



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____ October 27, 2006

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Auditor of State David A. Vaudt today released an audit report on Clarke Community School District in Osceola, Iowa.

The District's revenues totaled \$13,060,959 for the year ended June 30, 2006, a 3% increase over 2005. The revenues included \$3,528,061 in local tax, \$660,944 in local option sales and services tax, \$177,150 in income surtax, charges for service of \$1,167,593, operating grants, contributions and restricted interest of \$1,725,871, capital grants, contributions and restricted interest of \$59,876, unrestricted investment earnings of \$90,240, unrestricted grants of \$5,615,418 and other general revenues of \$35,806.

Expenses for District operations totaled \$12,288,647, a 4% increase over the prior year, and included \$4,406,960 for regular instruction, \$1,922,436 for special instruction and \$1,141,684 for administrative services.

The increase in revenues is due primarily to an increase in federal and state revenue. The increase in expenses is due primarily to an increase in negotiated salary and benefits, restricted grant expenditures and expenses financed with the local option sales and services tax.

A copy of the audit report is available for review in the District Secretary's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CLARKE COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2006

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Clarke Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before August 2005 Election)		
Doug Stearns	President	2005
Linda Henry	Vice President	2005
Michael Evink	Board Member	2006
Jeff Wilken	Board Member	2006
Kevin Dorland	Board Member	2007
Kris Lange	Board Member	2007
Michael Motsinger	Board Member	2007

Board of Education		
(After August 2005 Election)		
Doug Sterns	President	2008
Linda Henry	Vice President	2008
Michael Evink	Board Member	2006
Jeff Wilken	Board Member	2006
Kevin Dorland	Board Member	Resigned Apr 2006
Kris Lange	Board Member	2007
Michael Motsinger	Board Member	Resigned Dec 2005
Chuck DeVos (Appointed)	Board Member	2006
Edward White (Appointed)	Board Member	2006

School Officials		
Ned Cox	Superintendent	2008
Ruth White	District Secretary/Treasurer and Business Manager	Indefinite
Jeff Krausman	Attorney	Indefinite

Clarke Community School District



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Independent Auditor's Report

To the Board of Education of
Clarke Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Clarke Community School District, Osceola, 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. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with Government Auditing Standards, we have also issued our report dated August 24, 2006 on our consideration of Clarke Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 42 through 44 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clarke Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State
Chief Deputy Auditor of State

August 24, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Clarke Community School District provides this Management's Discussion and Analysis of its financial statements. The analysis focuses on the District's financial performance as a whole for the fiscal year ended June 30, 2006. Please read it in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

During the fiscal year ending June 30, 2006, beginning net assets for governmental activities were restated (increased) by \$189,483 to correct an error in reporting prior year income surtax receivable. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the change for the error as if the change had been made in prior year.

- General Fund revenues increased from \$10,316,814 in fiscal year 2005 to \$10,677,768 in fiscal year 2006, while General Fund expenditures increased from \$10,144,332 in fiscal year 2005 to \$10,636,257 in fiscal year 2006. The District's General Fund balance increased from \$1,613,642 in fiscal year 2005 to \$1,663,350 in fiscal year 2006, a 3% increase.
- The increase in General Fund revenues was attributable to an increase in federal and state revenue. The increase in expenditures was due primarily to an increase in negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Clarke 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 Clarke 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 Clarke Community School District acts solely as an agent or custodian for the benefit of those outside of the School 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 statements with a comparison of the District's budget for the year.

