

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

JUNE 30, 2005

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Chariton Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Denny Bisgard	President	2006
Dave Rich	Vice President	2006
Nick Hunter	Board Member	2005
Chuck Crabtree	Board Member	2005
Ann Moon	Board Member	2004

**Board of Education
(After September 2004 Election)**

Dave Rich	President	2006
Chuck Crabtree	Vice President	2005
Nick Hunter	Board Member	2005
Denny Bisgard	Board Member	2006
Ann Moon	Board Member	2007

School Officials

Dr. Robert Newsum	Superintendent	2005
Melissa Johnson	District Secretary	2005
Paul Goldsmith	Attorney	2005

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Chariton Community School District, Chariton, Iowa as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Chariton Community School District at June 30, 2005, 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 reports dated November 30, 2005 on our consideration of the Chariton 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. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 38 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 Chariton 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, 2004 (which are not presented herein) and expressed a qualified opinion on those financial statements due to the lack of capital assets. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2003 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, 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.

Nolte, Cornman & Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

November 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Chariton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,694,759 in fiscal 2004 to \$10,304,543 in fiscal 2005, while General Fund expenditures also increased from \$10,069,149 in fiscal 2004 to \$10,807,524 in fiscal 2005. This resulted in a decrease in the District's General Fund balance from \$714,719 in fiscal 2004 to a balance of \$211,738 in fiscal 2005, a 70.37% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in state and federal sources during fiscal 2005. The increase in expenditures was due to an increase in all functional expense categories during fiscal 2005. This mainly occurred due to a 5.5% increase in salaries, as well as the increase in benefit expenditures tied to the increased salaries.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Chariton Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Chariton Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Chariton Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Chariton Community School District Annual Financial Report

