</u>
Total non-operating revenue	<u>106,663</u>
Net income	9,332
Net assets, beginning of year	<u>80,926</u>
Net assets, end of year	<u><u>\$ 90,258</u></u>

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

NORTH-LINN COMMUNITY SCHOOL DISTRICT  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended June 30, 2006

Exhibit I

	<u>School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 199,052
Cash payments to employees for services	(132,893)
Cash payments to suppliers for goods and services	<u>(140,387)</u>
Net cash used in operating activities	<u>(74,228)</u>
Cash flows from non-capital financing activities	
State grants received	4,174
Federal grants received	<u>81,008</u>
Net cash provided by non-capital financing activities	<u>85,182</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(1,964)</u>
Cash flows from investing activities	
Interest on investments	<u>786</u>
Net increase in cash and cash equivalents	9,776
Cash and cash equivalents, beginning of year	<u>58,614</u>
Cash and cash equivalents, end of year	<u>\$ 68,390</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>	
Operating loss	\$ (97,331)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	5,887
Commodities used	12,944
Decrease in inventories	275
Increase in accounts payable	2,148
Increase in deferred revenue	1,278
Increase in salaries and benefits payable	<u>571</u>
Net cash used in operating activities	<u>\$ (74,228)</u>

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

During the year ended June 30, 2006, the District received \$12,944 of federal commodities.

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

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

Exhibit J

	<u>Private Purpose Trust</u>	
	<u>Scholarships</u>	<u>Agency</u>
<b>Assets</b>		
Cash and pooled investments	\$ 15,008	\$ 6,133
<b>Liabilities</b>		
Accounts payable	<u>          -</u>	<u>      6,133</u>
<b>Net assets</b>		
Reserved for scholarships	<u>\$ 15,008</u>	<u>      \$ -</u>

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

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

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 408
Deductions	
Instruction	
Purchased services	<u>2,000</u>
Change in net assets	(1,592)
Net assets, beginning of year, as adjusted	<u>16,600</u>
Net assets, end of year	<u>\$ 15,008</u>

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

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

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

The North-Linn 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. The geographic area served includes the City of Walker, portions of Troy Mills and Coggon, Iowa, and the agricultural territory in Benton, Buchanan, Delaware and Linn 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-Linn 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-Linn 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 County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental fund:

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

The 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.

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 various student groups.

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

### C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted nor did the District exceed its General Fund unspent authorized budget.

#### **Note 2. Cash and Pooled Investments**

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

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

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

### Note 3. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 30,487	\$ -	\$ -	\$ 30,487
Construction in progress	-	130,196	-	130,196
Total capital assets not being depreciated	<u>30,487</u>	<u>130,196</u>	<u>-</u>	<u>160,683</u>
Capital assets being depreciated:				
Buildings and improvements	5,622,015	37,863	(3,800)	5,656,078
Improvements other than buildings	488,841	30,523	-	519,364
Furniture and equipment	<u>1,193,713</u>	<u>124,137</u>	<u>(23,900)</u>	<u>1,293,950</u>
Total capital assets being depreciated	<u>7,304,569</u>	<u>192,523</u>	<u>(27,700)</u>	<u>7,469,392</u>
Less accumulated depreciation for:				
Buildings and improvements	1,982,009	105,160	(3,800)	2,083,369
Improvements other than buildings	307,238	18,198	-	325,436
Furniture and equipment	<u>1,047,053</u>	<u>68,846</u>	<u>(23,900)</u>	<u>1,091,999</u>
Total accumulated depreciation	<u>3,336,300</u>	<u>192,204</u>	<u>(27,700)</u>	<u>3,500,804</u>
Total capital assets being depreciated, net	<u>3,968,269</u>	<u>319</u>	<u>-</u>	<u>3,968,588</u>
Governmental activities capital assets, net	<u>\$ 3,998,756</u>	<u>\$ 130,515</u>	<u>\$ -</u>	<u>\$ 4,129,271</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 74,164	\$ 1,964	\$ -	\$ 76,128
Less accumulated depreciation	<u>39,270</u>	<u>5,887</u>	<u>-</u>	<u>45,157</u>
Business type activities capital assets, net	<u>\$ 34,894</u>	<u>\$ (3,923)</u>	<u>\$ -</u>	<u>\$ 30,971</u>

Depreciation expense was charged to the following functions:

#### Governmental activities

Instruction	
Regular	\$ 5,275
Special	2,832
Other	2,286
Support services	
Instructional staff support	1,771
Operation and maintenance of plant	22,901
Transportation	38,711
Unallocated depreciation	<u>118,428</u>
Total governmental activities depreciation expense	<u>\$ 192,204</u>