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

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

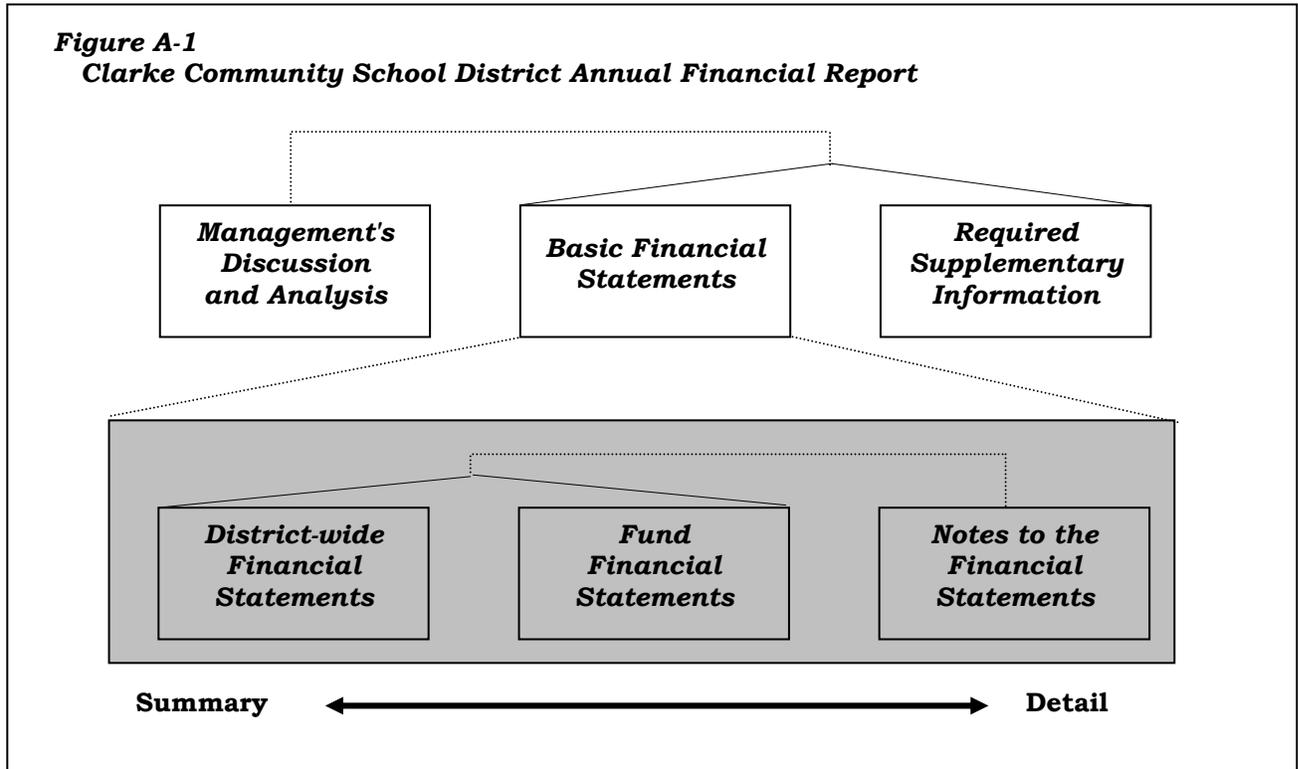


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide 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 statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its 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 food service 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 repaying its long-term debts) or to show 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 funds 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, the Special Revenue Funds, the Debt Service Fund and the 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 District-wide statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities, but provides more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund. Internal Service Funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the Flex Spending Fund.

The required financial statements for proprietary funds include a statement of net assets, 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 for scholarships for individual students in this fund.
- Agency Funds – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases.

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

As noted earlier, net assets may serve over time as a useful indicator of financial position. The following analysis shows the District’s total net assets at end of the fiscal year.

Figure A-3							
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	\$ 7,559	7,263	226	229	7,785	7,492	293
Capital assets	9,683	9,435	54	72	9,737	9,507	230
Total assets	<u>17,242</u>	<u>16,698</u>	<u>280</u>	<u>301</u>	<u>17,522</u>	<u>16,999</u>	<u>523</u>
Long-term liabilities	5,355	5,733	-	-	5,355	5,733	(378)
Other liabilities	4,731	4,605	50	47	4,781	4,652	129
Total liabilities	<u>10,086</u>	<u>10,338</u>	<u>50</u>	<u>47</u>	<u>10,136</u>	<u>10,385</u>	<u>(249)</u>
Net assets:							
Invested in capital assets, net of related debt	4,580	3,929	54	72	4,634	4,001	633
Restricted	959	969	-	-	959	969	(10)
Unrestricted	<u>1,617</u>	<u>1,462</u>	<u>176</u>	<u>182</u>	<u>1,793</u>	<u>1,644</u>	<u>149</u>
Total net assets	<u>\$ 7,156</u>	<u>6,360</u>	<u>230</u>	<u>254</u>	<u>7,386</u>	<u>6,614</u>	<u>772</u>

Net assets increased \$772,312, or 12%. The largest portion of the District's net assets is invested in capital assets (e.g., land, 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 subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, is \$1,792,812.

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

Figure A-4							
Change in Net Assets							
(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
Revenues:							
Program revenues:							
Charges for service	\$ 900	719	268	259	1,168	978	190
Operating grants, contributions and restricted interest	1,454	1,430	272	281	1,726	1,711	15
Capital grants, contributions and restricted interest	60	102	-	-	60	102	(42)
General revenues:							
Property tax	3,528	3,607	-	-	3,528	3,607	(79)
Local option sales and services tax	661	630	-	-	661	630	31
Income surtax	177	189	-	-	177	189	(12)
Unrestricted state grants	5,615	5,380	-	-	5,615	5,380	235
Unrestricted investment earnings	83	53	7	3	90	56	34
Other	36	20	-	-	36	20	16
Total revenues	<u>12,514</u>	<u>12,130</u>	<u>547</u>	<u>543</u>	<u>13,061</u>	<u>12,673</u>	<u>388</u>
Program expenses:							
Instruction	7,471	7,220	-	-	7,471	7,220	251
Support services	3,269	3,048	-	-	3,269	3,048	221
Non-instructional programs	10	23	571	546	581	569	12
Other expenses	968	968	-	-	968	968	-
Total expenses	<u>11,718</u>	<u>11,259</u>	<u>571</u>	<u>546</u>	<u>12,289</u>	<u>11,805</u>	<u>484</u>
Change in net assets	796	871	(24)	(3)	772	868	(96)
Net assets beginning of year, as restated	<u>6,360</u>	<u>5,489</u>	<u>254</u>	<u>257</u>	<u>6,614</u>	<u>5,746</u>	<u>868</u>
Net assets end of year	<u>\$ 7,156</u>	<u>6,360</u>	<u>230</u>	<u>254</u>	<u>7,386</u>	<u>6,614</u>	<u>772</u>

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$12,514,009 and expenses were \$11,717,762. The increase in revenues can be attributed to an increase in state and federal revenue.

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
(Expressed in Thousands)

	Total Cost of Services		Net Cost of Services	
	June 30		June 30	
	2006	2005	2006	2005
Instruction	\$ 7,471	7,220	5,593	5,539
Support services	3,269	3,048	3,216	2,992
Non-instructional programs	10	23	9	23
Other expenses	968	968	486	453
Total	\$ 11,718	11,259	9,304	9,007

- The cost financed by users of the District's programs was \$900,014.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,453,794.
- The net cost of governmental activities was financed with \$4,366,155 in property and other taxes and \$5,615,418 in unrestricted state grants.

Business Type Activities

Revenues for business-type activities were \$546,950 while expenses were \$570,885. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, Clarke 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 \$2,664,906, an increase from last year's ending fund balance of \$2,499,597.

Governmental Fund Highlights

- The General Fund balance increased from a balance of \$1,613,642 at June 30, 2005 to \$1,663,350 at June 30, 2006, due in part to an increase in state aid.

Proprietary Fund Highlights

- School Nutrition Fund net assets decreased from \$254,099 at June 30, 2005 to \$230,164 at June 30, 2006.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. This is referred to as the certified budget. The certified budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's certified budget is prepared on a GAAP basis. The certified budget was not amended in fiscal year 2006.