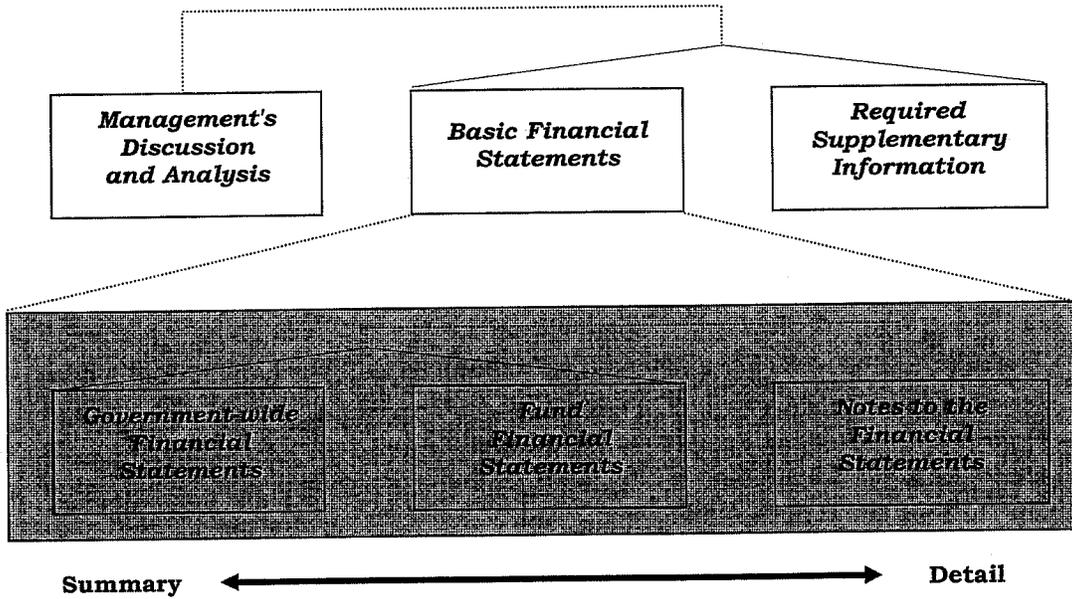


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Capital Projects Fund and the Debt Service Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2005 compared to June 30, 2004.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	\$ 7,496,865	6,634,493	4,494	10,250	7,501,359	6,644,743	12.89%
Capital assets	8,481,916	8,938,885	62,006	70,105	8,543,922	9,008,990	-5.16%
Total assets	15,978,781	15,573,378	66,500	80,355	16,045,281	15,653,733	2.50%
Long-term obligations	1,998,272	2,173,717	0	0	1,998,272	2,173,717	-8.07%
Other liabilities	6,118,533	5,599,053	92,481	53,313	6,211,014	5,652,366	9.88%
Total liabilities	8,116,805	7,772,770	92,481	53,313	8,209,286	7,826,083	4.90%
Net assets:							
Invested in capital assets, net of related debt	6,820,156	6,858,885	62,006	70,105	6,882,162	6,928,990	-0.68%
Restricted	758,004	56,764	0	0	758,004	56,764	1235.36%
Unrestricted	283,816	884,959	(87,987)	(43,063)	195,829	841,896	-76.74%
Total net assets	\$ 7,861,976	7,800,608	(25,981)	27,042	7,835,995	7,827,650	0.11%

The District's combined net assets increased by .11% or \$8,345 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$701,240 or 1,235.36% over the prior year. The increase was primarily a result of the District receiving Local Option Sales and Services Tax revenue for the first time.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - decreased \$646,067 or 76.74%. This decrease in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005 compared to June 30, 2004.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	\$ 1,037,950	882,684	201,009	197,558	1,238,959	1,080,242	14.69%
Operating grants and contributions and restricted interest	1,403,937	1,281,118	268,144	258,086	1,672,081	1,539,204	8.63%
Capital grants and contributions and restricted interest	0	193,750	0	0	0	193,750	-100.00%
General revenues:							
Property tax	3,471,934	3,176,519	0	0	3,471,934	3,176,519	9.30%
Local option sales and services tax	636,803	0	0	0	636,803	0	100.00%
Unrestricted state grants	5,725,356	5,257,227	0	0	5,725,356	5,257,227	8.90%
Unrestricted investment earnings	25,083	16,166	102	97	25,185	16,263	54.86%
Total revenues	12,301,063	10,807,464	469,255	455,741	12,770,318	11,263,205	13.38%
Program expenses:							
Governmental activities:							
Instructional	8,036,190	7,422,361	0	0	8,036,190	7,422,361	8.27%
Support services	3,352,579	2,821,565	0	0	3,352,579	2,821,565	18.82%
Non-instructional programs	13,806	9,858	525,594	501,105	539,400	510,963	5.57%
Other expenses	837,120	838,661	0	0	837,120	838,661	-0.18%
Total expenses	12,239,695	11,092,445	525,594	501,105	12,765,289	11,593,550	10.11%
Excess(deficiency) of revenues over(under) expenditures	61,368	(284,981)	(56,339)	(45,364)	5,029	(330,345)	-101.52%
Capital contributions	0	0	3,316	0	3,316	0	100.00%
Change in net assets	61,368	(284,981)	(53,023)	(45,364)	8,345	(330,345)	-102.53%
Beginning net assets	7,800,608	8,085,589	27,042	72,406	7,773,566	8,157,995	-4.71%
Ending net assets	\$ 7,861,976	7,800,608	(25,981)	27,042	7,781,911	7,827,650	-0.58%

Property tax and unrestricted state grants account for 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was due to the increase in Local Option Sales and Services Tax monies, due to the first complete year of funding. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will be ever fully realized with current law and funding structure as set by the legislature, and the mid-year reduction of funding on the part of the state.

The most significant fluctuation in expenditure levels will be caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements. With an increased enrollment comes more ability to fund various programs required by the state and

constant evaluation of staffing needs becomes a priority. Even with certain staff reductions there may still be an increase in expenditures due to the salary and benefit requirements.