#### Business type activities

Food services	<u>\$ 5,887</u>
---------------	-----------------

#### Note 4. 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	\$ 3,080,000	\$ -	\$(225,000)	\$ 2,855,000	\$ 225,000
Early retirement	<u>44,312</u>	<u>140,220</u>	<u>(20,388)</u>	<u>164,144</u>	<u>20,389</u>
Total	<u>\$ 3,124,312</u>	<u>\$ 140,220</u>	<u>\$(245,388)</u>	<u>\$ 3,019,144</u>	<u>\$ 245,389</u>

#### Early Retirement

The District offers a voluntary early retirement plan to its licensed employees, administrators and board secretary. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed twenty years of consecutive service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. The early retirement incentive for each eligible employee was equal to 1/3 of the employee's contracted teaching salary, contracted extra-curricular salary, Phase II, Teacher Quality and monthly allocation for Health Insurance participation for the year prior to taking early retirement. In addition to the cash payment, the retiree will receive \$400.00 per month deposited into a Health Reimbursement Account to be used for eligible medical expenses as defined by IRS Code 213. Employees will receive early retirement benefits in a single payment on January 20<sup>th</sup> of the year following separation from the District. Early retirement benefits paid during the year ended June 30, 2006 totaled \$20,388.

#### Bonds Payable

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

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 225,000	\$ 94,180	\$ 319,180
2008	235,000	87,430	322,430
2009	240,000	80,380	320,380
2010	255,000	73,180	328,180
2011	260,000	65,275	325,275
2012	270,000	56,955	326,955
2013	280,000	48,180	328,180
2014	290,000	38,800	328,800
2015	300,000	28,940	328,940
2016	310,000	18,440	328,440
2017	<u>190,000</u>	<u>7,125</u>	<u>197,125</u>
Total	<u>\$ 2,855,000</u>	<u>\$ 598,885</u>	<u>\$ 3,453,885</u>

#### **Note 5. Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$207,642, \$198,933 and \$196,977 respectively, equal to the required contributions for each year.

#### **Note 6. Risk Management**

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

#### **Note 7. 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 \$219,341 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.

#### **Note 8. Balance Correction**

During the year ended June 30, 2006, the District realized that \$13,717 should be reported in the Agency Fund rather than the Trust Fund. Therefore, the beginning balances were adjusted accordingly; an increase to the Agency Fund and a decrease to the Trust Fund.

Required Supplementary Information

NORTH-LINN COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule of Receipts, Disbursements  
 and Changes in Balances - Budget and Actual (Cash Basis)  
 All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts Original	Final	Final to Actual Variance
Receipts						
Local sources	\$ 2,922,682	\$ 199,838	\$ 3,122,520	\$ 3,054,145	\$ 3,054,145	\$ 68,375
State sources	3,311,564	4,174	3,315,738	3,302,676	3,302,676	13,062
Federal sources	140,359	81,008	221,367	205,000	205,000	16,367
Total receipts	<u>6,374,605</u>	<u>285,020</u>	<u>6,659,625</u>	<u>6,561,821</u>	<u>6,561,821</u>	<u>97,804</u>
Disbursements						
Instruction	3,903,605	-	3,903,605	4,160,786	4,160,786	257,181
Support services	1,849,051	-	1,849,051	1,770,735	1,890,735	41,684
Non-instructional programs	-	275,244	275,244	306,600	306,600	31,356
Other expenditures	662,334	-	662,334	813,899	813,899	151,565
Total disbursements	<u>6,414,990</u>	<u>275,244</u>	<u>6,690,234</u>	<u>7,052,020</u>	<u>7,172,020</u>	<u>481,786</u>
Excess (deficiency) of receipts						
over (under) disbursements	(40,385)	9,776	(30,609)	(490,199)	(610,199)	579,590
Other financing sources	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>(15,000)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(25,385)	9,776	(15,609)	(490,199)	(610,199)	564,590
Balance, beginning of year	<u>1,480,959</u>	<u>58,614</u>	<u>1,539,573</u>	<u>1,360,434</u>	<u>1,360,434</u>	<u>179,139</u>
Balance, end of year	<u>\$ 1,455,574</u>	<u>\$ 68,390</u>	<u>\$ 1,523,964</u>	<u>\$ 870,235</u>	<u>\$ 750,235</u>	<u>\$ 743,729</u>

See accompanying Independent Auditor's Report.