The District's revenues were \$46,545 less than budgeted revenues. The most significant variance resulted from the district receiving less state aid than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line item budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested, net of depreciation, \$9.7 million in a broad range of assets, including newly remodeled school buildings that are not significantly depreciated, athletic facilities, computer and audio-visual equipment, and vehicles. (See Figure A-6). More detailed information about the District's capital assets is presented in Note 4 to the financial statements. Depreciation expense for the year was \$385,016.

The original cost of the District's capital assets was \$14.8 million. Governmental funds account for \$14.5 million, with the remaining \$0.3 million accounted for in the Proprietary, School Nutrition Fund.

	Governmental Activities		Business Type Activities		Total District	
	2006	2005	2006	2005	2006	2005
Land	\$ 78	78	-	-	78	78
Construction in progress	258	150	-	-	258	150
Buildings	8,226	8,100	-	-	8,226	8,100
Improvements other than buildings	536	584	-	-	536	584
Furniture and equipment	585	523	54	72	639	595
Total	\$ 9,683	9,435	54	72	9,737	9,507

Long-Term Liabilities

At June 30, 2006, the District had \$5,354,864 in general obligation bonds, capital loan notes and other long-term liabilities outstanding. This represents a decrease of approximately 7% from last year (See Figure A-7). Additional information about the District's long-term liabilities is presented in Note 5 to the financial statements.

The District had total outstanding general obligation bonded indebtedness at June 30, 2006 of \$4,555,000 and outstanding capital loan notes of \$547,652.

Figure A-7		
Outstanding Long-Term Liabilities		
(expressed in thousands)		
	2006	2005
General obligation bonds	\$ 4,555	4,840
Capital loan notes	548	666
Early retirement	200	105
Compensated absences	52	47
ISEBA settlement	-	75
Total	\$ 5,355	5,733

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Local option sales and services tax revenues over the next 8 years will have a significant impact on building improvement projects. These funds will also be used to decrease property tax used to repay the voted PPEL capital loan notes.
- The District was awarded a \$69,623 PILLARS grant in July 2006. This is a matching funds grant for technology improvements. The District received \$34,812 up front and the balance will be reimbursed upon submission of a claim for expenditures at the completion of the projects.
- District enrollment increased slightly in fiscal year 2005-2006 by 3.1 students. Under Iowa's school funding formula, District funding is highly dependant upon District enrollment. Projections indicate the District's enrollment will continue to remain steady.

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 of the money it receives. If you have questions about this report or need additional financial information, contact Ned Cox, Superintendent, or Ruth White, Business Manager, Clarke Community School District, 104 ½ South Fillmore, Osceola, Iowa 50213.

Clarke Community School District

Basic Financial Statements

Clarke Community School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,553,023	218,699	3,771,722
Receivables:			
Property tax:			
Delinquent	104,395	-	104,395
Succeeding year	3,270,000	-	3,270,000
Accounts	3,450	3,175	6,625
Due from other governments	581,182	-	581,182
Prepaid insurance	47,861	770	48,631
Inventories	-	4,316	4,316
Capital assets, net of accumulated depreciation	9,682,670	53,785	9,736,455
Total assets	17,242,581	280,745	17,523,326
Liabilities			
Accounts payable	227,530	2,947	230,477
Salaries and benefits payable	1,094,243	38,478	1,132,721
Due to other governments	75,342	-	75,342
Accrued interest payable	62,543	-	62,543
Deferred revenue:			
Succeeding year property tax	3,270,000	-	3,270,000
Other	1,604	9,156	10,760
Long-term liabilities:			
Portion due within one year:			
General obligation bonds	295,000	-	295,000
Capital loan notes	125,293	-	125,293
Early retirement	91,285	-	91,285
Compensated absences	51,431	-	51,431
Portion due after one year:			
General obligation bonds	4,260,000	-	4,260,000
Capital loan notes	422,359	-	422,359
Early retirement	108,411	-	108,411
Compensated absences	1,085	-	1,085
Total liabilities	10,086,126	50,581	10,136,707

Clarke Community School District

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
Net assets			
Invested in capital assets, net of related debt	4,580,018	53,785	4,633,803
Restricted for:			
Management levy	239	-	239
Physical plant and equipment levy	483,973	-	483,973
Other purposes	475,792	-	475,792
Unrestricted	1,616,433	176,379	1,792,812
Total net assets	<u>\$ 7,156,455</u>	<u>230,164</u>	<u>7,386,619</u>

See notes to financial statements.

Clarke Community School District

Statement of Activities

Year ended June 30, 2006

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,406,960	256,792	558,802	-
Special instruction	1,922,436	376,406	129,676	-
Other instruction	1,141,684	238,295	318,611	-
	<u>7,471,080</u>	<u>871,493</u>	<u>1,007,089</u>	<u>-</u>
Support services:				
Student services	318,054	6,937	25,414	-
Instructional staff services	290,147	317	-	-
Administration services	1,057,865	3,827	-	-
Operation and maintenance of plant services	1,032,840	3,885	-	-
Transportation services	570,579	13,126	-	-
	<u>3,269,485</u>	<u>28,092</u>	<u>25,414</u>	<u>-</u>
Non-instructional programs	9,643	429	-	-
Other expenditures:				
Facilities acquisition	31,966	-	-	59,876
Long-term debt interest	242,196	-	273	-
AEA flowthrough	421,018	-	421,018	-
Depreciation (unallocated)*	272,374	-	-	-
	<u>967,554</u>	<u>-</u>	<u>421,291</u>	<u>59,876</u>
Total governmental activities	11,717,762	900,014	1,453,794	59,876
Business type activities:				
Non-instructional programs:				
Food service operations	570,885	267,579	272,077	-
Total	<u>\$ 12,288,647</u>	<u>1,167,593</u>	<u>1,725,871</u>	<u>59,876</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital outlay
 Local option sales and services tax
 Income surtax
 Unrestricted state grants
 Unrestricted investment earnings
 Miscellaneous
 Total general revenues

