



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

December 27, 2006

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

The District's revenues totaled \$17,577,701 for the year ended June 30, 2006, an increase of 5 percent over the prior year. Revenues included \$4,604,733 in local taxes, charges for service of \$1,118,484, operating grants, contributions and restricted interest of \$2,895,540, capital grants, contributions and restricted interest of \$46,472, local option sales and services tax of \$799,483, income surtax of \$263,836, unrestricted state grants and contributions of \$7,679,078, unrestricted investment earnings of \$159,019 and other general revenues of \$11,056.

Expenses for District operations totaled \$17,832,346, an increase of 7 percent over the prior year. Expenses included \$10,345,122 for instruction, \$4,587,043 for support services, \$1,367,952 for non-instructional programs and \$1,532,229 for other expenditures.

The report contains recommendations to the Board to review operating procedures over various accounts and activities, including concession sales, gate admissions and fundraisers, to obtain the maximum internal control possible under the circumstances. The report also includes recommendations for compliance with various statutory requirements. The District's responses to the recommendations are included in the report.

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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PERRY 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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Perry Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
(Before September 2005 Election)		
Kent Fredrichsen	President	2006
Gary Huitt	Vice President	2006
David Menz	Board Member	2005
Kathryn Powell	Board Member	2006
Scott Seeley	Board Member	2007
Board of Education		
(After September 2005 Election)		
David Menz	President	2008
Kent Friedrichsen	Vice President	2006
Gary Huitt	Board Member	2006
Kathryn Powell	Board Member	2006
Scott Seeley	Board Member	2007
School Officials		
Dr. Randall McCaulley	Superintendent	2006
Shelly Clifford	District Secretary	2006
Dwayne Hochhalter	District Treasurer	2006
Brian Gruhn	Attorney	2006

Perry Community School District



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Independent Auditor's Report

To the Board of Education of
Perry Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of Perry Community School District, Perry 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 discretely presented component unit and remaining fund information of Perry 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.

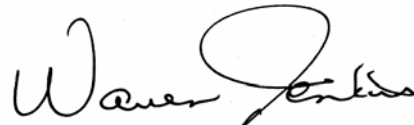
In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2006 on our consideration of Perry Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 18 and 48 through 49 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 Perry 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 year ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2004 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Perry Community School District is pleased to provide this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the District's financial performance is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

During fiscal year 2006, beginning net assets for governmental activities were restated (decreased) by \$637,994 to correct an error in accumulated depreciation. To facilitate and enhance comparability in this discussion and analysis, fiscal year 2005 amounts have been revised to reflect the change as if it had been made in the prior year.

- General Fund revenues increased from \$13,798,936 in fiscal 2005 to \$14,852,871 in fiscal 2006, an increase of \$1,053,935. General Fund expenditures increased from \$13,812,811 in fiscal 2005 to \$14,875,989 for fiscal 2006, an increase of \$1,063,178. The District's General Fund balance decreased from \$112,116 at the end of fiscal 2005 to \$90,323 at the end of fiscal 2006, a reduction of 19.4 %.
- The District's solvency ratio has remained positive and steady at just below 1% for the past three years, as the District works to improve its financial position. The solvency ratio is widely used as a comparative tool and is considered to be a good measure of a District's financial health. A graph showing ten years of solvency ratio history is included later in this section.
- The District has utilized local option sales and services tax (LOSST) revenues for existing debt reduction and some new capital projects. The District's share of the 2006 LOSST revenues received from Boone, Dallas and Greene Counties totaled \$799,483. Nearly this entire amount was budgeted for debt service payments of principal and interest on existing bond issue obligations. The District has committed a large portion of these revenues for debt service as a financial strategy to keep local property tax rates relatively stable. Local analysts have projected the Dallas County LOSST revenues will continue to increase each year.

Overview of the Financial Statements

This annual report consists of five parts:

1. Management's Discussion and Analysis (this section)
2. Basic Financial Statements
3. Notes to Financial Statements
4. Required Supplementary Information
5. Other Supplementary Information.

The Basic Financial Statements include two kinds of statements that present different views of the District:

- The first, the Statement of Net Assets and the Statement of Activities, are *District-wide Financial Statements* that provide information about the District as a whole and present an overall view of the District's finances.
- The second are *Fund Financial Statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the District-wide statements, as follows:

- The *Governmental Fund Statements* explain how basic services, such as regular and special education, were financed in the *short term* as well as what remains for future spending.
- The *Proprietary Fund Statements* offer *short-* and *long-term* financial information about the activities the District operates *like a business*, such as food services.
- The statements for *Fiduciary Funds* provide information about the financial relationships in which the District acts solely as a *trustee* or *agent* for the benefit of others, such as scholarship trusts.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The statements are followed by a section of Required Supplementary Information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor Special Revenue and Agency Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

The following diagram, Figure A-1, shows how the various parts of this annual report are arranged and related to one another.

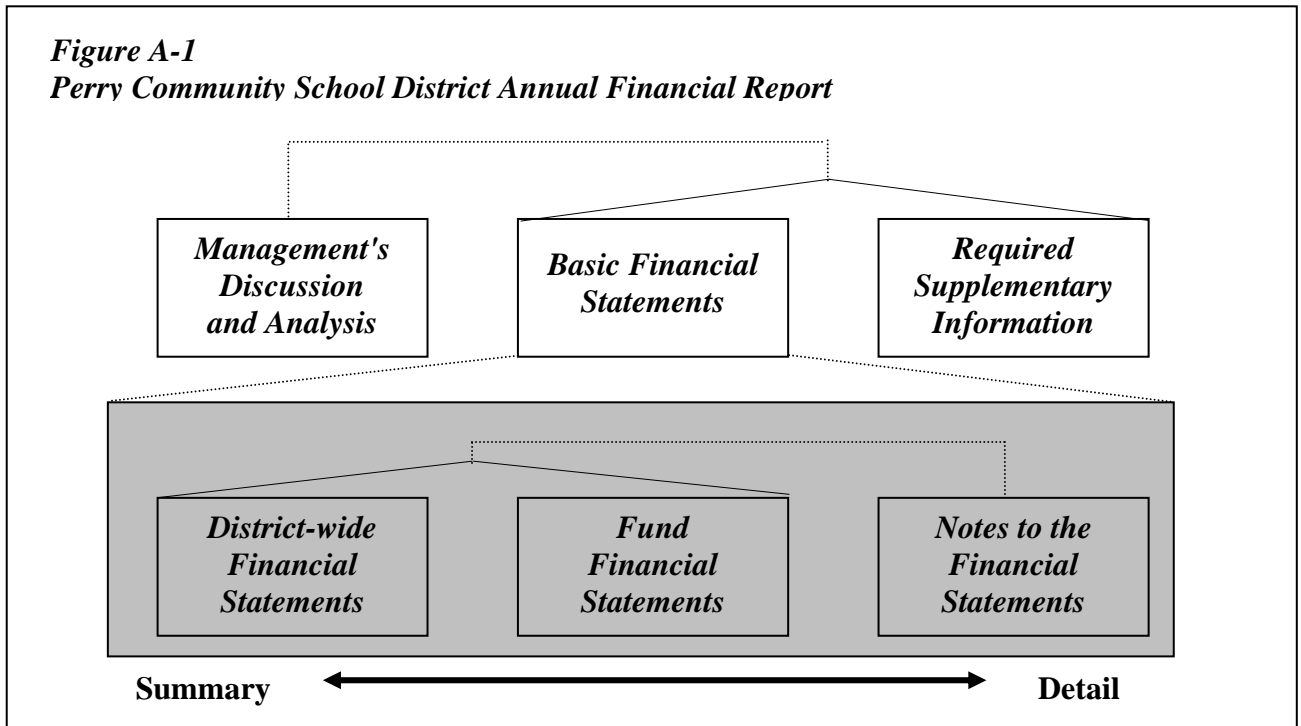


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents of each of the statements.

<i>Figure A-2</i>				
Major Features of the District-Wide and Fund Financial Statements				
	District-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, such as food services	Instances in which the District administers resources on behalf of someone else, such as scholarship programs.
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in fund net assets Statement of cash flows	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 the 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 after	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

District-wide Financial Statements

The District-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 and how they have changed. 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 District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating.
- To assess the District's overall health, readers should consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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 services are included here, as reported in the School Nutrition Fund.

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 or by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for various student activity funds or to demonstrate it is properly using certain revenues.

The District has three types of funds:

- *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 available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, reconciliations between the District-wide financial statements and the fund financial statements follow the fund financial statements.
 - The District's governmental funds include the General Fund, the Management Levy Fund, the Student Activity Fund, the Physical Plant and Equipment Levy Fund, the Capital Projects Fund and the Debt Service Fund.
 - The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- *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 funds*, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Golf Driving Range 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 uses an internal service fund to account for employee benefits.
 - 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.
- *Fiduciary funds:* The District serves as 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 for which the District administers and accounts for revenues and expenditures for the City of Perry's share of local option sales and services tax, early retiree health and dental insurance and COBRA insurance payments.

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

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Financial Analysis of the District as a Whole

Net Assets – Figure A-3 provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

Figure A-3								
Condensed Statement of Net Assets								
	Governmental		Business Type		Total		Percent	Change
	Activities		Activities		School District		June 30,	
	June 30,		June 30,		June 30,			
	2006	2005	2006	2005	2006	2005		
Current and other assets	\$ 12,102,178	10,626,863	254,970	174,502	12,357,148	10,801,365		14.40%
Capital assets	16,697,255	16,668,025	272,501	281,513	16,969,756	16,949,538		0.12%
Total assets	28,799,433	27,294,888	527,471	456,015	29,326,904	27,750,903		5.68%
Long-term liabilities	13,564,320	13,053,059	843	587	13,565,163	13,053,646		3.92%
Other liabilities	10,613,002	9,304,022	81,866	71,717	10,694,868	9,375,739		14.07%
Total liabilities	24,177,322	22,357,081	82,709	72,304	24,260,031	22,429,385		8.16%
Net assets:								
Invested in capital assets,								
net of related debt	4,308,606	4,173,025	272,501	281,513	4,581,107	4,454,538		2.84%
Restricted	556,965	503,602	-	-	556,965	503,602		10.60%
Unrestricted	(243,460)	261,180	172,261	102,198	(71,199)	363,378		-119.59%
Total net assets	\$ 4,622,111	4,937,807	444,762	383,711	5,066,873	5,321,518		-4.79%

As shown in figure A-3, current and other assets increased by about 14 percent, or by approximately \$1.56 million, over the prior year, and other liabilities also increased by about 14 percent, or about \$1.3 million. These increases were primarily due to the District's increased participation in the Iowa School Cash Anticipation Program (ISCAP) during FY06.