NORTH-LINN COMMUNITY SCHOOL DISTRICT  
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation  
 Required Supplementary Information  
 For the Year Ended June 30, 2006

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 6,374,605	\$ 38,084	\$ 6,412,689
Expenditures	6,414,990	86,866	6,501,856
Net	(40,385)	(48,782)	(89,167)
Other financing sources	15,000	-	15,000
Beginning fund balances	1,480,959	(407,926)	1,073,033
Ending fund balances	\$ 1,455,574	\$ (456,708)	\$ 998,866

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 285,020	\$ 19,420	\$ 304,440
Expenditures	275,244	19,864	295,108
Net	9,776	(444)	9,332
Beginning fund balances	58,614	22,312	80,926
Ending fund balances	\$ 68,390	\$ 21,868	\$ 90,258

See accompanying Independent Auditor's Report.

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

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

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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$120,000.

During the year ended June 30, 2006, District disbursements did not exceed the amounts budgeted, nor was the General Fund unspent authorized budget exceeded.

## Other Supplementary Information

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

Schedule 1

	Special Revenue					
	Student Activity	Management	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
<b>ASSETS</b>						
Cash and pooled investments	\$ 111,584	\$ 53,266	\$ 121,824	\$ 96,920	\$ 13,428	\$ 397,022
Receivables						
Property tax						
Delinquent	-	2,424	2,658	-	6,170	11,252
Succeeding year	-	180,429	143,470	-	319,180	643,079
Accounts receivable	1,440	-	-	-	-	1,440
Accrued interest	137	78	149	313	12	689
Due from other governments	-	-	-	24,278	-	24,278
Total assets	<u>\$ 113,161</u>	<u>\$ 236,197</u>	<u>\$ 268,101</u>	<u>\$ 121,511</u>	<u>\$ 338,790</u>	<u>\$ 1,077,760</u>

**LIABILITIES AND FUND BALANCES**

Liabilities						
Accounts payable	\$ 782	\$ 617	\$ 18,758	\$ 21,725	\$ -	\$ 41,882
Deferred revenue						
Succeeding year property tax	-	180,429	143,470	-	319,180	643,079
Total liabilities	<u>782</u>	<u>181,046</u>	<u>162,228</u>	<u>21,725</u>	<u>319,180</u>	<u>684,961</u>
Fund balances						
Reserved for debt service	-	-	-	-	19,610	19,610
Unreserved fund balances	112,379	55,151	105,873	99,786	-	373,189
Total fund balances	<u>112,379</u>	<u>55,151</u>	<u>105,873</u>	<u>99,786</u>	<u>19,610</u>	<u>392,799</u>
Total liabilities and fund balances	<u>\$ 113,161</u>	<u>\$ 236,197</u>	<u>\$ 268,101</u>	<u>\$ 121,511</u>	<u>\$ 338,790</u>	<u>\$ 1,077,760</u>

See accompanying Independent Auditor's Report.

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

Schedule 2

	Special Revenue					Total
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	
Revenues						
Local sources						
Local taxes	\$ -	\$ 127,821	\$ 140,184	\$ 94,686	\$ 325,257	\$ 687,948
Other	148,312	4,970	626	2,592	5,196	161,696
State sources	-	28	123	2,270	287	2,708
Total revenues	148,312	132,819	140,933	99,548	330,740	852,352
Expenditures						
Current						
Instruction						
Regular program instruction	147,624	33,939	-	-	-	181,563
Support services						
Instructional staff support services	-	-	8,635	-	-	8,635
Administration services	-	2,246	5,000	-	-	7,246
Operation and maintenance of plant services	-	72,471	-	-	-	72,471
Transportation services	-	-	55,150	-	-	55,150

See accompanying Independent Auditor's Report.

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

	Special Revenue					
	Student Activity	Management Levy	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Total
Expenditures (continued)						
Other expenditures						
Facilities acquisition and construction	\$ -	\$ -	\$ 29,436	\$ 117,581	\$ -	\$ 147,017
Long-term debt						
Principal	-	-	-	-	225,000	225,000
Interest and fiscal charges	-	-	-	-	101,330	101,330
Total expenditures	147,624	108,656	98,221	117,581	326,330	798,412
Excess (deficiency) of revenues over (under) expenditures	688	24,163	42,712	(18,033)	4,410	53,940
Other financing sources						
Proceeds from sale of real estate	-	-	15,000	-	-	15,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures	688	24,163	57,712	(18,033)	4,410	68,940
Fund balances, beginning of year	111,691	30,988	48,161	117,819	15,200	323,859
Fund balances, end of year	\$ 112,379	\$ 55,151	\$ 105,873	\$ 99,786	\$ 19,610	\$ 392,799