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(3,591,366)	-	(3,591,366)
(1,416,354)	-	(1,416,354)
(584,778)	-	(584,778)
(5,592,498)	-	(5,592,498)
(285,703)	-	(285,703)
(289,830)	-	(289,830)
(1,054,038)	-	(1,054,038)
(1,028,955)	-	(1,028,955)
(557,453)	-	(557,453)
(3,215,979)	-	(3,215,979)
(9,214)	-	(9,214)
27,910	-	27,910
(241,923)	-	(241,923)
-	-	-
(272,374)	-	(272,374)
(486,387)	-	(486,387)
(9,304,078)	-	(9,304,078)
-	(31,229)	(31,229)
(9,304,078)	(31,229)	(9,335,307)
\$ 3,035,106	-	3,035,106
224,552	-	224,552
268,403	-	268,403
660,944	-	660,944
177,150	-	177,150
5,615,418	-	5,615,418
82,946	7,294	90,240
35,806	-	35,806
10,100,325	7,294	10,107,619
796,247	(23,935)	772,312
6,360,208	254,099	6,614,307
\$ 7,156,455	230,164	7,386,619

Clarke Community School District

Balance Sheet
Governmental Funds

June 30, 2006

	General	Nonmajor	Total
Assets			
Cash and pooled investments	\$ 2,594,005	948,001	3,542,006
Receivables:			
Property tax:			
Delinquent	84,774	19,621	104,395
Succeeding year	2,663,000	607,000	3,270,000
Accounts	2,375	1,075	3,450
Due from other governments	145,832	435,350	581,182
Prepaid insurance	46,127	1,734	47,861
Total assets	\$ 5,536,113	2,012,781	7,548,894
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 12,202	215,328	227,530
Salaries and benefits payable	1,089,399	4,844	1,094,243
Due to other governments	75,342	-	75,342
Deferred revenue:			
Succeeding year property tax	2,663,000	607,000	3,270,000
Other	32,820	184,053	216,873
Total liabilities	3,872,763	1,011,225	4,883,988
Fund balances:			
Reserved for debt service	-	23,462	23,462
Unreserved, reported in:			
General fund	1,663,350	-	1,663,350
Special revenue funds	-	605,069	605,069
Capital projects fund	-	373,025	373,025
Total fund balances	1,663,350	1,001,556	2,664,906
Total liabilities and fund balances	\$ 5,536,113	2,012,781	7,548,894

See notes to financial statements.

Clarke 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 22) \$ 2,664,906

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. 9,682,670

The Internal Service Fund is used by management to charge the costs of funding of the District's flexible benefit plan. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets. 11,017

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 215,269

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. (62,543)

Long-term liabilities, including bonds and notes, compensated absences and early retirement payable are not due and payable in the current period and, therefore, are not reported in the funds. (5,354,864)

Net assets of governmental activities (page 19) \$ 7,156,455

See notes to financial statements.

Clarke Community School District

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

Year ended June 30, 2006

	General	Nonmajor	Total
Revenues:			
Local sources:			
Local tax	\$ 2,860,959	1,514,121	4,375,080
Tuition	339,497	-	339,497
Other	179,128	279,760	458,888
State sources	6,533,492	659	6,534,151
Federal sources	764,692	5,730	770,422
Total revenues	10,677,768	1,800,270	12,478,038
Expenditures:			
Current:			
Instruction:			
Regular instruction	4,274,441	63,399	4,337,840
Special instruction	1,915,126	3,788	1,918,914
Other instruction	891,837	244,230	1,136,067
	7,081,404	311,417	7,392,821
Support services:			
Student services	305,779	853	306,632
Instructional staff services	270,772	689	271,461
Administration services	1,127,578	6,997	1,134,575
Operation and maintenance of plant services	954,595	67,018	1,021,613
Transportation services	472,173	183,303	655,476
	3,130,897	258,860	3,389,757
Non-instructional programs	2,938	6,706	9,644
Other expenditures:			
Facilities acquisition	-	453,790	453,790
Long-term debt:			
Principal	-	403,090	403,090
Interest and fiscal charges	-	250,806	250,806
AEA flowthrough	421,018	-	421,018
	421,018	1,107,686	1,528,704
Total expenditures	10,636,257	1,684,669	12,320,926
Excess of revenues over expenditures	41,511	115,601	157,112
Other financing sources (uses):			
Insurance proceeds	8,197	-	8,197
Operating transfers in	-	447,756	447,756
Operating transfers out	-	(447,756)	(447,756)
Total other financing sources (uses)	8,197	-	8,197
Net change in fund balances	49,708	115,601	165,309
Fund balances beginning of year	1,613,642	885,955	2,499,597
Fund balances end of year	\$ 1,663,350	1,001,556	2,664,906

See notes to financial statements.

Clarke Community School District

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

Year ended June 30, 2006

Net change in fund balances - total governmental funds (page 24) \$ 165,309

***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 and contributed capital assets exceeded depreciation in the current year, as follows:

Expenditures for capital assets	\$ 596,559	
Capital assets contributed by the Booster Club	36,270	
Depreciation expense	<u>(385,016)</u>	247,813

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. (8,927)

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. 403,090

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. 8,310

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

Early retirement	(94,514)	
Compensated absences	(5,471)	
ISEBA settlement	<u>75,000</u>	(24,985)

The Internal Service Fund is used by management to charge the costs of the District's flexible benefit plan. The change in net assets of the Internal Service Fund is reported with governmental activities. 5,637

Change in net assets of governmental activities (page 21) \$ 796,247

See notes to financial statements.

Clarke Community School District

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - Flex Spending
Assets		
Cash and cash equivalents	\$ 218,699	11,017
Accounts receivable	3,175	-
Prepaid insurance	770	-
Inventories	4,316	-
Capital assets, net of accumulated depreciation	53,785	-
Total assets	<u>280,745</u>	<u>11,017</u>
Liabilities		
Accounts payable	2,947	-
Salaries and benefits payable	38,478	-
Deferred revenue	9,156	-
Total liabilities	<u>50,581</u>	<u>-</u>
Net Assets		
Invested in capital assets, net of related debt	53,785	-
Unrestricted	176,379	11,017
Total net assets	<u>\$ 230,164</u>	<u>11,017</u>

See notes to financial statements.