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints, decreased by \$434,577, or by approximately 120 percent. This decrease was primarily due to the District's income surtax expiring in fiscal 2005. Total net assets decreased by \$254,645, or about 4.8%, during the period.

Changes in Net Assets – Figure A-4 shows a summary of the District's changes in net assets for the fiscal year ended June 30, 2006 as compared to fiscal 2005.

Figure A-4							
Change in Net Assets							
	Governmental Activities		Business Type Activities		Total School District		Percent Change
	2006	2005	2006	2005	2006	2005	2005-2006
Revenues:							
Program revenues:							
Charges for service	\$ 733,362	706,183	385,122	368,166	1,118,484	1,074,349	4.1%
Operating grants, contributions and restricted interest	2,195,565	1,869,404	699,975	573,589	2,895,540	2,442,993	18.5%
Capital grants, contributions and restricted interest	46,472	71,990	-	-	46,472	71,990	-35.4%
General revenues and transfers:							
Property tax	4,604,733	4,529,524	-	-	4,604,733	4,529,524	1.7%
Local option sales and services tax	799,483	713,794	-	-	799,483	713,794	12.0%
Income surtax	263,836	526,000	-	-	263,836	526,000	-49.8%
Unrestricted state grants and contributions	7,679,078	7,303,408	-	-	7,679,078	7,303,408	5.1%
Unrestricted investment earnings	156,294	84,316	2,725	1,028	159,019	85,344	86.3%
Gain on disposal of capital asset	848	1,805	-	-	848	1,805	100.0%
Other	10,208	5,140	-	-	10,208	5,140	98.6%
Interfund transfers	(729)	(4,105)	729	4,105	-	-	0.0%
Total revenues	16,489,150	15,807,459	1,088,551	946,888	17,577,701	16,754,347	4.9%
Program expenses:							
Governmental activities:							
Instruction	10,345,122	9,672,594	-	-	10,345,122	9,672,594	7.0%
Support services	4,567,912	4,479,939	19,131	-	4,587,043	4,479,939	2.4%
Non-instructional programs	359,583	-	1,008,369	950,604	1,367,952	950,604	43.9%
Other expenses	1,532,229	1,579,163	-	-	1,532,229	1,579,163	-3.0%
Total expenses	16,804,846	15,731,696	1,027,500	950,604	17,832,346	16,682,300	6.9%
Change in net assets	(315,696)	75,763	61,051	(3,716)	(254,645)	72,047	-453.4%
Net assets beginning of year, as restated	4,937,807	4,862,044	383,711	387,427	5,321,518	5,249,471	1.4%
Net assets end of year	\$ 4,622,111	4,937,807	444,762	383,711	5,066,873	5,321,518	-4.8%

Property tax revenues of \$4,604,733 and unrestricted state grants of \$7,679,078 account for 70% of the District's total revenues in all funds, totaling \$17,577,701 as shown above. The District's expenses are primarily in the instruction and support services functions, which total 84% of the total expenses shown in Figure A-4. Income surtax revenue for 2006 was \$263,836, compared to \$526,000 for 2005, a decrease of nearly 50%. This decrease was due to the District's General Fund income surtax expiring in fiscal 2005. Non-instructional program expenses increased by nearly 44%, mainly due to changes in the reporting code structure, which now accounts for more programs in this category. Total District revenues were 4.9% higher than the prior year, and the corresponding expenses were 6.9% higher.

Governmental Activities

Revenues for governmental activities were \$16,489,150, a 4.3% increase over the prior year. Expenses were \$16,804,846, a 6.8% increase over the prior year. The District was able to balance the operating budget for FY06 by reducing expenses to match available resources.

Income surtax revenues decreased by \$262,164 from the prior year, but unrestricted state grants and contributions rose by \$375,670, largely due to an increase in state aid. This increase in state funding during FY06 occurred as a result of an increase in student enrollment during the 2005-06 school year of 51 students. Operating grants, contributions and restricted interest increased by \$326,161 over the prior year.

The following table, Figure A-5, presents the cost of the four major District activities: Instruction, Support Services, Non-Instructional Programs and Other Expenses. The table shows each activity's *net* cost, which is the total expense less any fees generated by the activities and intergovernmental aid provided for specific programs. Therefore, the net cost indicates the financial burden placed on the District's taxpayers for each of these District functions.

	2006		2005	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$ 10,345,122	8,225,948	9,672,594	7,913,037
Support services	4,567,912	4,453,530	4,479,939	4,170,916
Non-instructional programs	359,583	215,761	-	-
Other expenses	1,532,229	934,208	1,579,163	1,000,166
Total	\$ 16,804,846	13,829,447	15,731,696	13,084,119

The total cost of all governmental activities for FY06 was \$16,804,846. Some of this cost, or approximately \$733,000, was financed by users of the District's programs, such as from fees or admissions revenues. Another \$2.24 million was subsidized by federal and state governments through restricted program grants and contributions. These revenues are categorized as program revenues because they are specifically related to a certain program and, therefore, they must be expended within that program.

The net cost of services for all governmental activities was \$13,829,447, financed primarily with revenues from unrestricted state aid and local property tax. State aid and property tax are examples of general revenues, since they are not specific to a program and are available to be expended for more universal purposes within a specific fund. The costs subsidized by grants and contributions or financed by users increased by about \$328,000 over the prior year.

Business-Type Activities

As previously discussed, the District's business-type funds include the School Nutrition Fund and the Golf Driving Range Fund. The only financial activity in the Golf Driving Range Fund, new for 2006, was \$1,700 collected in donations revenues. Revenues for the School Nutrition Fund were \$1,086,851, an increase of nearly \$140,000 from the prior year. The increase was primarily seen in Federal revenues, partly due to increased student participation in the National School Lunch Program and a federal grant which provides for a daily fruit or vegetable snack for younger students. School Nutrition Fund expenses increased by \$76,896 over the prior year, totaling \$1,027,500, as shown in Figure A-4.

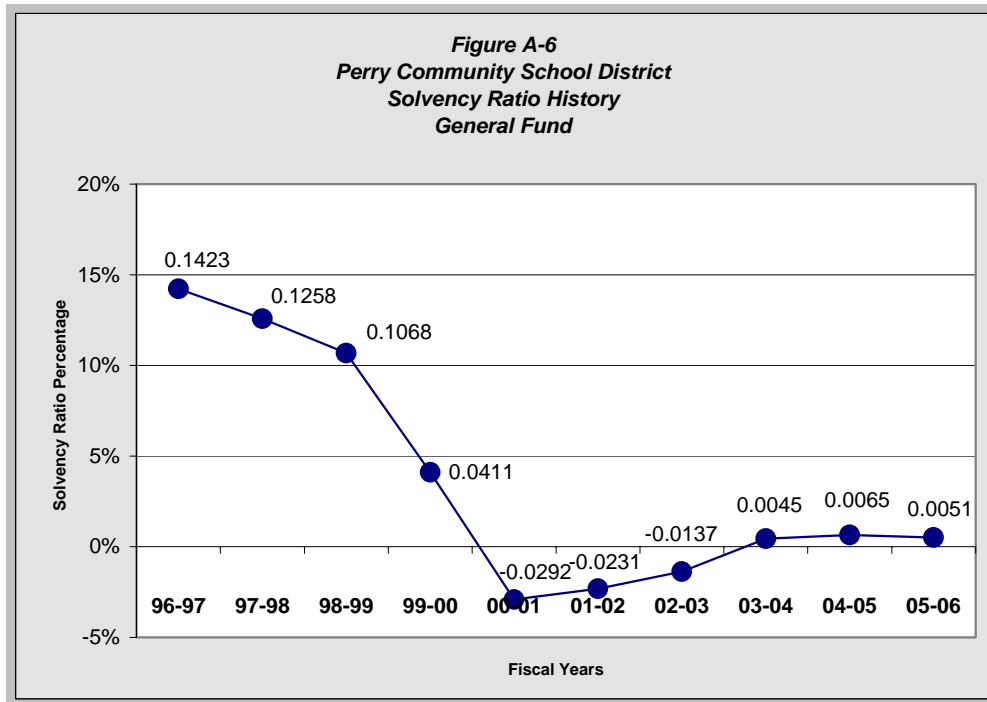
Financial Analysis of the District's Funds

The Perry Community School District uses fund accounting to ensure and demonstrate compliance with finance-related statutory requirements. A summary financial analysis of individual District Funds follows, categorized into governmental and business types:

Governmental Fund Highlights

The financial performance of the District as a whole is largely reflected in its governmental funds, particularly by analysis of the fund balances. Overall, the District's governmental funds had combined fund balances of \$1,334,067 at June 30, 2006, an increase of \$578,442 over the prior year. The following is a closer look at each individual major fund:

- The **General Fund** reported an overall decrease in its fund balance of \$21,793, from \$112,116 at June 30, 2005 to \$90,323 at June 30, 2006. The decrease is primarily due to an increase in expenditures for instruction and support services. The undesignated and unreserved portion of this fund balance decreased by \$13,811, which is one factor by which solvency ratios are calculated. Figure A-6 below shows a history of the District's financial solvency ratio for several years. The solvency ratio is considered a measure of financial health and is calculated by dividing the District's undesignated and unreserved General Fund balance by its actual General Fund revenues. The ideal ratio is typically between 5 and 10 percent, according to the Iowa Association of School Boards. As shown in the graph below, the District has had some positive financial recovery after several years of sharp decline.



- The **Debt Service Fund** balance decreased by \$13,643 from the prior year. This decrease in fund balance was due to a significant decrease in property tax revenues, but was offset by an increase in monies transferred in from other funds. The Debt Service Fund is used to account for principal and interest payments on debt to the District's bond holders. Local property tax and interest earnings accounted for about \$339,000 in revenues. A total of approximately \$837,000 was transferred in from the Capital Projects Fund and the Physical Plant and Equipment Levy (PPEL) Fund in order to meet the District's debt obligations.

- The **Capital Projects Fund** balance increased from \$205,307 at June 30, 2005 to \$786,351 at June 30, 2006, an increase of over \$581,000. While tax revenues in this fund increased by about \$86,000 over the prior year, the major increase to fund balance was due to the sale of \$915,000 in revenue bonds for a multi-phase Middle School roof replacement project. Phase I of the project was completed during the prior year, and the remaining bond proceeds have been reserved for Phases II and III.