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Track	\$ (109)	\$ 1,975	\$ 1,139	\$ 727
Golf	676	26	226	476
Boys' basketball	1,840	5,557	5,038	2,359
Football	3,488	8,515	8,655	3,348
Baseball	1,957	3,073	2,800	2,230
Wrestling	7,459	8,765	13,550	2,674
Girls' basketball	1,955	6,260	5,862	2,353
Volleyball	1,420	2,260	1,797	1,883
Softball	1,626	2,299	545	3,380
Class of:				
2006	2,103	79	2,107	75
2007	80	5,390	2,399	3,071
Speech	33	112	205	(60)
Vocal music	2,770	3,726	3,229	3,267
Instrumental music	(66)	205	98	41
Wellness	28	-	-	28
Entrepreneurship	523	377	390	510
Publication	6,819	8,531	4,970	10,380
Cheerleaders	566	-	209	357
Pom pom squad	171	-	85	86
Peer groups	581	-	-	581
National Honor Society	1,294	850	1,669	475
High school student council	12,613	6,344	9,201	9,756
FFA	5,283	37,789	38,001	5,071
FCCLA	589	117	143	563
Vending machines	134	-	60	74
Journalism	8	-	8	-
Mills Br. Scholarship	1,000	25	100	925
Weight room	62	-	-	62
Middle school student council	26,349	24,312	25,104	25,557

See accompanying Independent Auditor's Report.

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

Schedule 3

Account	Balance, End of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
FBLA	\$ 1,697	\$ 3,915	\$ 4,665	\$ 947
Junior Honor Society	535	222	318	439
Coggon store	788	1,731	1,533	986
Walker store	1,270	2,230	1,853	1,647
School pictures	7,882	543	907	7,518
Now interest	6,319	1,666	1,500	6,485
Recycling program - Coggon	5,052	8,007	6,046	7,013
Recycling program - Walker	1,551	3,286	3,012	1,825
McKinley Scholarship	<u>5,345</u>	<u>125</u>	<u>200</u>	<u>5,270</u>
Totals	<u>\$ 111,691</u>	<u>\$ 148,312</u>	<u>\$ 147,624</u>	<u>\$ 112,379</u>

See accompanying Independent Auditor's Report.

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

Schedule 4

	Balance, Beginning of Year, <u>as Adjusted</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of Year
Assets				
Cash	<u>\$ 13,220</u>	<u>\$ 9,203</u>	<u>\$ 16,290</u>	<u>\$ 6,133</u>
Liabilities				
Due to others	<u>\$ 13,220</u>	<u>\$ 9,203</u>	<u>\$ 16,290</u>	<u>\$ 6,133</u>

See accompanying Independent Auditor's Report.

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

Schedule 5

	Modified Accrual Basis			
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues				
Local sources				
Local tax	\$ 2,406,429	\$ 2,356,926	\$ 2,318,829	\$ 2,292,171
Tuition	292,486	237,936	198,987	112,710
Other	238,821	319,973	252,767	309,112
State sources	3,328,149	3,268,618	3,050,813	3,005,028
Federal sources	146,804	127,656	146,379	132,990
Total revenues	<u>\$ 6,412,689</u>	<u>\$ 6,311,109</u>	<u>\$ 5,967,775</u>	<u>\$ 5,852,011</u>
Expenditures				
Instruction				
Regular instruction	2,791,580	2,461,292	2,534,032	2,413,359
Special instruction	704,901	639,555	754,462	572,333
Other instruction	425,199	641,595	475,431	443,505
Support services				
Student services	128,534	123,198	115,550	113,959
Instructional staff services	199,810	232,046	186,579	183,059
Administration services	606,137	549,813	541,624	539,400
Operation and maintenance of plant services	601,239	592,889	506,464	497,976
Transportation services	351,768	258,706	219,151	251,575
Central support services	-	-	300	-
Other expenditures				
Facilities acquisition	147,017	91,831	131,972	135,079
Long-term debt				
Principal	225,000	215,000	195,000	155,000
Interest and other charges	101,330	107,780	124,574	169,182
AEA flowthrough	219,341	217,479	214,176	222,982
Total expenditures	<u>\$ 6,501,856</u>	<u>\$ 6,131,184</u>	<u>\$ 5,999,315</u>	<u>\$ 5,697,409</u>

See accompanying Independent Auditor's Report.

# KAY L. CHAPMAN, CPA PC

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

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

To the Board of Education  
North-Linn Community School District

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of North-Linn 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 September 6, 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 North-Linn Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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

## Compliance and Other Matters

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

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

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

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



Kay L. Chapman, CPA PC  
September 6, 2006

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

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

INSTANCES OF NON-COMPLIANCE

No matters were noted.

REPORTABLE CONDITIONS

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

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

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

Conclusion - Response accepted.

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

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

1. Certified Budget - Disbursements for the year ended June 30, 2005 did not exceed the amounts budgeted.
2. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. 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.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. 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.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
9. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

NORTH-LINN COMMUNITY SCHOOL DISTRICT  
Audit Staff  
June 30, 2006

This audit was performed by

Kay Chapman, CPA  
Tammy Calvert, staff accountant