Clarke Community School District

Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds

Year ended June 30, 2006

	Business Type Activities	Governmental Activities
	Enterprise - School Nutrition	Internal Service - Flex Spending
Operating revenues:		
Local sources:		
Charges for service	\$ 267,579	-
Employee contributions	-	30,586
Total operating revenue	<u>267,579</u>	<u>30,586</u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	162,213	-
Benefits	75,656	-
Purchased services	13,508	-
Supplies	295,118	-
Other	3,291	25,378
Depreciation	21,099	-
Total operating expenses	<u>570,885</u>	<u>25,378</u>
Operating income (loss)	<u>(303,306)</u>	<u>5,208</u>
Non-operating revenues:		
State sources	6,818	-
Federal sources	265,259	-
Interest income	7,294	429
Total non-operating revenues	<u>279,371</u>	<u>429</u>
Change in net assets	(23,935)	5,637
Net assets beginning of year	<u>254,099</u>	<u>5,380</u>
Net assets end of year	<u>\$ 230,164</u>	<u>11,017</u>

See notes to financial statements.

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Enterprise - School Nutrition	Service - Flex Spending
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 272,831	-
Cash received from miscellaneous operating activities	-	30,586
Cash paid to suppliers for goods or services	(520,607)	(25,378)
Net cash provided (used) by operating activities	<u>(247,776)</u>	<u>5,208</u>
Cash flows from non-capital financing activities:		
State grants received	6,894	-
Federal grants received	238,179	-
Net cash provided by non-capital financing activities	<u>245,073</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(2,859)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>7,294</u>	<u>429</u>
Net increase in cash and cash equivalents	1,732	5,637
Cash and cash equivalents beginning of year	<u>216,967</u>	<u>5,380</u>
Cash and cash equivalents end of year	<u>\$ 218,699</u>	<u>11,017</u>

Clarke Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	Enterprise - School Nutrition	Internal Service - Flex Spending
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (303,306)	5,208
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Commodities used	27,080	-
Depreciation	21,099	-
Decrease in accounts receivable	4,466	-
Increase in prepaid insurance	(770)	-
Increase in inventories	(282)	-
Increase in accounts payable	161	-
Increase in salaries and benefits payable	2,990	-
Increase in deferred revenue	786	-
	<u>786</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$ (247,776)</u>	<u>5,208</u>

See notes to financial statements.

Clarke Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 22,444	103,364
Accounts receivable	-	500
Due from other governments	-	2,600
Total assets	22,444	106,464
Liabilities		
Trusts payable	-	106,464
Net assets		
Reserved for scholarships	\$ 22,444	-

See notes to financial statements.

Clarke Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	<u>Private Purpose Trust Scholarship</u>
Additions:	
Local sources:	
Interest income	\$ 2,429
Deductions:	
Support services:	
Scholarships awarded	<u>1,300</u>
Change in net assets	1,129
Net assets beginning of year	<u>21,315</u>
Net assets end of year	<u><u>\$ 22,444</u></u>

See notes to financial statements.

Clarke Community School District

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

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

Jointly Governed Organization – 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 Clarke 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 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 not meeting 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 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 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 Enterprise, School Nutrition Fund is used to account for the food service operations of the District.

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Under 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 apply 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.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

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

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

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

Property tax revenue recognized in these funds 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.

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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 years
Furniture and equipment	4-12 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, income surtax, 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 and unspent grant proceeds.

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 who 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 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 not available for appropriation or 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. During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

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

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

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

At June 30, 2006, the District's investments are as follows:

<u>Type</u>	<u>Fair Value</u>
Common stock	<u>\$ 6,723</u>

Concentration of credit risk. The District places no limit on the amount that may be invested in any one issuer. More than 5 percent of the District's investments are in common stock. The District's investment in common stock is 100 percent of the District's total investments.

(3) 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	Special Revenue:	
	Physical Plant and Equipment Levy	\$ 158,756
	Capital Projects:	
	School Infrastructure	
	Local Option	<u>289,000</u>
Total		<u>\$ 447,756</u>

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 78,000	-	-	78,000
Construction in progress	149,789	369,789	(261,797)	257,781
Total capital assets not being depreciated	<u>227,789</u>	<u>369,789</u>	<u>(261,797)</u>	<u>335,781</u>
Capital assets being depreciated:				
Buildings	11,090,868	350,104	-	11,440,972
Improvements other than buildings	1,101,418	-	-	1,101,418
Furniture and equipment	1,608,931	174,733	(120,594)	1,663,070
Total capital assets being depreciated	<u>13,801,217</u>	<u>524,837</u>	<u>(120,594)</u>	<u>14,205,460</u>
Less accumulated depreciation for:				
Buildings	2,990,365	224,833	-	3,215,198
Improvements other than buildings	517,730	47,541	-	565,271
Furniture and equipment	1,086,054	112,642	(120,594)	1,078,102
Total accumulated depreciation	<u>4,594,149</u>	<u>385,016</u>	<u>(120,594)</u>	<u>4,858,571</u>
Total capital assets being depreciated, net	<u>9,207,068</u>	<u>139,821</u>	<u>-</u>	<u>9,346,889</u>
Governmental activities capital assets, net	<u>\$ 9,434,857</u>	<u>509,610</u>	<u>(261,797)</u>	<u>9,682,670</u>
Business type activities:				
Furniture and equipment	\$ 268,612	2,859	-	271,471
Less accumulated depreciation	196,587	21,099	-	217,686
Business type activities capital assets, net	<u>\$ 72,025</u>	<u>(18,240)</u>	<u>-</u>	<u>53,785</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Instruction:				
Regular instruction				\$ 10,334
Other instruction				3,038
Support services:				
Administration services				9,913
Operation and maintenance of plant services				10,653
Transportation services				78,704
				<u>112,642</u>
Unallocated				<u>272,374</u>
Total depreciation expense - governmental activities				<u>\$ 385,016</u>
Business type activities:				
Food service operations				<u>\$ 21,099</u>