Business-Type Fund Highlights

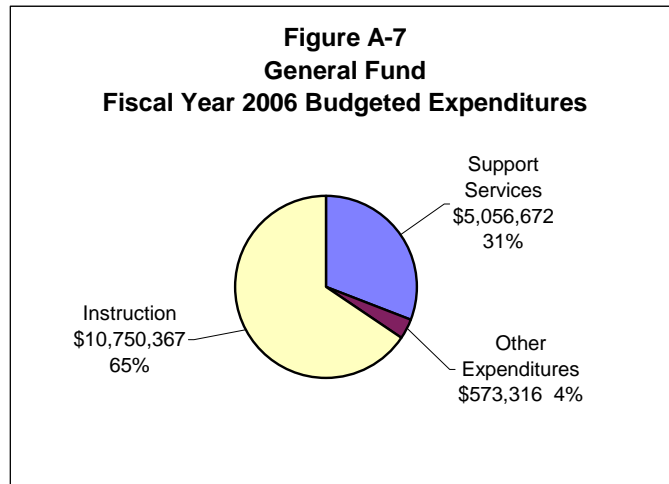
- The **School Nutrition Fund** balance increased from \$383,711 at June 30, 2005 to \$443,062 at June 30, 2006. Nearly 62% of this fund balance represents the net value of capital assets, such as kitchen and cafeteria equipment, while the remaining 38% is unrestricted cash. The School Nutrition Fund continues to serve breakfasts, lunches, and snacks at District sites, and also provides meal services to children attending Head Start.

Budgetary Highlights

Expenditures

Total expenditures for 2006 were \$1,597,953 less than the District’s certified budget for expenditures, a variance of 8.7%. It is the District’s practice to budget expenditures at the maximum authorized authority for the General Fund. For other funds, the District’s policy is to set expenditures at the maximum available dollars. Spending for all funds is managed and controlled through the District’s line-item budget.

Of all the Governmental Funds, the General Fund is by far the largest, comprising 88% percent of all Governmental Fund budgeted expenditures for the fiscal year. Total General Fund budgeted expenditures for fiscal year 2006 were \$16,380,355. Figure A-7 indicates the percentage expended in each function.

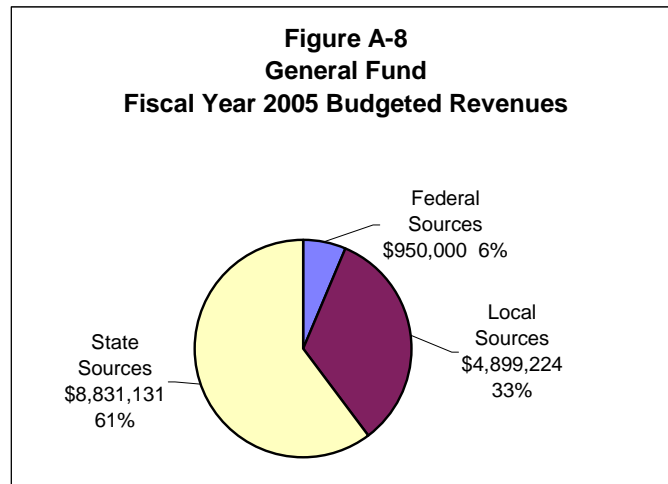


The General Fund budget is reviewed in detail in the business office and updated on an ongoing basis to reflect any anticipated changes in staffing or non-staffing costs. The Board of Directors receives a monthly summary of revenue and expense reports showing cash-basis comparisons from prior years. Principals and departmental supervisors also review their specific budgets monthly and are responsible for the first-level approval of any non-salary expenditures for the department they supervise.

Revenues

General Fund budgeted revenues totaled \$14,680,355 for fiscal year 2006. Figure A-8 shows a comparison of the three main revenue streams, according to the source of the funding.

The largest source of funding for the District is the State of Iowa, from which 60%, or nearly \$8.8 million, of its revenue is received. This includes unrestricted state aid and restricted program or categorical funds. Local sources provide \$4.9 million, or 34% of the District's General Fund revenues, mostly from property taxes levied. Other sources of local revenue are tuition, student fees and facility rental. Federal sources of revenue were 6%, or about \$925,500. Nearly all of the District's General Fund federal revenue is received in the form of restricted grants, such as the Title I reading program.



The District amended its certified budget during fiscal year 2006 to reflect an increase of approximately \$335,000 in expenditures for capital projects. This increase in planned expenditures was primarily due to a sale of bonds for the elementary playground resurfacing and for expending additional fund balance on other capital projects.

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal year 2006, the District had invested, net of depreciation, a total of about \$16.7 million in capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices. As shown in Figure A-9, this amount represents just a slight increase of 0.12% over the restated prior year.

**Figure A-9
Capital Assets, net of Depreciation**

	Governmental Activities		Business type Activities		Total School District		Percent Change 2005-2006
	2006	2005	2006	2005	2006	2005	
Land	\$ 95,751	95,751	-	-	95,751	95,751	0.00%
Construction in progress	335,013	298,267	-	-	335,013	298,267	12.32%
Buildings	15,185,141	15,264,314	-	-	15,185,141	15,264,314	-0.52%
Improvements other than buildings	517,066	448,472	-	-	517,066	448,472	15.30%
Furniture and equipment	564,284	561,221	272,501	281,513	836,785	842,734	-0.71%
Total	\$ 16,697,255	16,668,025	272,501	281,513	16,969,756	16,949,538	0.12%

Capital improvements other than buildings had the largest percentage increase over the prior year at 15.3% and totaled \$517,066 at June 30, 2006. This category increased as work was completed on the elementary playground resurfacing project. Construction in progress totaled \$335,013 at the end of fiscal year 2006, a 12.3% increase over the prior year. This increase is due to work in process on the middle school roof replacement project. Categories for buildings and furniture and equipment were only slightly lower, with decreases of less than 1%.

Long-Term Obligations

On June 30, 2006, the District had a total of \$13,564,320 in general obligation bonds and other long-term obligations outstanding. This represents an increase of 3.92% over the prior year, as shown in Figure A-10. As of June 30, 2006, the District did not exceed its legal debt limit of \$18,818,403.

Regular scheduled debt service payments of principal and interest on general obligation bonds were paid in fiscal 2006. This resulted in debt reduction of \$580,000, or 5.17%, for that category.

Figure A-10			
Outstanding Long-Term Obligations			
	Total		Percent
	School District		Change
	2006	2005	2005-2006
General obligation bonds	\$ 10,640,000	11,220,000	-5.17%
Local option tax revenue bonds	2,302,000	1,275,000	80.55%
Notes payable - QAZB	300,000	300,000	0.00%
Early retirement	287,153	219,691	30.71%
Compensated absences	35,167	38,368	-8.34%
Total	\$ 13,564,320	13,053,059	3.92%

Local option tax revenue bond debt increased by over 80% during 2006. The District sold bonds for two new projects – the \$112,000 elementary playground resurfacing and \$915,000 for a multi-phase middle school roof replacement project. All debt associated with local option tax revenue bonds is scheduled to be paid by fiscal year 2014 when this voter approved tax sunsets.

The District issued \$300,000 in Qualified Zone Academy Bond (QZAB) capital loan notes in fiscal year 2003 to finance capital projects underway at that time. This was a relatively new financing instrument, federally subsidized, and available to school districts with qualifying low-income populations. Pursuant to the terms of the note, the District makes annual deposits to an escrow account held by a third party fiscal agent. The funds on deposit with the escrow agent, \$148,056 at June 30, 2006, are to be invested to provide funds to retire the note at its maturity on June 30, 2008.

The District's early retirement plan obligations rose from \$219,691 at the end of 2005 to \$287,153 at the end of 2006, an increase of about 31% over the prior year. This increase was due to more eligible staff taking advantage of this benefit during 2006 than in the prior year.

Factors Bearing on the District's Future

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

- District enrollment decreased at the start of the 2006-07 school year by 17 students, or by less than 1% of the total 1876 enrolled in the previous year. Under Iowa's school foundation formula, a school district's state aid funding is highly dependant upon its enrollment. A one-percent decrease in enrollment will cause the District's percentage amount of budgetary allowable growth to be less than the actual percentage amount set by the Legislature. These enrollment counts reported in the fall of 2006 will be the basis for the District's allowable growth for fiscal year 2008.
- The District receives Local Option Sales and Services Tax (LOSST) revenues from all of its three counties of Boone, Dallas, and Greene. These receipts continue to steadily increase in Dallas County, from which 96% of the District's LOSST revenues are generated. This funding provides resources for school infrastructure, such as capital improvements, or for the retirement of outstanding bonds. The LOSST funding has been heavily utilized for the retirement of bonds, which has stabilized property tax rates. The current voter-approved LOSST will sunset in 2014.
- The District's General Fund income surtax expired during the prior year, but the associated revenues were actually received during fiscal year 2006. The Board of Directors elected to participate in the State of Iowa's Instructional Support Levy (ISL), beginning with the 2006-07 fiscal year. The ISL is funded through local property tax, but also creates an additional funding stream through a matched percentage from the State of Iowa. Three percent income surtax continues to be levied in the Physical Plant and Equipment Levy (PPEL) Fund.

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 commitment of accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Shelly Clifford, Business Manager, Perry Community School District, 1219 Warford Street, Perry, Iowa 50220.