Governmental Activities

Revenues for governmental activities were \$12,301,063 and expenses were \$12,239,695.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 8,036,190	6,007,661
Support services	3,352,579	3,341,029
Non-instructional	13,806	13,806
Other expenses	837,120	435,312
Totals	<u>\$ 12,239,695</u>	<u>9,797,808</u>

- The cost financed by users of the District's programs was \$1,037,950.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,403,937.
- The net cost of governmental activities was financed with \$3,471,934 in property taxes, \$636,803 in local option sales and services tax, \$5,725,356 in unrestricted state grants, \$5,000 gain on sale of property and \$20,083 interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$469,255 and expenses were \$525,594. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and interest income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Chariton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,110,487, above last year's ending fund balance of a \$941,260.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Growth during the year in grants resulted in an increase in revenues. However, along with the increase in revenues, the General Fund also had an increase in expenditures. The General Fund balance decreased from \$714,719 in fiscal year 2004 to \$211,738 in fiscal year 2005, due in part to the large increase in instruction expenses for fiscal 2005.

- The Capital Projects Fund balance increased from \$0 in fiscal year 2004 to \$609,021 in fiscal year 2005, due in part to the District receiving local option sales and services tax for the first time.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$27,042 at June 30, 2004 to a deficit \$25,981 at June 30, 2005, representing a decrease of 196%.

BUDGETARY HIGHLIGHTS

The District's receipts were \$219,142 more than budgeted receipts, a variance of 1.82%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were more than budgeted, primarily due to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area due to the timing of disbursements paid.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$8.5 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 5.44% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$481,122.

The original cost of the District's capital assets was \$17.1 million. Governmental funds account for \$17.0 million with the remainder of \$.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. This decrease resulted from the purchases of new equipment over \$1,500 less current depreciation during the fiscal year 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change 2004-05
	2005	2004	2005	2004	2005	2004	
Land	\$ 373,410	373,410	0	0	373,410	373,410	0.00%
Land improvements	70,097	98,020	0	0	70,097	98,020	-39.83%
Buildings and improvements	7,367,911	7,578,370	0	0	7,367,911	7,578,370	-2.86%
Machinery and equipment	670,498	889,085	62,006	70,105	732,504	959,190	-30.95%
Total	\$ 8,481,916	8,938,885	62,006	70,105	8,543,922	9,008,990	-5.44%

Long-Term Debt

At June 30, 2005, the District had \$1,998,272 in general obligation and other long-term debt outstanding. This represents a decrease of 8.8% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$178,272 at June 30, 2005.

The District had total outstanding general obligation bonds payable of \$1,820,000 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 1,820,000	2,080,000	-14.3%
Early retirement	178,272	93,717	47.4%
Totals	<u>\$ 1,998,272</u>	<u>2,173,717</u>	<u>-8.8%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District lowered the debt service tax levy for the 2005-06 year and anticipates using local option sales tax monies generated in Lucas County to pay the General Obligation Bond that was used to finance the middle school building construction.
- The upcoming Iowa legislative session could again prove to be most challenging in respect to the state budget. The impact of state reductions to education is an unknown that we must be ready to address and compensate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kelley Reece, Board Secretary/Business Manager, Chariton Community School District, 140 E. Albia Road, P.O. Box 738, Chariton, Iowa, 50049-0738.