(5) 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	\$ 4,840,000	-	285,000	4,555,000	295,000
Capital loan notes	665,742	-	118,090	547,652	125,293
Early retirement	105,182	156,743	62,229	199,696	91,285
Compensated absences	47,045	62,071	56,600	52,516	51,431
ISEBA settlement	75,000	-	75,000	-	-
Total	\$ 5,732,969	218,814	596,919	5,354,864	563,009

General Obligation Bonds

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

Year Ending June 30,	Bond Issue of Mar 1, 1999			
	Interest Rates	Principal	Interest	Total
2007	4.10%	\$ 295,000	198,155	493,155
2008	4.10	315,000	186,060	501,060
2009	4.10	320,000	173,145	493,145
2010	4.20	335,000	160,025	495,025
2011	4.25	350,000	145,955	495,955
2012-2016	4.30-4.50	2,000,000	488,930	2,488,930
2017-2018	4.50-4.60	940,000	64,860	1,004,860
Total		\$ 4,555,000	1,417,130	5,972,130

During the year ended June 30, 2006, the District retired \$285,000 of bonds.

General Obligation Capital Loan Notes

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

Year Ending June 30,	Capital Loan Note Issue of Aug 15, 2000			
	Interest Rate	Principal	Interest	Total
2007	6.10%	\$ 125,293	33,407	158,700
2008	6.10	132,936	25,764	158,700
2009	6.10	141,045	17,655	158,700
2010	6.10	148,378	9,052	157,430
Total		\$ 547,652	85,878	633,530

During the year ended June 30, 2006, the District retired \$118,090 of notes.

Early Retirement

The District offers a voluntary early retirement plan for employees. Eligible employees must be at least age fifty-five but not more than sixty-two on or before June 30 of the year in which the employee wishes to retire and employees must have completed fifteen years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive shall not exceed the employee's current year salary or \$20,000, whichever is less. The early retirement incentive for each eligible employee is equal to the sum of 50% of the employee's unused accumulated sick leave plus 5% of the current salary times the years of service beyond fifteen years, subject to the limits previously stated. Early retirement benefits paid during the year ended June 30, 2006 totaled \$62,229.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$393,042, \$367,483 and \$358,175, respectively, equal to the required contributions for each year.

(7) Risk Management

Clarke 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.

(8) 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 \$421,018 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(9) Restatement

During the year ended June 30, 2006, the District corrected an error for recording the income surtax receivable. The restatement resulted in an adjustment to the beginning balance of governmental activities as follows:

Net assets June 30, 2005, as previously reported	\$ 6,170,725
Income surtax receivable incorrectly deferred in prior year	<u>189,483</u>
Net assets July 1, 2005, as restated	<u><u>\$ 6,360,208</u></u>

Required Supplementary Information

Clarke 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 Actual	Proprietary Funds Actual	Total Actual
Revenues:			
Local sources	\$ 5,173,465	305,888	5,479,353
State sources	6,534,151	6,818	6,540,969
Federal sources	770,422	265,259	1,035,681
Total receipts	<u>12,478,038</u>	<u>577,965</u>	<u>13,056,003</u>
Expenditures:			
Instruction	7,392,821	-	7,392,821
Support services	3,389,757	-	3,389,757
Non-instructional programs	9,644	596,263	605,907
Other expenditures	1,528,704	-	1,528,704
Total disbursements	<u>12,320,926</u>	<u>596,263</u>	<u>12,917,189</u>
Excess (deficiency) of receipts over (under) disbursements	157,112	(18,298)	138,814
Other financing sources, net	<u>8,197</u>	-	<u>8,197</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	165,309	(18,298)	147,011
Balances beginning of year	<u>2,499,597</u>	<u>259,479</u>	<u>2,759,076</u>
Balances end of year	<u>\$ 2,664,906</u>	<u>241,181</u>	<u>2,906,087</u>

See accompanying independent auditor's report.

Less Funds Not Required to be Budgeted	Net	Original and Final Budgeted Amounts	Budget to Net Variance
(31,015)	5,448,338	5,485,952	(37,614)
-	6,540,969	6,789,581	(248,612)
-	1,035,681	796,000	239,681
(31,015)	13,024,988	13,071,533	(46,545)
-	7,392,821	9,098,625	1,705,804
-	3,389,757	3,833,533	443,776
(25,378)	580,529	1,031,554	451,025
-	1,528,704	2,010,590	481,886
(25,378)	12,891,811	15,974,302	3,082,491
5,637	133,177	(2,902,769)	3,035,946
-	8,197	-	8,197
5,637	141,374	(2,902,769)	3,044,143
5,380	2,753,696	3,456,307	(702,611)
11,017	2,895,070	553,538	2,341,532

Clarke Community School District

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function 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. The District did not amend the budget during the year.

During the year ended June 30, 2006, expenditures did not exceed the amounts budgeted.