Basic Financial Statements

Perry Community School District

Statement of Net Assets

June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Foundation
Assets				
Cash and cash equivalents:				
ISCAP	\$ 4,015,103	-	4,015,103	-
Held by fiscal agent	148,056	-	148,056	-
Other	3,160,406	214,028	3,374,434	99,404
Receivables:				
Property tax:				
Delinquent	69,683	-	69,683	-
Succeeding year	4,099,000	-	4,099,000	-
Income surtax	134,000	-	134,000	-
Accounts	27,897	1,286	29,183	-
ISCAP accrued interest	32,765	-	32,765	-
Due from other governments	415,268	29,054	444,322	-
Inventories	-	10,602	10,602	-
Capital assets, net of accumulated depreciation	16,697,255	272,501	16,969,756	-
Total assets	28,799,433	527,471	29,326,904	99,404
Liabilities				
Accounts payable	77,842	2,696	80,538	-
Salaries and benefits payable	1,597,053	72,492	1,669,545	-
ISCAP warrants payable	4,013,000	-	4,013,000	-
ISCAP accrued interest payable	28,366	-	28,366	-
ISCAP unamortized premium	28,390	-	28,390	-
Anticipatory warrant payable	700,000	-	700,000	-
Accrued interest payable	69,351	-	69,351	-
Deferred revenue:				
Succeeding year property tax	4,099,000	-	4,099,000	-
Other	-	6,678	6,678	-
Long-term liabilities:				
Portion due within one year:				
General obligation bonds payable	605,000	-	605,000	-
Revenue bonds payable	28,000	-	28,000	-
Early retirement payable	112,659	-	112,659	-
Compensated absences	35,167	843	36,010	-
Portion due after one year:				
General obligation bonds payable	10,035,000	-	10,035,000	-
Revenue bonds payable	2,274,000	-	2,274,000	-
Notes payable	300,000	-	300,000	-
Early retirement payable	174,494	-	174,494	-
Total liabilities	24,177,322	82,709	24,260,031	-

Perry Community School District

Statement of Net Assets

June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total	School Foundation
Net assets				
Invested in capital assets, net of related debt	4,308,606	272,501	4,581,107	-
Restricted for:				
Physical plant and equipment levy	135,822	-	135,822	-
Other special revenue purposes	104,245	-	104,245	-
Debt service	316,898	-	316,898	-
Unrestricted	(243,460)	172,261	(71,199)	99,404
Total net assets	\$ 4,622,111	444,762	5,066,873	99,404

See notes to financial statements.

Perry 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				
Primary Government:				
Governmental activities:				
Instruction:				
Regular instruction	\$ 5,792,661	219,006	701,957	5,093
Special instruction	2,332,441	51,103	208,017	-
Other instruction	2,220,020	327,874	606,124	-
	<u>10,345,122</u>	<u>597,983</u>	<u>1,516,098</u>	<u>5,093</u>
Support services:				
Student services	523,416	-	53,375	-
Instructional staff services	682,722	-	30,816	-
Administration services	1,545,982	-	-	-
Operation and maintenance of plant services	1,359,934	27,331	-	-
Transportation services	455,858	2,860	-	-
	<u>4,567,912</u>	<u>30,191</u>	<u>84,191</u>	<u>-</u>
Non-instructional programs	<u>359,583</u>	<u>105,188</u>	<u>38,634</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	41,840	-	-	41,379
Long-term debt interest	575,809	-	26,258	-
AEA flowthrough	530,384	-	530,384	-
Depreciation (unallocated)*	384,196	-	-	-
	<u>1,532,229</u>	<u>-</u>	<u>556,642</u>	<u>41,379</u>
Total governmental activities	<u>16,804,846</u>	<u>733,362</u>	<u>2,195,565</u>	<u>46,472</u>
Business type activities:				
Support services:				
Administration services	3,113	-	-	-
Operation and maintenance of plant services	14,864	-	-	-
Transportation services	1,154	-	-	-
	<u>19,131</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-instructional programs:				
Food service operations	1,008,369	385,122	699,975	-
Total business type activities	<u>1,027,500</u>	<u>385,122</u>	<u>699,975</u>	<u>-</u>
Total Primary Government	<u>\$ 17,832,346</u>	<u>1,118,484</u>	<u>2,895,540</u>	<u>46,472</u>
Component Unit:				
School Foundation	\$ 38,251	-	-	13,512

General Revenues and Transfers:

Property tax levied for:	
General purposes	
Debt service	
Capital outlay	
Local option sales and services tax	
Income surtax	
Unrestricted state grants and contributions	
Unrestricted investment earnings	
Gain on sale of equipment	
Other	
Transfers	
Total general revenues and transfers	
Change in net assets	
Net assets beginning of year, as restated	
Net assets end of year	

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

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	School Foundation
(4,866,605)	-	(4,866,605)	-
(2,073,321)	-	(2,073,321)	-
(1,286,022)	-	(1,286,022)	-
(8,225,948)	-	(8,225,948)	-
(470,041)	-	(470,041)	-
(651,906)	-	(651,906)	-
(1,545,982)	-	(1,545,982)	-
(1,332,603)	-	(1,332,603)	-
(452,998)	-	(452,998)	-
(4,453,530)	-	(4,453,530)	-
(215,761)	-	(215,761)	-
(461)	-	(461)	-
(549,551)	-	(549,551)	-
-	-	-	-
(384,196)	-	(384,196)	-
(934,208)	-	(934,208)	-
(13,829,447)	-	(13,829,447)	-
-	(3,113)	(3,113)	-
-	(14,864)	(14,864)	-
-	(1,154)	(1,154)	-
-	(19,131)	(19,131)	-
-	76,728	76,728	-
-	57,597	57,597	-
(13,829,447)	57,597	(13,771,850)	-
-	-	-	(24,739)
4,172,190	-	4,172,190	-
312,864	-	312,864	-
119,679	-	119,679	-
799,483	-	799,483	-
263,836	-	263,836	-
7,679,078	-	7,679,078	-
156,294	2,725	159,019	1,776
848	-	848	-
10,208	-	10,208	-
(729)	729	-	-
13,513,751	3,454	13,517,205	1,776
(315,696)	61,051	(254,645)	(22,963)
4,937,807	383,711	5,321,518	122,367
\$ 4,622,111	444,762	5,066,873	99,404

Perry Community School District

Balance Sheet
Governmental Funds

June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Assets					
Cash and pooled investments:					
ISCAP	\$ 4,015,103	-	-	-	4,015,103
Held by fiscal agent	-	-	-	148,056	148,056
Other	1,410,613	700,743	658,992	303,215	3,073,563
Receivables:					
Property tax:					
Delinquent	59,624	4,650	-	5,409	69,683
Succeeding year	3,299,000	439,000	-	361,000	4,099,000
Income surtax	-	-	-	134,000	134,000
Accounts	27,852	-	-	45	27,897
ISCAP accrued interest	32,765	-	-	-	32,765
Due from other governments	273,409	-	141,859	-	415,268
Total assets	\$ 9,118,366	1,144,393	800,851	951,725	12,015,335
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 62,234	200	14,500	908	77,842
Salaries and benefits payable	1,597,053	-	-	-	1,597,053
ISCAP warrants payable	4,013,000	-	-	-	4,013,000
ISCAP accrued interest payable	28,366	-	-	-	28,366
ISCAP unamortized premium	28,390	-	-	-	28,390
Anticipatory warrants payable	-	700,000	-	-	700,000
Anticipatory warrant accrued interest payable	-	3,617	-	-	3,617
Deferred revenue:					
Succeeding year property tax	3,299,000	439,000	-	361,000	4,099,000
Income surtax	-	-	-	134,000	134,000
Total liabilities	9,028,043	1,142,817	14,500	495,908	10,681,268
Fund balances:					
Reserved for:					
Debt service	-	1,576	233,000	148,056	382,632
Capital projects	-	-	553,351	-	553,351
Unreserved:					
Designated for track resurfacing	15,000	-	-	-	15,000
Undesignated reported in:					
General fund	75,323	-	-	-	75,323
Special revenue funds	-	-	-	307,761	307,761
Total fund balances	90,323	1,576	786,351	455,817	1,334,067
Total liabilities and fund balances	\$ 9,118,366	1,144,393	800,851	951,725	12,015,335

See notes to financial statements.

Perry 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 24) \$ 1,334,067

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. 16,697,255

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 134,000

The Internal Service Fund is used by management to charge the costs of the district's health and other insurance benefits to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 86,843

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. (65,734)

Long-term liabilities, including bonds and notes payable, compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported in the funds. (13,564,320)

Net assets of governmental activities (page 21) \$ 4,622,111

See notes to financial statements.

Exhibit E

Perry Community School District

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

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,437,253	312,864	799,483	510,453	6,060,053
Tuition	198,073	-	-	-	198,073
Other	427,752	26,258	32,209	335,975	822,194
State sources	8,864,285	261	-	300	8,864,846
Federal sources	925,508	-	-	-	925,508
Total revenues	14,852,871	339,383	831,692	846,728	16,870,674
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,525,502	-	-	162,450	5,687,952
Special instruction	2,313,491	-	-	21,103	2,334,594
Other instruction	1,863,319	-	-	334,923	2,198,242
	9,702,312	-	-	518,476	10,220,788
Support services:					
Student services	518,280	-	-	5,099	523,379
Instructional staff services	639,150	-	-	60,940	700,090
Administration services	1,467,175	32,509	-	15,812	1,515,496
Operation and maintenance of plant services	1,294,816	-	-	53,535	1,348,351
Transportation services	374,415	-	-	94,257	468,672
	4,293,836	32,509	-	229,643	4,555,988
Non-instructional programs	349,457	-	-	8,259	357,716
Other expenditures:					
Facilities acquisition	-	-	485,204	16,844	502,048
Long-term debt:					
Principal	-	580,000	-	-	580,000
Interest and fiscal charges	-	577,961	-	-	577,961
AEA flowthrough	530,384	-	-	-	530,384
	530,384	1,157,961	485,204	16,844	2,190,393
Total expenditures	14,875,989	1,190,470	485,204	773,222	17,324,885
Excess (deficiency) of revenues over (under) expenditures	(23,118)	(851,087)	346,488	73,506	(454,211)
Other financing sources (uses):					
Sale of equipment	2,054	-	-	4,328	6,382
Local option sales and services tax revenue bonds issued	-	-	1,027,000	-	1,027,000
Operating transfers in	-	837,444	-	-	837,444
Operating transfers out	(729)	-	(792,444)	(45,000)	(838,173)
Total other financing sources (uses)	1,325	837,444	234,556	(40,672)	1,032,653
Net change in fund balances	(21,793)	(13,643)	581,044	32,834	578,442
Fund balances beginning of year	112,116	15,219	205,307	422,983	755,625
Fund balances end of year	\$ 90,323	1,576	786,351	455,817	1,334,067

See notes to financial statements.

Perry 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 26) \$ 578,442

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 allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and capital contributions exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 584,230	
Capital contributions	5,093	
Depreciation expense	<u>(559,823)</u>	29,500

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (270)

Certain revenues not collected for several months after year end are not considered available revenue and are deferred in the governmental funds. (392,000)

Proceeds from issuing long-term liabilities provide current resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(1,027,000)	
Repaid	<u>580,000</u>	(447,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 2,152

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	(67,462)	
Compensated absences	<u>3,201</u>	(64,261)

The Internal Service Fund is used by management to charge the costs of the District's health and other insurance benefits to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (22,259)

Change in net assets of governmental activities (page 23) \$ (315,696)

See notes to financial statements.