BASIC FINANCIAL STATEMENTS

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP (Note 4)	\$ 1,955,745	0	1,955,745
Other	1,514,271	0	1,514,271
Receivables			
Property tax:			
Delinquent	65,086	0	65,086
Succeeding year	2,913,440	0	2,913,440
Income surtax	281,905	0	281,905
Interfund	264,845	3,316	268,161
Accounts	4,031	0	4,031
Accrued ISCAP interest (Note 4)	418	0	418
Due from other governments	497,124	0	497,124
Inventories	0	1,178	1,178
Capital assets, net of accumulated depreciation (Note 5)	8,481,916	62,006	8,543,922
TOTAL ASSETS	15,978,781	66,500	16,045,281
LIABILITIES			
Excess of warrants issued over bank balance	0	3,229	3,229
Interfund payable	183,801	84,360	268,161
Salaries and benefits payable	1,033,711	0	1,033,711
ISCAP warrants payable (Note 4)	1,947,000	0	1,947,000
ISCAP accrued interest payable (Note 4)	373	0	373
ISCAP unamortized premium	26,148	0	26,148
Accrued interest payable	14,060	0	14,060
Deferred revenue:			
Succeeding year property tax	2,913,440	0	2,913,440
Other	0	4,892	4,892
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds payable	265,000	0	265,000
Early Retirement	81,186	0	81,186
Portion due after one year:			
General obligation bonds payable	1,555,000	0	1,555,000
Early Retirement	97,086	0	97,086
TOTAL LIABILITIES	8,116,805	92,481	8,209,286
NET ASSETS			
Investment in capital assets, net of related debt	6,820,156	62,006	6,882,162
Restricted for:			
Salary Improvement Program	12,391	0	12,391
Early Intervention	30,516	0	30,516
Talented and Gifted	77,398	0	77,398
Capital projects	637,699	0	637,699
Unrestricted	283,816	(87,987)	195,829
TOTAL NET ASSETS	\$ 7,861,976	(25,981)	7,835,995

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,050,685	367,449	928,597
Special instruction	1,815,899	72,530	73,532
Other instruction	1,169,606	586,421	0
	<u>8,036,190</u>	<u>1,026,400</u>	<u>1,002,129</u>
Support services:			
Student services	162,898	0	0
Instructional staff services	280,343	0	0
Administration services	1,091,205	0	0
Operation and maintenance of plant services	1,074,068	0	0
Transportation services	567,460	11,550	0
Other support services	176,605	0	0
	<u>3,352,579</u>	<u>11,550</u>	<u>0</u>
Non-instructional programs	13,806	0	0
Other expenditures:			
Facilities acquisitions	102,635	0	0
Long-term debt interest	94,295	0	0
AEA flowthrough	401,808	0	401,808
Depreciation(unallocated)*	238,382	0	0
	<u>837,120</u>	<u>0</u>	<u>401,808</u>
Total governmental activities	12,239,695	1,037,950	1,403,937
Business-Type activities:			
Non-instructional programs:			
Nutrition services	525,594	201,009	268,144
Total business-type activities	<u>525,594</u>	<u>201,009</u>	<u>268,144</u>
Total	<u>\$ 12,765,289</u>	<u>1,238,959</u>	<u>1,672,081</u>

General Revenues:

Property tax levied for:
General purposes
Debt service
Capital outlay
Local option sales and services
Unrestricted state grants
Gain on sale of property
Unrestricted investment earnings
Total general revenues

Changes in net assets before capital contributions

Capital contributions

Changes in net assets

Net assets beginning of year, as restated(Note 12)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,754,639)	0	(3,754,639)
(1,669,837)	0	(1,669,837)
(583,185)	0	(583,185)
(6,007,661)	0	(6,007,661)
(162,898)	0	(162,898)
(280,343)	0	(280,343)
(1,091,205)	0	(1,091,205)
(1,074,068)	0	(1,074,068)
(555,910)	0	(555,910)
(176,605)	0	(176,605)
(3,341,029)	0	(3,341,029)
(13,806)		(13,806)
(102,635)	0	(102,635)
(94,295)	0	(94,295)
0	0	0
(238,382)	0	(238,382)
(435,312)	0	(435,312)
(9,797,808)	0	(9,797,808)
0	(56,441)	(56,441)
0	(56,441)	(56,441)
(9,797,808)	(56,441)	(9,854,249)
\$ 2,910,093	0	2,910,093
350,189	0	350,189
211,652	0	211,652
636,803	0	636,803
5,725,356	0	5,725,356
5,000	0	5,000
20,083	102	20,185
9,859,176	102	9,859,278
61,368	(56,339)	5,029
0	3,316	3,316
61,368	(53,023)	8,345
7,800,608	27,042	7,827,650
\$ 7,861,976	(25,981)	7,835,995