Other Supplementary Information

Schedule 1

Clarke Community School District

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2006

	Special Revenue			Debt Service	Capital Projects	Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy		School Infrastructure Local Option	
Assets						
Cash and pooled investments	\$ 192,187	107,745	210,374	19,263	418,432	948,001
Receivables:						
Property tax:						
Delinquent	5,073	-	7,902	6,646	-	19,621
Succeeding year	207,000	-	217,000	183,000	-	607,000
Accounts	1,075	-	-	-	-	1,075
Due from other governments	-	675	265,697	-	168,978	435,350
Prepaid Insurance	1,734	-	-	-	-	1,734
Total assets	\$ 407,069	108,420	700,973	208,909	587,410	2,012,781
Liabilities and Fund Equity						
Liabilities:						
Accounts payable	\$ 134	809	-	-	214,385	215,328
Salaries and benefits payable	-	4,844	-	-	-	4,844
Deferred revenue:						
Succeeding year property tax	207,000	-	217,000	183,000	-	607,000
Other	1,868	-	179,738	2,447	-	184,053
Total liabilities	209,002	5,653	396,738	185,447	214,385	1,011,225
Fund equity:						
Fund balances:						
Reserved for debt service	-	-	-	23,462	-	23,462
Unreserved, reported in:						
Special revenue funds	198,067	102,767	304,235	-	-	605,069
Capital projects fund	-	-	-	-	373,025	373,025
Total fund equity	198,067	102,767	304,235	23,462	373,025	1,001,556
Total liabilities and fund equity	\$ 407,069	108,420	700,973	208,909	587,410	2,012,781

See accompanying independent auditor's report.

Clarke Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2006

	Special Revenue			Capital Projects		Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	School Infrastructure Local Option	
Revenues:						
Local sources:						
Local tax	\$ 171,193	-	457,686	224,298	660,944	1,514,121
Other	10,839	250,772	3,192	273	14,684	279,760
State sources	134	-	349	176	-	659
Federal sources	-	-	5,730	-	-	5,730
Total revenues	182,166	250,772	466,957	224,747	675,628	1,800,270
Expenditures:						
Current:						
Instruction:						
Regular instruction	63,399	-	-	-	-	63,399
Special instruction	3,788	-	-	-	-	3,788
Other instruction	1,314	242,916	-	-	-	244,230
Support services:						
Student services	853	-	-	-	-	853
Instructional staff services	689	-	-	-	-	689
Administration services	6,997	-	-	-	-	6,997
Operation and maintenance of plant services	67,018	-	-	-	-	67,018
Transportation services	22,844	-	53,941	-	106,518	183,303
Non-instructional programs	6,706	-	-	-	-	6,706
Other expenditures:						
Facilities acquisition	-	-	114,054	-	339,736	453,790
Long-term debt:						
Principal	-	-	-	403,090	-	403,090
Interest and other charges	-	-	-	250,806	-	250,806
Total expenditures	173,608	242,916	167,995	653,896	446,254	1,684,669
Excess (deficiency) of revenues over (under) expenditures	8,558	7,856	298,962	(429,149)	229,374	115,601
Other financing sources (uses):						
Operating transfers in	-	-	-	447,756	-	447,756
Operating transfers out	-	-	(158,756)	-	(289,000)	(447,756)
Total other financing sources (uses)	-	-	(158,756)	447,756	(289,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	8,558	7,856	140,206	18,607	(59,626)	115,601
Fund balances beginning of year	189,509	94,911	164,029	4,855	432,651	885,955
Fund balances end of year	\$ 198,067	102,767	304,235	23,462	373,025	1,001,556

See accompanying independent auditor's report.

Schedule 3

Clarke Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Pop Music	\$ 686	389	-	1,075
Pop Athletics	1,261	3,547	2,242	2,566
Athletics	(131)	7,342	7,211	-
Publications	4,557	8,854	7,265	6,146
High School Band	9,929	34,384	41,432	2,881
High School Co-curricular	1,449	1,392	(215)	3,056
High School Vocal Music	13,099	13,533	12,691	13,941
Cheerleaders	2,806	2,412	2,454	2,764
Speech/Debate	90	10,255	10,345	-
FFA	5,716	29,048	29,717	5,047
FHA	868	23	-	891
Medical Careers Club	149	4	32	121
Boys Basketball	9,551	7,057	8,537	8,071
Football	11,073	12,806	18,670	5,209
Baseball	(3,026)	4,046	1,020	-
Boys Track	1,451	4,098	2,652	2,897
Wrestling	-	2,953	2,953	-
Tennis	(30)	-	(30)	-
Golf	-	38	38	-
Girls Basketball	4,452	4,905	2,988	6,369
Volleyball	2,599	3,220	3,698	2,121
Softball	(2,267)	8,875	6,060	548
Girls Track	-	2,621	2,242	379
Camp - Boys Basketball	478	13	-	491
Camp - Football	1,051	4,796	4,067	1,780
Camp - Wrestling	58	1	-	59
Camp - Girls Basketball	153	416	-	569
Camp - Volleyball	672	18	-	690
Spanish Club	1,186	31	-	1,217
High School Student Council	125	2,092	2,217	-
Thespians	2,044	3,869	4,761	1,152

Clarke Community School District
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expend- itures	Balance End of Year
Class of:				
2005	133	4	137	-
2006	1,750	152	327	1,575
2007	3,409	3,145	5,650	904
2008	2,899	77	33	2,943
2009	2,548	68	-	2,616
2010	-	8,018	4,481	3,537
Art Club	5,888	2,478	1,857	6,509
Concessions	(1,269)	37,056	34,485	1,302
American Field Service	2,171	58	-	2,229
Vending Machine -				
Art/Cheerleaders	310	9	-	319
TOUCH	421	10	324	107
Get A Grip	38	1	39	-
Media Club	462	11	133	340
Athletic Resale	(6,601)	11,133	8,155	(3,623)
Cross Country	-	608	608	-
Drill Team	1,601	794	472	1,923
Special Olympics	84	258	342	-
FBLA	-	971	789	182
Elementary/Junior High				
Band Contest	-	40	40	-
Junior High Student Council	1,628	786	1,017	1,397
Elementary Student Council	7,109	3,811	2,548	8,372
After Prom	2,281	8,246	8,432	2,095
Total	\$ 94,911	250,772	242,916	102,767

See accompanying independent auditor's report.