Exhibit G

Perry Community School District

Statement of Net Assets
Proprietary Funds

June 30, 2006

	Business Type Activities			Governmental Activities Internal Service
	Enterprise			
	School Nutrition	Nonmajor		
		Golf Driving Range	Total	
Assets				
Cash and cash equivalents	\$ 212,328	1,700	214,028	86,843
Accounts receivable	1,286	-	1,286	-
Due from other governments	29,054	-	29,054	-
Inventories	10,602	-	10,602	-
Capital assets, net of accumulated depreciation	272,501	-	272,501	-
Total assets	525,771	1,700	527,471	86,843
Liabilities				
Accounts payable	2,696	-	2,696	-
Salaries and benefits payable	72,492	-	72,492	-
Deferred revenue	6,678	-	6,678	-
Compensated absences	843	-	843	-
Total liabilities	82,709	-	82,709	-
Net Assets				
Invested in capital assets	272,501	-	272,501	-
Unrestricted	170,561	1,700	172,261	86,843
Total net assets	\$ 443,062	1,700	444,762	86,843

See notes to financial statements.

Perry 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 Internal Service
	Enterprise			
	School	Nonmajor Golf	Total	
	Nutrition	Driving Range	Total	
Operating revenues:				
Local sources:				
Charges for service	\$ 385,122	-	385,122	1,124,038
Operating expenses:				
Support services:				
Administration services	3,113	-	3,113	1,146,297
Operation and maintenance of plant services	14,864	-	14,864	-
Transportation services	1,154	-	1,154	-
	19,131	-	19,131	1,146,297
Non-instructional programs:				
Food service operations:				
Salaries	355,824	-	355,824	-
Benefits	67,164	-	67,164	-
Purchased services	7,382	-	7,382	-
Supplies	541,179	-	541,179	-
Depreciation	33,736	-	33,736	-
	1,005,285	-	1,005,285	-
Total operating expenses	1,024,416	-	1,024,416	1,146,297
Operating loss	(639,294)	-	(639,294)	(22,259)
Non-operating revenues (expenses):				
State sources	10,758	-	10,758	-
Federal sources	687,517	-	687,517	-
Interest income	2,725	-	2,725	-
Donations	-	1,700	1,700	-
Loss on disposal of capital assets	(3,084)	-	(3,084)	-
Total non-operating revenues (expenses)	697,916	1,700	699,616	-
Net income (loss) before transfers	58,622	1,700	60,322	(22,259)
Transfers in	729	-	729	-
Change in net assets	59,351	1,700	61,051	(22,259)
Net assets beginning of year	383,711	-	383,711	109,102
Net assets end of year	\$ 443,062	1,700	444,762	86,843

See notes to financial statements.

Exhibit I

Perry Community School District

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2006

	Business Type Activities			Governmental Activities Internal Service
	Enterprise			
	School	Nonmajor		
		Nutrition	Golf Driving Range	
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 385,000	-	385,000	-
Cash received from operating funds and employees	-	-	-	1,137,428
Cash paid to employees for services	(413,527)	-	(413,527)	-
Cash paid to suppliers for goods or services	(529,125)	-	(529,125)	(1,146,298)
Net cash used by operating activities	(557,652)	-	(557,652)	(8,870)
Cash flows from non-capital financing activities:				
State grants received	10,758	-	10,758	-
Federal grants received	647,601	-	647,601	-
Donations	-	1,700	1,700	-
Transfers in	729	-	729	-
Net cash provided by non-capital financing activities	659,088	1,700	660,788	-
Cash flows from capital and related financing activities:				
Sale of capital assets	4,500	-	4,500	-
Acquisition of capital assets	(32,308)	-	(32,308)	-
Net cash used by capital and related financing activities	(27,808)	-	(27,808)	-
Cash flows from investing activities:				
Interest on investments	2,725	-	2,725	-
Net increase (decrease) in cash and cash equivalents	76,353	1,700	78,053	(8,870)
Cash and cash equivalents beginning of year	135,975	-	135,975	95,713
Cash and cash equivalents end of year	\$ 212,328	1,700	214,028	86,843
Reconciliation of operating loss to net cash used by operating activities:				
Operating loss	\$ (639,294)	-	(639,294)	(22,259)
Adjustments to reconcile operating loss to net cash used by operating activities:				
Commodities used	40,084	-	40,084	-
Depreciation	33,736	-	33,736	-
(Increase) in inventories	(2,694)	-	(2,694)	-
Decrease in accounts receivable	111	-	111	13,389
Increase in accounts payable	292	-	292	-
(Decrease) in deferred revenues	(233)	-	(233)	-
Increase in salaries and benefits payable	10,090	-	10,090	-
Increase in compensated absences	256	-	256	-
Net cash used by operating activities	\$ (557,652)	-	(557,652)	(8,870)

Non-cash investing, capital and financing activities:

During the year ended June 30, 2006, the District received \$40,084 of federal commodities.

See notes to financial statements.

Perry Community School District

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2006

	Private Purpose Trust	
	Scholarship	Agency
Assets		
Cash and pooled investments	\$ 1,152,287	34,092
Due from other governments	-	133,854
Total assets	1,152,287	167,946
Liabilities		
Accounts payable	5	138
Due to other governments	-	133,854
Trusts payable	-	33,954
Total liabilities	5	167,946
Net assets		
Reserved for scholarships	\$ 1,152,282	-

See notes to financial statements.

Exhibit K

Perry Community School District

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2006

	<u>Private Purpose</u> <u>Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Gifts and contributions	\$ 25,994	
Interest income	33,277	
Total additions	<u>59,271</u>	
Deductions:		
Regular instruction:		
Scholarships awarded		<u>47,734</u>
Change in net assets		11,537
Net assets beginning of year		<u>1,140,745</u>
Net assets end of year		<u>\$ 1,152,282</u>

See notes to financial statements.

Perry Community School District

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Perry 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. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Perry, Iowa, and the predominate agricultural territory in Dallas, Greene and Boone counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Perry Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

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

Discretely Presented Component Unit

The School Foundation is a legally separate entity, organized as a charitable organization under Chapter 501(c)(3) of the Internal Revenue Code. The Foundation's primary purpose is to collect funds and provide financial support for activities of the Perry Community School District. The Foundation is governed by a twelve member Board of Directors appointed by the Foundation's Board of Directors. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented.

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 the Dallas County Assessor's Conference Board.

In addition, pursuant to Chapter 28E of the Code of Iowa, the City of Perry, the Perry Community School District and the Dallas County Hospital (Members), created the Perry Area Child Development Corporation to provide a full service child day care center for the community served by the members. The unincorporated association's board consists of a representative from each of the members plus two at-large representatives from the community. No fees or capital contributions are required unless the amounts are agreed upon by unanimous vote of all members.

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 funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities and the collection and use of the local option sales and services tax.

The District reports the following major proprietary fund:

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

Additionally, the District reports the following Proprietary Fund:

The Internal Service Fund is used to finance and account for services and commodities provided by designated departments or agencies to other departments and agencies of the District.

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

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

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. The District's Agency Fund accounts for the City of Perry's share of the local option sales and services tax revenue shared pursuant to a 28E agreement between the District and the City, early retiree health and dental insurance and COBRA insurance.

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	2,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	20-50 years
Improvements other than buildings	5-20 years
Furniture and equipment	2-20 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 unearned revenue, income surtax and succeeding year property tax.

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 unearned revenue.

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 in the non-instructional function exceeded the amount budgeted and expenditures in the other expenditures function exceeded the amount budgeted prior to the budget amendment.

(2) Cash and Pooled Investments

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

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

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

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 26,334</u>

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

At June 30, 2006, the District also had the following investment:

<u>Type</u>	<u>Fair Value</u>	<u>Maturity</u>
United States Treasury Bond	<u>\$ 14,088</u>	May 2018

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

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

(3) Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 792,444
	Special Revenue:	
	Physical Plant and Equipment Levy	45,000
School Nutrition	General	<u>729</u>
Total		<u>\$ 838,173</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06B	1/26/06	1/26/07	\$ 1,579,493	32,008	1,574,000	27,746
2006-07A	6/28/06	6/28/07	2,435,610	757	2,439,000	620
Total			<u>\$ 4,015,103</u>	<u>32,765</u>	<u>4,013,000</u>	<u>28,366</u>

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2005-06A	\$ -	1,000,000	1,000,000	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2005-06A	4.000%	3.903%
2005-06B	4.500	4.772
2006-07A	4.500	5.676

(5) **Capital Assets**

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

	Balance Beginning of Year, as restated	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 95,751	-	-	95,751
Construction in progress	298,267	454,998	(418,252)	335,013
Total capital assets not being depreciated	394,018	454,998	(418,252)	430,764
Capital assets being depreciated:				
Buildings	19,892,123	305,730	-	20,197,853
Improvements other than buildings	853,185	112,523	-	965,708
Furniture and equipment	2,117,864	134,324	(78,293)	2,173,895
Total capital assets being depreciated	22,863,172	552,577	(78,293)	23,337,456
Less accumulated depreciation for:				
Buildings	4,627,809	384,903	-	5,012,712
Improvements other than buildings	404,713	43,929	-	448,642
Furniture and equipment	1,556,643	130,991	(78,023)	1,609,611
Total accumulated depreciation	6,589,165	559,823	(78,023)	7,070,965
Total capital assets being depreciated, net	16,274,007	(7,246)	(270)	16,266,491
Governmental activities capital assets, net	\$ 16,668,025	447,752	(418,522)	16,697,255

The July 1, 2005 accumulated depreciation balance for governmental activities has been restated as follows:

Balance June 30, 2005, as previously reported	\$ 5,951,171
Understatement of accumulated depreciation for furniture and equipment	637,994
Balance July 1, 2005, as restated	\$ 6,589,165

Business type activities:

Furniture and equipment	\$ 464,277	32,308	17,959	478,626
Less accumulated depreciation	182,764	33,736	10,375	206,125
Business type activities capital assets, net	\$ 281,513	(1,428)	7,584	272,501

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction:

Regular	\$ 38,360
Special	592
Other	25,003

Support services:

Instructional staff	7,928
Administration	34,742
Operation and maintenance of plant	12,796
Transportation	56,206

175,627

Unallocated

384,196

Total depreciation expense - governmental activities

\$ 559,823

Business type activities:

Food service operations

\$ 33,736

(6) Long-Term Liabilities

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

	Balance Beginning of Year			Balance End of Year		Due Within One Year
		Additions	Reductions			
General obligation bonds	\$ 11,220,000	-	580,000	10,640,000		605,000
Revenue bonds	1,275,000	1,027,000	-	2,302,000		28,000
Notes payable	300,000	-	-	300,000		-
Early retirement	219,691	157,428	89,966	287,153		112,659
Compensated absences	38,368	130,060	133,261	35,167		35,167
Total	\$ 13,053,059	1,314,488	803,227	13,564,320		780,826