CHARITON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,955,745	0	0	1,955,745
Other	803,092	279,466	431,713	1,514,271
Receivables:				
Property tax:				
Delinquent	51,948	0	13,138	65,086
Succeeding year	2,334,831	0	578,609	2,913,440
Income surtax	105,714	0	176,191	281,905
Interfund	264,845	0	0	264,845
Accounts	4,031	0	0	4,031
Accrued ISCAP interest(Note 4)	418	0	0	418
Due from other governments	138,891	358,233	0	497,124
TOTAL ASSETS	\$ 5,659,515	637,699	1,199,651	7,496,865
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	28,678	155,123	183,801
Salaries and benefits payable	1,033,711	0	0	1,033,711
ISCAP warrants payable(Note 4)	1,947,000	0	0	1,947,000
ISCAP accrued interest payable(Note 4)	373	0	0	373
ISCAP unamortized premium	26,148	0	0	26,148
Deferred revenue:				
Succeeding year property tax	2,334,831	0	578,609	2,913,440
Income surtax	105,714	0	176,191	281,905
Total liabilities	5,447,777	28,678	909,923	6,386,378
Fund balances:				
Reserved for:				
Salary Improvement Program	12,391	0	0	12,391
Early Intervention	30,516	0	0	30,516
Talented and Gifted	77,398	0	0	77,398
Debt Service	0	0	172,300	172,300
Unreserved:				
Undesignated	91,433	609,021	117,428	817,882
Total fund balances	211,738	609,021	289,728	1,110,487
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,659,515	637,699	1,199,651	7,496,865

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2005

Total fund balances of governmental funds (page 16)	\$ 1,110,487
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in the governmental funds.	8,481,916
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	281,905
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.	(14,060)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,998,272)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 7,861,976</u></u>

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,642,431	636,803	657,745	3,936,979
Tuition	439,979	0	0	439,979
Other	92,840	896	524,318	618,054
Intermediate sources	20,500	0	0	20,500
State sources	6,528,149	0	0	6,528,149
Federal sources	580,644	0	0	580,644
Total revenues	<u>10,304,543</u>	<u>637,699</u>	<u>1,182,063</u>	<u>12,124,305</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,813,454	0	21,415	4,834,869
Special instruction	1,818,441	0	0	1,818,441
Other instruction	712,697	0	455,014	1,167,711
	<u>7,344,592</u>	<u>0</u>	<u>476,429</u>	<u>7,821,021</u>
Support services:				
Student services	164,689	0	0	164,689
Instructional staff services	279,600	0	0	279,600
Administration services	1,063,622	0	0	1,063,622
Operation and maintenance of plant services	1,074,068	0	0	1,074,068
Transportation services	449,430	0	56,592	506,022
Other support services	15,909	0	160,696	176,605
	<u>3,047,318</u>	<u>0</u>	<u>217,288</u>	<u>3,264,606</u>
Non-instructional programs	13,806	0	0	13,806
Other expenditures:				
Facilities acquisitions	0	28,678	73,957	102,635
Long-term debt:				
Principal	0	0	260,000	260,000
Interest and fiscal charges	0	0	96,202	96,202
AEA flowthrough	401,808	0	0	401,808
	<u>401,808</u>	<u>28,678</u>	<u>430,159</u>	<u>860,645</u>
Total expenditures	<u>10,807,524</u>	<u>28,678</u>	<u>1,123,876</u>	<u>11,960,078</u>
Excess(deficiency) of revenues over(under) disbursements	(502,981)	609,021	58,187	164,227
Other financing sources:				
Sale of property	0	0	5,000	5,000
Total other financing sources	<u>0</u>	<u>0</u>	<u>5,000</u>	<u>5,000</u>
Net changes in fund balances	(502,981)	609,021	63,187	169,227
Fund balance beginning of year	714,719	0	226,541	941,260
Fund balance end of year	<u>\$ 211,738</u>	<u>609,021</u>	<u>289,728</u>	<u>1,110,487</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2005