Schedule 4

Clarke Community School District

Schedule of Changes in Fiduciary Assets and Liabilities –
Agency Fund

Year ended June 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash	\$ 77,876	238,172	212,684	103,364
Accounts receivable	-	500	-	500
Due from other governments	2,180	2,600	2,180	2,600
Due from Special Revenue Funds	25,000	-	25,000	-
Total assets	\$ 105,056	241,272	239,864	106,464
Liabilities				
Accounts payable	\$ 6,066	-	6,066	-
Trusts payable	98,990	241,272	233,798	106,464
Total liabilities	\$ 105,056	241,272	239,864	106,464

See accompanying independent auditor's report.

Clarke Community School District

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

For the Last Five Years

	Modified Accrual Basis				
	2006	2005	2004	2003	2002
Revenues:					
Local sources:					
Local tax	\$ 4,375,080	4,422,423	4,191,392	3,736,749	3,627,428
Tuition	339,497	345,637	333,122	389,967	344,846
Other	458,888	435,668	377,892	396,302	396,875
State sources	6,534,151	6,221,414	5,959,245	6,044,538	5,900,376
Federal sources	770,422	685,694	699,462	428,237	481,141
Total	<u>\$ 12,478,038</u>	<u>12,110,836</u>	<u>11,561,113</u>	<u>10,995,793</u>	<u>10,750,666</u>
Expenditures:					
Instruction:					
Regular instruction	\$ 4,337,840	4,344,951	4,118,312	3,962,238	3,961,982
Special instruction	1,918,914	2,251,134	2,091,487	1,515,063	1,389,211
Other instruction	1,136,067	636,728	572,922	1,109,364	1,121,804
Support services:					
Student services	306,632	284,522	337,336	356,596	340,812
Instructional staff services	271,461	317,425	321,255	366,422	533,314
Administration services	1,134,575	1,027,301	997,654	975,611	969,383
Operation and maintenance of plant services	1,021,613	888,722	817,383	685,159	650,481
Transportation services	655,476	432,681	463,895	397,987	371,043
Non-instructional programs	9,644	22,898	11,691	8,366	7,120
Other expenditures:					
Facilities acquisition	453,790	354,730	192,537	264,798	464,039
Long-term debt:					
Principal	403,090	386,300	364,902	348,870	338,186
Interest and other charges	250,806	272,720	286,673	301,855	317,584
Other	-	-	-	300	150
AEA flowthrough	421,018	410,502	410,482	433,289	429,027
Total	<u>\$ 12,320,926</u>	<u>11,630,614</u>	<u>10,986,529</u>	<u>10,725,918</u>	<u>10,894,136</u>

See accompanying independent auditor's report.

Schedule 6

Clarke Community School District
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Grant Number	Expen- ditures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY06	\$ 27,080
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY06	34,879
National School Lunch Program	10.555	FY06	203,300
			<u>238,179</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	1211GC	26,750
Title I Grants to Local Educational Agencies	84.010	1211G	209,379
			<u>236,129</u>
Migrant Education - State Grant Program	84.011	1211M	<u>26,316</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY06	<u>7,564</u>
Fund for the Improvement of Education	84.215	FY06	<u>7,326</u>
State Grants for Innovative Programs	84.298	FY06	<u>7,657</u>
Advance Placement Program	84.330	FY06	<u>104</u>
Improving Teacher Quality State Grants	84.367	FY06	<u>69,747</u>
Grants for State Assessments and Related Activities	84.369	FY06	<u>8,280</u>
Green Valley Area Education Agency:			
Special Education - Grants to States	84.027	FY06	<u>80,969</u>
Vocational Education - Basic Grants to States	84.048	FY06	<u>18,673</u>
Iowa Department of Education - Division of Vocational Rehabilitation Services:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	06-TAP-02	<u>37,951</u>
Total			<u>\$ 765,975</u>

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

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE
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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
Clarke Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Clarke Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 24, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Clarke Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

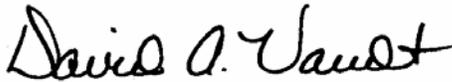
Compliance and Other Matters

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

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke Community School District and other parties to whom Clarke Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

August 24, 2006

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

Clarke Community School District



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Board of Education of
Clarke Community School District:

Compliance

We have audited the compliance of Clarke Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. Clarke Community School District's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program is the responsibility of Clarke Community School District's management. Our responsibility is to express an opinion on Clarke Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Clarke Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Clarke Community School District's compliance with those requirements.

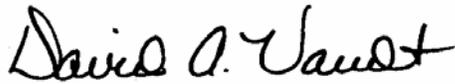
In our opinion, Clarke Community School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Clarke Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Clarke Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Clarke Community School District and other parties to whom Clarke Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State
Chief Deputy Auditor of State

August 24, 2006

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were noted.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 84.010 – Title I Grants to Local Educational Agencies.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Clarke Community School District did qualify as a low-risk auditee.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

No material weaknesses in internal control over financial reporting were noted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program were noted.

Clarke Community School District
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part IV: Other Findings Related To Required Statutory Reporting:

- IV-A-05 Certified Budget – Expenditures for the year ended June 30, 2006 did not exceed the budgeted amounts.
- IV-B-05 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-05 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-D-05 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-E-05 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 the coverage is adequate for current operations.
- IV-F-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-G-05 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-H-05 Deposits and Investments – Except as noted below, no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.

The Private Purpose Trust, Scholarship Fund has an investment in common stock, which does not appear to be an investment permitted by Article VIII of the Constitution of the State of Iowa and Chapter 12B.10 of the Code of Iowa. Since the money was originally donated to fund a scholarship and the stock was purchased in the 1930s, the District, based on advice of its legal counsel, believes it is in the best interest of this fund to continue owning the stock.

- IV-I-05 Certified Annual Report – The Certified Annual Report was filed with the Iowa Department of Education timely and we noted no significant deficiencies in the amounts reported.

Clarke Community School District

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Sheila M. Jensen, Senior Auditor
Michelle L. Harris, Staff Auditor
Karen J. Kibbe, Staff Auditor
Bryan M. Walker, Auditor Intern

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial 'A' and 'N'.

Andrew E. Nielsen, CPA
Deputy Auditor of State