General Obligation Bonds

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

Year Ending June 30,	Bond Issue of May 1, 1999			Bond Issue of Feb 1, 2000		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2007	4.100%	\$ 370,000	47,970	5.375%	\$ 205,000	86,806
2008	4.100	385,000	32,800	5.375	215,000	75,788
2009	4.150	410,000	17,015	5.375	215,000	64,232
2010	-	-	-	5.375	655,000	52,676
2011	-	-	-	5.375	325,000	17,468
2012-2016	-	-	-	-	-	-
2017-2019	-	-	-	-	-	-
Total		\$ 1,165,000	97,785		\$ 1,615,000	296,970

Year Ending June 30,	Bond Issue of May 1, 2002			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2007	4.000-4.050%	\$ 30,000	372,510	\$ 605,000	507,286
2008	4.150-4.250	35,000	371,291	635,000	479,879
2009	4.250-4.350	40,000	369,705	665,000	450,952
2010	4.350	35,000	367,975	690,000	420,651
2011	4.350-4.450	410,000	362,538	735,000	380,006
2012-2016	4.350-4.750	4,240,000	1,326,220	4,240,000	1,326,220
2017-2019	4.450-5.000	3,070,000	272,513	3,070,000	272,513
Total		\$7,860,000	3,442,752	\$ 10,640,000	3,837,507

Revenue Bonds

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

Year Ending June 30,	Bond Issue of May 1, 2004			Bond Issue of Oct 4, 2005		
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest
2007	3.000-4.200%	\$ -	46,870	4.275%	\$ 28,000	*
2008	3.000	165,000	46,870	4.275	28,000	*
2009	3.250	170,000	41,920	4.275	28,000	*
2010	3.500	175,000	36,395	4.275	28,000	*
2011	3.700	180,000	30,270	-	-	-
2012-2014	3.900-4.200	585,000	48,210	-	-	-
Total		\$ 1,275,000	250,535		\$ 112,000	-

Year Ending June 30,	Bond Issue of June 28, 2006			Bond Issue of June 28, 2006			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2007	4.550%	\$ -	15,698	6.620%	\$ -	7,448	\$ 28,000	70,016
2008	4.550	-	31,396	6.620	-	14,896	193,000	93,162
2009	4.550	-	31,396	6.620	-	14,896	198,000	88,212
2010	4.550	-	31,396	6.620	145,000	14,896	348,000	82,687
2011	4.550	90,000	31,396	6.620	80,000	5,296	350,000	66,962
2012-2014	4.550	600,000	55,512		-	-	1,185,000	103,722
Total		\$ 690,000	196,794		\$ 225,000	57,432	\$ 2,302,000	504,761

* Interest is paid by the National Safe Surfacing Initiative, LLC (NSSI). On October 4, 2005, the NSSI deposited \$13,126, total interest due to maturity on the revenue bond, into an irrevocable escrow account established pursuant to an escrow agreement between the District, NSSI and Great Western Bank, escrow agent. The account is owned by NSSI and held by the escrow agent. Interest on the revenue bonds is due annually on January 1 and is paid directly from the escrow account.

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

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

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

At June 30, 2006, the District had not established the required sinking accounts.

Notes Payable

On September 1, 2002, the District issued \$300,000 of Capital Loan Notes designated as Qualified Zone Academy Bonds, pursuant to the provisions of Chapter 297.36 of the Code of Iowa, and with a tax credit rate of 6.28%. The notes were issued to make immediately available proceeds from the voted property, plant and equipment levy.

The notes bear no interest and mature on June 30, 2008. The notes require annual deposits of \$48,255 to an escrow account held by a third party fiscal agent, with the final deposit due June 30, 2008. The funds on deposit with the escrow agent total \$148,056 at June 30, 2006 and are to be invested to provide funds sufficient to retire the notes at maturity. The balance remaining on the notes at June 30, 2006 is \$300,000.

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must have completed at least fifteen years of full-time service to the district. The employee must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application is subject to approval by the Board of Education. Early retirement benefits are equal to 60% of the employee's regular contractual salary in effect during the employee's last year of employment, with a maximum retirement benefit of \$30,000. Early retirement expenditures for the year ended June 30, 2006 totaled \$89,966.

Lease Agreement

In June 2006, the District entered into a lease-purchase agreement with Blue Bird Body Company for three buses totaling \$217,447. The lease is payable over three years at an interest rate of 4.92%. At June 30, 2006, the District had not taken custody of the buses and, therefore, the related debt has not been recorded in the District's financial statements.

Defeased Debt

In a prior year, the District defeased general obligation bonds totaling \$7,620,000 by placing the proceeds of refunding bonds into an irrevocable escrow agreement with Bankers Trust Company, N.A. to provide for all future debt service payments on the bonds. Accordingly, the assets and the liability for the defeased bonds are not included in the District's financial statements. At June 30, 2006, the defeased debt totaled \$7,450,000.

(7) Anticipatory Warrant

On May 15, 2006, the District entered into an agreement with U.S. Bank National Association of St. Paul, Minnesota to provide for the issuance of a \$700,000 warrant in anticipation of school infrastructure local option sales and services tax receipts. The warrant, which bears interest at 4.10% per annum and matures on May 15, 2007, is payable solely from the revenues of the school infrastructure local option sales and services tax.

(8) 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 \$548,899, \$521,080 and \$512,785, respectively, equal to the required contributions for each year.

(9) Risk Management

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

(10) 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 \$530,384 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

(11) Construction Commitment

The District has entered into a contract totaling \$861,754 for the replacement of the Middle School roof. As of June 30, 2006, costs of \$240,262 had been incurred against the contract. The balance of \$621,492 remaining at June 30, 2006 will be paid as work on the project progresses. The District is funding the project with local option sales and services tax.

(12) Restatement

Beginning net assets for governmental activities has been restated to correct an error in accumulated depreciation. The restatement decreased the beginning net assets, as follows:

	<u>Amount</u>
Net assets June 30, 2005, as previously reported	\$ 5,575,801
Understatement of accumulated depreciation	<u>(637,994)</u>
Net assets July 1, 2005, as restated	<u>\$ 4,937,807</u>

Perry Community School District

Required Supplementary Information

Perry Community School District

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances -
Budget and Actual – All Governmental Funds and Enterprise Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Enterprise Funds Actual	Total Actual	Budgeted Amounts		Budget to Net Variance
				Original	Final	
Revenues:						
Local sources	\$ 7,080,320	389,547	7,469,867	7,140,062	7,140,062	329,805
State sources	8,864,846	10,758	8,875,604	8,839,131	8,839,131	36,473
Federal sources	925,508	687,517	1,613,025	1,350,000	1,350,000	263,025
Total revenues	<u>16,870,674</u>	<u>1,087,822</u>	<u>17,958,496</u>	<u>17,329,193</u>	<u>17,329,193</u>	<u>629,303</u>
Expenditures/Expenses:						
Instruction	10,220,788	-	10,220,788	11,576,860	11,576,860	1,356,072
Support services	4,555,988	19,131	4,575,119	5,183,293	5,183,293	608,174
Non-instructional programs	357,716	1,008,369	1,366,085	905,127	905,127	(460,958)
Other expenditures	2,190,393	-	2,190,393	1,950,385	2,285,058	94,665
Total expenditures	<u>17,324,885</u>	<u>1,027,500</u>	<u>18,352,385</u>	<u>19,615,665</u>	<u>19,950,338</u>	<u>1,597,953</u>
Excess (deficiency) of revenues over (under) expenditures/expenses	(454,211)	60,322	(393,889)	(2,286,472)	(2,621,145)	2,227,256
Other financing sources, net	1,032,653	729	1,033,382	-	-	1,033,382
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses and other financing uses	578,442	61,051	639,493	(2,286,472)	(2,621,145)	3,260,638
Balances beginning of year	<u>755,625</u>	<u>383,711</u>	<u>1,139,336</u>	<u>3,565,973</u>	<u>3,565,973</u>	<u>(2,426,637)</u>
Balances end of year	<u>\$ 1,334,067</u>	<u>444,762</u>	<u>1,778,829</u>	<u>1,279,501</u>	<u>944,828</u>	<u>834,001</u>

See accompanying independent auditor's report.

Perry 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. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$334,673.

During the year ended June 30, 2006, expenditures in the non-instructional program function exceeded the amount budgeted and expenditures in the other expenditures function exceeded the amount budgeted prior to the budget amendment. The District's General Fund expenditures did not exceed the authorized budget.

Perry Community School District

Other Supplementary Information

Schedule 1

Perry Community School District
Combining Balance Sheet
Nonmajor Special Revenue Funds

June 30, 2006

	Special Revenue			Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	
Assets				
Cash and pooled investments	\$ 198,064	105,108	43	303,215
Cash and investments held by fiscal agent	-	-	148,056	148,056
Receivables:				
Property tax:				
Delinquent	3,630	-	1,779	5,409
Succeeding year	261,000	-	100,000	361,000
Income surtax	-	-	134,000	134,000
Accounts	-	45	-	45
Total assets	\$ 462,694	105,153	383,878	951,725
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ -	908	-	908
Deferred revenue:				
Succeeding year property tax	261,000	-	100,000	361,000
Income surtax	-	-	134,000	134,000
Total liabilities	261,000	908	234,000	495,908
Fund equity:				
Fund balances:				
Reserved for debt service	-	-	148,056	148,056
Unreserved	201,694	104,245	1,822	307,761
Total fund equity	201,694	104,245	149,878	455,817
Total liabilities and fund equity	\$ 462,694	105,153	383,878	951,725

See accompanying independent auditor's report.