Net change in fund balances - total governmental funds (page 18)		\$ 169,227
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
<p>Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:</p>		
Capital outlays	\$ 12,738	
Depreciation expense	<u>(469,707)</u>	(456,969)
<p>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 repayments were as follows:</p>		
Repaid		260,000
<p>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.</p>		
		1,907
<p>Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.</p>		
		171,758
<p>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:</p>		
Early retirement		<u>(84,555)</u>
Changes in net assets of governmental activities (page 15)		<u>\$ 61,368</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	School Nutrition
ASSETS	
Interfund receivable	\$ 3,316
Inventories	1,178
Capital assets, net of accumulated depreciation(Note 5)	62,006
Total assets	66,500
 LIABILITIES	
Excess of warrants issued over bank balance	3,229
Interfund payable	84,360
Deferred revenue:	
Other	4,892
Total liabilities	92,481
 NET ASSETS	
Invested in capital assets	62,006
Unrestricted	(87,987)
Total net assets	\$ (25,981)

CHARITON COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2005

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 201,009
TOTAL OPERATING REVENUES	201,009
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	175,174
Benefits	77,779
Services	3,862
Supplies	257,364
Depreciation	11,415
TOTAL OPERATING EXPENSES	525,594
OPERATING LOSS	(324,585)
NON-OPERATING REVENUES:	
State sources	7,682
Federal sources	260,462
Interest income	102
TOTAL NON-OPERATING REVENUES	268,246
Net loss before capital contributions	(56,339)
Capital contributions	3,316
Change in net assets	(53,023)
Net assets beginning of year	27,042
Net assets end of year	\$ (25,981)

CHARITON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2005

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 205,785
Cash received from miscellaneous operating activities	116
Cash payments to employees for services	(263,898)
Cash payments to suppliers for goods or services	(237,548)
Net cash used in operating activities	(295,545)
Cash flows from non-capital financing activities:	
State grants received	7,682
Federal grants received	243,170
Net cash provided by non-capital financing activities	250,852
Cash flows from investing activities:	
Increase in interfund loans	78,483
Interest on investments	102
Net cash provided by investing activities	78,585
Net increase in cash and cash equivalents	33,892
Cash and cash equivalents at beginning of year	(37,121)
Cash and cash equivalents at end of year	\$ (3,229)
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (324,585)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	17,292
Depreciation	11,415
Decrease in inventories	9,072
Decrease in accounts payable	(2,686)
Decrease in salaries and benefits payable	(10,945)
Increase in deferred revenue	4,892
Net cash used in operating activities	\$ (295,545)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ (3,229)
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
During the year ended June 30, 2005, the District received Federal commodities valued at \$17,292.	
During the year ended June 30, 2005, the Capital Projects Fund contributed capital assets valued at \$3,316.	

SEE NOTES TO FINANCIAL STATEMENTS.

CHARITON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

(1) **Summary of Significant Accounting Policies**

The Chariton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the district either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Chariton, Iowa, and the predominate agricultural territory in Lucas and Marion 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, Chariton Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Chariton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lucas and Marion County Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following major proprietary funds:

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

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

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

Asset Class	Amount
Land	\$ 1,500
Buildings and improvements	1,500
Land improvements	1,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Life (In Years)
Buildings and improvements	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is 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 represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the support services functional area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2005 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, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 96,784</u>

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

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

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2005 is as follows:

Receivable Fund	Payable Fund	Amount
General	PPEL	\$ 155,123
General	Capital Projects	25,362
Nutrition	Capital Projects	3,316
General	Nutrition	84,360
Total		<u>\$ 268,161</u>

(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. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2005 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	120	0	0	0
2005-06A	6/28/05	6/28/06	1,955,625	418	1,947,000	373
Total			<u>\$ 1,955,745</u>	<u>418</u>	<u>1,947,000</u>	<u>373</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, 2005 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2004-05A	\$ 0	549,000	549,000	0