Perry Community School District
Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Special Revenue			Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	
Revenues:				
Local sources:				
Local tax	\$ 239,427	-	271,026	510,453
Other	12,660	313,027	10,288	335,975
State sources	200	-	100	300
Total revenues	<u>252,287</u>	<u>313,027</u>	<u>281,414</u>	<u>846,728</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	162,450	-	-	162,450
Special instruction	21,103	-	-	21,103
Other instruction	17,952	316,971	-	334,923
Support services:				
Student services	5,099	-	-	5,099
Instructional staff services	4,502	-	56,438	60,940
Administration services	13,781	-	2,031	15,812
Operation and maintenance of plant services	5,366	717	47,452	53,535
Transportation services	19,430	5,291	69,536	94,257
Non-instructional programs	8,259	-	-	8,259
Other expenditures:				
Facilities acquisition	-	-	16,844	16,844
Total expenditures	<u>257,942</u>	<u>322,979</u>	<u>192,301</u>	<u>773,222</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,655)</u>	<u>(9,952)</u>	<u>89,113</u>	<u>73,506</u>
Other financing sources (uses):				
Sale of equipment	4,328	-	-	4,328
Operating transfers out	-	-	(45,000)	(45,000)
Total other financing sources (uses)	<u>4,328</u>	<u>-</u>	<u>(45,000)</u>	<u>(40,672)</u>
Net change in fund balances	(1,327)	(9,952)	44,113	32,834
Fund balances beginning of year	<u>203,021</u>	<u>114,197</u>	<u>105,765</u>	<u>422,983</u>
Fund balances end of year	<u>\$ 201,694</u>	<u>104,245</u>	<u>149,878</u>	<u>455,817</u>

See accompanying independent auditor's report.

Schedule 3

Perry Community School District

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
District-Wide Activity	\$ 145	-	-	(145)	-
Interest Revenue	983	905	-	(1,888)	-
Student Pictures	2,706	-	-	(2,706)	-
Nurses Fund	819	-	-	-	819
Misc Student Activity	5,608	57,054	29,599	(33,063)	-
Elem Book Fair	-	10,404	9,274	-	1,130
Elem Pencil Fund	1,844	1,435	2,051	-	1,228
Elem Rainforest	7,783	1,088	2,136	-	6,735
Elem Tag	772	1,937	499	-	2,210
Elem Spanish Camp	1,571	-	-	-	1,571
Elem At-Risk	467	-	96	-	371
MS Student Activity	11,921	20,617	19,844	(861)	11,833
MS Vocal Music	3,230	-	-	-	3,230
MS Band	4,577	25,205	22,256	-	7,526
MS Athletics	-	200	948	748	-
MS Cheerleaders	2,080	1,147	1,158	-	2,069
MS Cross Country	44	-	616	572	-
MS Boys Basketball	379	248	417	-	210
MS Football	576	1,500	1,053	-	1,023
MS Boys Track	150	438	1,612	1,024	-
MS Wrestling	474	187	218	-	443
MS Girls Basketball	-	472	653	181	-
MS Volleyball	615	-	349	-	266
MS Girls Track	-	373	1,820	1,447	-
MS Industrial Tech	708	-	-	-	708
MS TSA	5	190	-	-	195
MS Student Council	2,018	1,388	928	-	2,478
MS Book Fair	-	2,057	2,057	-	-
MS Pencil Fund	153	426	303	-	276
HS Student Activity	746	1,268	11,381	10,113	746
HS Drama	1,768	4,268	3,768	-	2,268
HS Speech	-	5,030	4,725	-	305
HS Vocal Music	7,435	2,489	1,248	-	8,676
HS Vocal Music Trips	1,110	1,423	-	-	2,533
HS Vocal Music Robes	8	-	-	-	8
HS Band	367	3,319	2,471	-	1,215
HS Band Trips	5,469	17,869	23,069	-	269
HS Band Olympics	2,484	9,847	7,827	-	4,504
HS Academic Decathlon	-	-	1,018	1,018	-
HS Mock Trial	-	84	293	209	-
HS Cheerleaders	3,151	4,261	3,817	-	3,595
HS Athletics	913	9,463	9,990	(150)	236
HS Cross Country	1,591	4,809	4,265	-	2,135

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

Account	Balance Beginning of Year	Revenues	Expenditures	Intrafund Transfers	Balance End of Year
HS Boys Basketball	7,101	2,892	2,739	-	7,254
HS Football	3,158	18,796	24,220	2,266	-
HS Boys Soccer	288	1,797	4,253	2,168	-
HS Baseball	17	4,543	6,352	1,793	1
HS Boys Track	66	906	1,773	867	66
HS Boys Golf	-	574	1,670	1,096	-
HS Wrestling	742	3,615	3,278	-	1,079
HS Girls Basketball	5,563	3,098	3,659	-	5,002
HS Volleyball	818	2,296	2,467	-	647
HS Girls Soccer	1,736	272	930	-	1,078
HS Softball	1,176	1,401	4,621	2,300	256
HS Girls Track	1	2,277	2,590	313	1
HS Girls Golf	1	1,642	3,222	1,580	1
HS Girls Swimming	106	3,235	6,432	3,091	-
Class of 2008	-	100	-	-	100
HS Dance Team	1,428	4,665	4,405	-	1,688
HS DECA	-	2,055	1,677	86	464
HS VICA/TSA	4,317	11,350	14,338	(86)	1,243
HS FCCLA	37	845	630	-	252
HS Journalism	-	12,164	18,119	5,955	-
HS Photo Club	338	-	-	-	338
HS Student Council	2,342	4,734	3,861	-	3,215
HS Art Club	34	-	415	381	-
HS French Club	830	-	-	-	830
HS Spanish Club	3,727	-	-	-	3,727
HS BEAC Club	612	152	65	-	699
HS Interact Club	367	155	-	-	522
HS Fitness Club	-	1,039	786	-	253
HS Bowling Club	219	3,377	3,034	-	562
HS Concessions	-	22,377	24,068	1,691	-
PHS TV	35	9,968	8,783	-	1,220
HS S.A.D.D.	250	700	-	-	950
HS Jag	4,218	601	2,833	-	1,986
Total	\$ 114,197	313,027	322,979	-	104,245

See accompanying independent auditor's report.

Schedule 4

Perry 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 and pooled investments	\$ 26,804	859,169	851,881	34,092
Due from other governments	128,109	5,745	-	133,854
Total assets	\$ 154,913	864,914	851,881	167,946
Liabilities				
Accounts payable	\$ -	138	-	138
Due to other governments	128,109	767,255	761,510	133,854
Trusts payable	26,804	97,521	90,371	33,954
Total liabilities	\$ 154,913	864,914	851,881	167,946

See accompanying independent auditor's report.

Perry Community School District

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

For the Last Four Years

	Modified Accrual Basis			
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 6,060,053	5,870,232	*	*
Tuition	198,073	234,106	*	*
Other	822,194	695,731	*	*
Total local sources	7,080,320	6,800,069	6,617,122	5,654,194
Intermediate sources	-	-	-	50,414
State sources	8,864,846	8,380,911	8,112,480	8,204,265
Federal sources	925,508	730,804	1,297,185	1,098,809
Total	\$ 16,870,674	15,911,784	16,026,787	15,007,682
Expenditures:				
Instruction:				
Regular instruction	\$ 5,687,952	5,420,543	*	*
Special instruction	2,334,594	3,170,905	*	*
Other instruction	2,198,242	957,600	*	*
Total instruction	10,220,788	9,549,048	9,292,389	8,847,894
Support services:				
Student services	523,379	802,090	*	*
Instructional staff services	700,090	661,600	*	*
Administration services	1,515,496	1,276,678	*	*
Operation and maintenance of plant services	1,348,351	1,284,512	*	*
Transportation services	468,672	331,553	*	*
Other services	-	3,463	*	*
Total support services	4,555,988	4,359,896	4,437,156	4,302,666
Non-instructional programs	357,716	-	-	-
Other expenditures:				
Facilities acquisition	502,048	373,042	1,610,330	1,506,158
Long-term debt:				
Principal	580,000	560,000	*	*
Interest and fiscal charges	577,961	591,812	*	*
Total long-term debt	1,157,961	1,151,812	1,112,897	772,949
AEA flowthrough	530,384	499,406	503,058	533,914
Total	\$ 17,324,885	15,933,204	16,955,830	15,963,581

* Information not readily available

See accompanying independent auditor's report.

Schedule 6

Perry 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 Distribution (non-cash)	10.550	FY06	\$ 40,084
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY06	108,223
National School Lunch Program	10.555	FY06	507,795
Summer Food Services Program for Children	10.559	FY06	31,172
			<u>647,190</u>
Team Nutrition Grant	10.574	FY06	<u>243</u>
U.S. Department of Justice:			
Iowa Department of Human Rights:			
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	FY06	<u>58,189</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY06	<u>427,516</u>
Migrant Education - State Grant Program	84.011	FY06	<u>63,648</u>
Vocational Education - Basic Grants to States	84.048	FY06	<u>23,986</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY06	<u>14,402</u>
State Grants for Innovative Programs	84.298	FY06	<u>7,248</u>
Title III - English Language Acquisition Grants	84.365	FY06	<u>20,174</u>
Improving Teacher Quality State Grants	84.367	FY06	<u>70,603</u>
Grants for State Assessments and Related Activities (Title VI A)	84.369	FY06	<u>10,650</u>
Heartland Area Education Agency II:			
Special Education - Grants to States	84.027	FY06	<u>112,712</u>
Iowa Department of Education - Division of Vocational Rehabilitation Services:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY06	<u>28,970</u>
Washington Community School District:			
Fund for the Improvement of Education	84.215	FY06	<u>9,775</u>
Total			<u>\$ 1,535,390</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of Perry 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.

**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**

Perry Community School District



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
Perry Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component unit and remaining fund information of Perry 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 September 28, 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 Perry Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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

Compliance and Other Matters

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

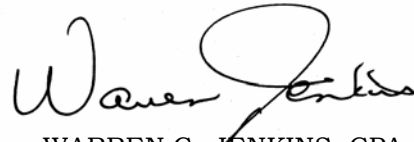
Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not 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 Perry Community School District and other parties to whom Perry 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 Perry 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

September 28, 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**

Perry Community School District



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STATE OF IOWA

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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
Perry Community School District:

Compliance

We have audited the compliance of Perry 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 each of its major federal programs for the year ended June 30, 2006. Perry Community School District's major federal programs are 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 each of its major federal programs is the responsibility of Perry Community School District's management. Our responsibility is to express an opinion on Perry 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 Perry 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 Perry Community School District's compliance with those requirements.

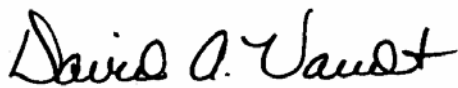
In our opinion, Perry Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

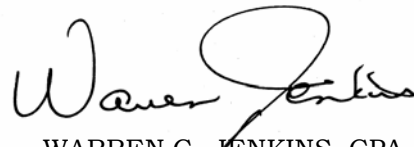
The management of Perry Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Perry 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 noncompliance 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 Perry Community School District and other parties to whom Perry 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



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 28, 2006

Perry 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) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements. The reportable conditions are not considered to be material weaknesses.
- (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 programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.559 – Summer Food Services Program for Children
 - 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) Perry Community School District did not qualify as a low-risk auditee.