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
2004-05A	3.000%	2.463%
2005-06A	3.500%	3.903%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year, as restated (Note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 373,410	0	0	373,410
Total capital assets not being depreciated	373,410	0	0	373,410
Capital assets being depreciated:				
Land improvements	963,328	0	0	963,328
Buildings	11,635,736	0	0	11,635,736
Machinery and equipment	4,048,967	12,738	0	4,061,705
Total capital assets being depreciated	16,648,031	12,738	0	16,660,769
Less accumulated depreciation for:				
Land improvements	865,308	27,923	0	893,231
Buildings	4,057,366	210,459	0	4,267,825
Machinery and equipment	3,159,882	231,325	0	3,391,207
Total accumulated depreciation	8,082,556	469,707	0	8,552,263
Total capital assets being depreciated, net	8,565,475	(456,969)	0	8,108,506
Governmental activities capital assets, net	\$ 8,938,885	(456,969)	0	8,481,916

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 137,131	3,316	0	140,447
Less accumulated depreciation	67,026	11,415	0	78,441
Business-type activities capital assets, net	\$ 70,105	(8,099)	0	62,006

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 136,450
Other	5,111
Support services:	
Instructional staff	743
Administration	27,583
Transportation	61,438
	<u>231,325</u>
Unallocated depreciation	<u>238,382</u>
Total governmental activities depreciation expense	\$ <u>469,707</u>
Business-type activities:	
Food services	\$ <u>11,415</u>

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General Obligation Bonds	2,080,000	0	260,000	1,820,000	265,000
Early Retirement	93,717	109,864	25,309	178,272	81,186
Total	\$ 2,173,717	109,864	285,309	1,998,272	346,186

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue dated May 1, 1998			
	Interest Rates	Principal	Interest	Total
2006	4.50	\$ 265,000	84,363	349,363
2007	4.50	280,000	72,437	352,437
2008	4.50	300,000	59,838	359,838
2009	4.65	315,000	46,337	361,337
2010	4.75	320,000	31,690	351,690
2011	4.85	340,000	16,490	356,490
Total		\$ 1,820,000	311,155	<u>2,131,155</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-six and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$100 per year of service with a maximum of of \$1,500 (before deductions) plus the difference between the salary schedule base and the licensed employee's current salary (before deductions) less supplemental pay or extended contract pay. The incentive can be received as cash or the school district will provide continuing coverage under the school district's group insurance plan until the licensed employee reaches age sixty-five or when the incentive benefit runs out (whichever occurs first). If the retiree still has a balance in escrow for insurance at age sixty-five, the District shall pay the remainder balance to the retiree (net taxes). Early retirement benefits paid during the year ended June 30, 2005, totaled \$25,309.

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$368,804, \$340,235, \$317,434 respectively, equal to the required contributions for each year.

(8) Risk Management

Chariton Community School District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed in July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: Dental.

Each members' contributions to the ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the

risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$90,812.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2005 no liability has been recorded in the District's financial statements. As of June 30, 2005 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$401,808 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2005, disbursements in the support services functional program area exceeded the amount budgeted.

(11) Deficit Fund Balance

The Special Revenue - Physical Plant and Equipment Fund (PEEL) had a deficit undesignated fund balance of \$146,804 at June 30, 2005. The School Nutrition also had deficit net assets of \$25,981 at June 30, 2005.

(12) Accounting Restatements

The effects of the accounting restatements in the governmental activities are summarized as follows:

Net assets, June 30, 2004, as previously reported	\$ (1,138,277)
Capital assets, net of accumulated depreciation of \$8,082,556	<u>8,938,885</u>
Net assets, July 1, 2004, as restated for governmental funds	<u><u>\$ 7,800,608</u></u>