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Information Systems – During our review of internal control, the existing control activities in the District's computer based financial systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the District's computer based financial systems were noted:

- Users are not restricted to programs and functions within those programs for which they have legitimate need.
- The District does not have a written disaster recovery plan covering the computer based financial system.

Recommendation – To improve the District's control over the computer based financial system, the District should implement procedures to restrict users to programs and functions for which they have a legitimate need. A written disaster recovery plan should be developed.

Response – Users had previously been restricted, but software upgrades had changed these settings back to a default for full access. In the future, the District will ensure that restrictions are reentered after each upgrade. A written disaster plan is in the process of being developed by the business office in cooperation with the District's technology department.

Conclusion – Response accepted.

II-B-06 Capital Assets – The following items were noted regarding capital assets:

- A physical observation of capital assets has not been performed periodically and reconciled to the detailed capital asset records by employees having no responsibility for the assets.
- Capital asset deletions are not formally approved.

Recommendation – Capital assets should be tested periodically, including physical observation, and reconciled to the detailed capital asset records by employees having no responsibility for the assets. The District's policy should be modified to include a formal process for approving asset disposals.

Response – A physical observation of capital assets and reconciliation to assets records will be performed by business office staff on a yearly rotation basis by building in conjunction with periodic internal audit procedures. Any capital assets deletions will be formally approved according to Board Policy which outlines the levels of authority for capital assets disposals by the Superintendent or Board of Directors.

Conclusion – Response accepted.

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

- II-C-06 Pre-numbered Receipts – The pre-numbered receipts issued at each of the District's school building offices do not always properly identify the collections as cash versus check.

Recommendation - To provide additional control over the proper recording of all collections, each building office should identify collections as cash versus check on each receipt.

Response – The District will communicate to staff with cash-handling responsibilities the importance of clearly identifying the payment method on all District-issued receipts.

Conclusion – Response accepted

- II-D-06 Student Activity Fund – Gate Admissions, Concessions and Fundraisers

- (1) Event Gate Admissions – District policy requires the use of pre-numbered tickets for admission to events and a reconciliation of the tickets sold to actual collections by the ticket sellers. Four of five gate reconciliations tested included variances ranging from \$11 to \$191 with amounts collected exceeding the tickets sold. Based on the variances, it appears tickets are not always issued for paid admissions as required by District policy.

Recommendation – Variances between tickets sold and amounts collected should be resolved timely. To properly account for collections from gate admissions, the pre-numbered tickets utilized by the District should be torn off and issued to the individuals paying the admission fee. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response – The admissions reconciliation form will be upgraded to include space for written explanation of shortage or overage in the amount of money collected. An internal control procedure whereby admission tickets are received by the patron upon purchase and then presented for admission at the venue entrance will be considered by the audit committee and activity department.

Conclusion – Response accepted.

- (2) Concessions Sales – Collections are not always counted by the concessions coordinator prior to remitting the cash box to the high school office.

Recommendation – To improve control over collections, the cash should be counted by two individuals simultaneously. The cash collected should be documented on a count sheet and signed by the individuals who counted the cash.

Response – Concessions sales will be counted by two persons simultaneously and each person will sign the cash count sheet indicating the amount counted. This document will be turned in at the school office along with the cash box. A receipt will be issued for the verified amount.

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Conclusion – Response accepted

- (3) High School Fundraisers – Fundraisers for various activities are coordinated and operated by individual student organizations. Funds collected by the students are generally remitted to the organization's adult sponsor, along with order forms. Each sponsor counts the cash and checks collected and reconciles them to the order forms. The collections are remitted to the high school office and a pre-numbered receipt is given to the sponsor. No supporting documentation is submitted to the high school office with the fundraising collections to substantiate the amount remitted.

Recommendation – Documentation supporting each fundraiser and the amount collected should be remitted to the high school office along with collections. An independent reconciliation of the collections and supporting documentation (order forms) should be performed by the office before the pre-numbered receipt is issued.

Response – The District will develop additional fundraising procedures that will include staff members submitting supporting documentation for fundraiser money collected. A receipt will then be issued for the verified amount.

Conclusion – Response accepted.

- (4) Football Gold Card Fundraiser – The independent review of the fiscal 2007 accounting sheet did not include counting the unsold cards.

Recommendation – In order to properly account for the collections from the Gold Card fundraiser, the independent review performed of the accounting sheet should include counting and verifying the number of unsold cards.

Response – An additional procedure for review of the Gold Card fundraiser will be implemented for these future fundraisers. The procedure will include the physical counting of unsold cards by an independent District staff member and a reconciliation of the vendor's accounting sheet.

Conclusion – Response accepted.

- (5) Iowa Cubs Tickets – During the year ended June 30, 2006, the District's high school baseball team played a game at Principal Park Stadium prior to an Iowa Cubs game. The District purchased 300 Iowa Cubs tickets for sale prior to the game. The reconciliation sheet indicated 257 tickets were sold, 14 complimentary tickets were given to coaches and volunteers and 29 tickets were unsold. The unsold tickets were not retained and/or accounted for by the District.

There was no apparent Board authorization or approval for the complimentary tickets. The distribution of the complimentary tickets to coaches and volunteers does not appear to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25,

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

1979 since the public benefits to be derived have not been clearly documented.

Recommendation – In order to properly account for the collections from the ticket sales, the unsold tickets should be retained and attached to the reconciliation sheet. An independent person should verify the accuracy of the accounting sheet, including counting the unsold tickets. Variances, if any, should be resolved timely.

The District should determine and document the public purpose served by providing complimentary tickets to certain individuals. The District should establish written policies and procedures for distributing complimentary tickets, including the requirement for proper documentation and approval.

Response – In the future, the Board of Education will authorize complimentary items given by the District staff members or volunteers prior to their distribution, in order to specifically document the public purpose served. For future events such as described above, any unsold District-owned tickets will be retained and submitted to a school office, in order to allow an independent District person to reconcile the amount of money collected with the number of tickets sold.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

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

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 major programs were noted.

Perry 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-06 Certified Budget – Expenditures for the year ended June 30, 2006 exceeded the budgeted amount in the non-instructional programs function. Expenditures in the other expenditures function exceeded the amount budgeted prior to the May 2006 budget amendment.

Recommendation – The certified budget should have been amended as required by Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response – In the future, the District will amend its Certified Budget before expenditures exceed the budget in any functional area.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – Except as noted in item II-D-06(5) 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-06 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-06 Business Transactions – No business transactions between the District and District officials or employees were noted.

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

IV-F-06 Board Minutes – Except as noted in items II-D-06(5) and IV-M-06, no transactions requiring Board approval which had not been approved by the Board were noted.

IV-G-06 Certified Enrollment – The number of basic resident students reported to the Iowa Department of Education on line 7 of the Certified Enrollment Certification Form for September 2005 was overstated by .9 students.

Recommendation – The District should contact the Iowa Department of Education and the Iowa Department of Management to resolve this matter.

Response – The District has notified the Department of Education and Department of Management about the error.

Conclusion – Response accepted.

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-H-06 Deposits and Investments – 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.

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

IV-J-06 Contract Bidding and Public Hearing – The District did not hold a public hearing or obtain bids for the playground resurfacing project as required by Chapters 73A.2 and 73A.18 of the Code of Iowa.

Recommendation – The District should comply with the requirements of Chapter 73A of the Code of Iowa for improvements that exceed \$25,000.

Response – The District utilized IASB’s Iowa Playground Surfacing Project, an I-program which offers zero financing and construction services through National Safe Surfacing Institute. In the future, the District will hold public hearings and obtain bids for all capital projects as required by Iowa Code.

Conclusion – Response accepted.

IV-K-06 Vehicle Usage – The Board has established a policy governing the use of District owned vehicles. The policy allows employees to use District vehicles to attend District related conferences or activities and prohibits personal use of the vehicles. However, the Director of Buildings and Grounds has been allowed to use a District vehicle for commuting, which appears to violate District policy. This use of the District’s vehicle should be reported as taxable income to the employee under Internal Revenue Service (IRS) regulations since the vehicle does not appear to meet the IRS definition of a qualified personal use vehicle.

Recommendation – The District should ensure compliance with District policies regarding personal use of District owned vehicles. The Board should determine whether the Director of Buildings and Grounds should be allowed to continue use of the District vehicle for commuting. Board policies should be reviewed and modified to address such use and to address required documentation, reimbursement by employees for personal use, public purpose served and compliance with IRS regulations governing use of District vehicles for commuting.

Response – The District’s Director of Buildings and Grounds is currently authorized by the Board to use a District vehicle for commuting since he is on call during nights and weekends for District property emergency calls. Because the current commuting distance is very short, the mileage would be considered de minimum according to IRS fringe benefits regulations. The District will review the existing policy and consider IRS reporting should there be changes in commuting distance.

Conclusion – Response accepted.

Perry Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-L-06 Local Option Sales and Services Tax (LOSST) Revenue Bonds – The District has not established or made the required transfers to the sinking account required by the local option sales and services tax revenue bond resolutions.

Recommendation – The District should establish the sinking account and make the appropriate transfers as required by the bond resolution.

Response – The required sinking account has been established.

Conclusion – Response accepted.

IV-M-06 Disbursement Approval – Payments on the District’s playground resurfacing project were made via electronic fund transfers (EFT). These payments were not included in the bill listings approved by the Board.

Recommendation – The Board should approve all disbursements as required by Chapter 279.29 of the Code of Iowa.

Response – Electronic payments released by the District for the playground resurfacing project were pre-approved by the Board President, but were inadvertently excluded from the bills list since no check was processed. In the future, the District will present all expenditures to the Board for approval, including electronic fund transfers.

Conclusion – Response accepted.

IV-N-06 Sale of Bus – The District received \$1,118 of proceeds from the sale of a bus and credited the revenue to the Physical Plant and Equipment Fund (PPEL) rather than the General Fund as required by Chapter 297.22 of the Code of Iowa.

Recommendation – The District should make a corrective transfer of \$1,118 from the PPEL Fund to the General Fund.

Response – The District has made the corrective transfer as outlined above.

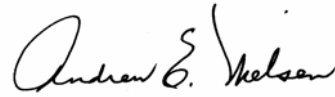
Conclusion – Response accepted.

Perry Community School District

Staff

This audit was performed by:

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