REQUIRED SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 4,616,908	206,003
Intermediate sources	20,500	0
State sources	6,529,793	7,682
Federal sources	605,655	260,462
Total receipts	<u>11,772,856</u>	<u>474,147</u>
Disbursements:		
Instruction	7,829,567	0
Support services	3,191,361	0
Non-instructional programs	13,053	518,738
Other expenditures	835,283	0
Total disbursements	<u>11,869,264</u>	<u>518,738</u>
Deficiency of receipts under disbursements	(96,408)	(44,591)
Other financing sources, net	<u>5,000</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(91,408)	(44,591)
Balance beginning of year	<u>1,686,723</u>	<u>(39,682)</u>
Balance end of year	<u>\$ 1,595,315</u>	<u>(84,273)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
4,822,911	4,666,905	4,666,905	156,006
20,500	11,000	11,000	9,500
6,537,475	6,634,956	6,634,956	(97,481)
866,117	715,000	715,000	151,117
<u>12,247,003</u>	<u>12,027,861</u>	<u>12,027,861</u>	<u>219,142</u>
7,829,567	9,132,931	9,132,931	1,303,364
3,191,361	3,144,850	3,144,850	(46,511)
531,791	586,758	586,758	54,967
835,283	1,208,655	1,208,655	373,372
<u>12,388,002</u>	<u>14,073,194</u>	<u>14,073,194</u>	<u>1,685,192</u>
(140,999)	(2,045,333)	(2,045,333)	1,904,334
5,000	6,000	6,000	(1,000)
(135,999)	(2,039,333)	(2,039,333)	1,903,334
<u>1,647,041</u>	<u>2,367,922</u>	<u>2,367,922</u>	<u>(720,881)</u>
<u>1,511,042</u>	<u>328,589</u>	<u>328,589</u>	<u>1,182,453</u>

CHARITON COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 11,772,856	351,449	12,124,305
Expenditures	11,869,264	90,814	11,960,078
Net	(96,408)	260,635	164,227
Other financing sources, net	5,000	0	5,000
Beginning fund balances	1,686,723	(745,463)	941,260
Ending fund balances	\$ 1,595,315	(484,828)	1,110,487

	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 474,147	(4,892)	469,255
Expenditures	518,738	3,540	522,278
Net	(44,591)	(8,432)	(53,023)
Beginning net assets	(39,682)	66,724	27,042
Ending net assets	\$ (84,273)	58,292	(25,981)

CHARITON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2005

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

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

During the year ended June 30, 2005, disbursements in the support services functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

CHARITON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
ASSETS						
Cash and pooled investments	\$ 80,744	181,406	4,834	266,984	164,729	431,713
Receivables:						
Property tax:						
Current year delinquent	2,082	0	3,485	5,567	7,571	13,138
Succeeding year	235,000	0	155,921	390,921	187,688	578,609
Income surtax	0	0	176,191	176,191	0	176,191
TOTAL ASSETS	\$ 317,826	181,406	340,431	839,663	359,988	1,199,651
LIABILITIES AND FUND BALANCES						
Liabilities:						
Interfund payable	\$ 0	0	155,123	155,123	0	155,123
Deferred revenue:						
Succeeding year property tax	235,000	0	155,921	390,921	187,688	578,609
Income surtax	0	0	176,191	176,191	0	176,191
Total liabilities	235,000	0	487,235	722,235	187,688	909,923
Fund balances:						
Fund balances:						
Reserved for:						
Debt Service	0	0	0	0	172,300	172,300
Unreserved:						
Undesignated	82,826	181,406	(146,804)	117,428	0	117,428
Total fund balances	82,826	181,406	(146,804)	117,428	172,300	289,728
TOTAL LIABILITIES AND FUND BALANCES	\$ 317,826	181,406	340,431	839,663	359,988	1,199,651

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 95,904	0	211,652	307,556	350,189	657,745
Other	753	522,985	148	523,886	432	524,318
TOTAL REVENUES	96,657	522,985	211,800	831,442	350,621	1,182,063
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	21,415	0	0	21,415	0	21,415
Other instruction	0	455,014	0	455,014	0	455,014
Support services:						
Student transportation	0	0	56,592	56,592	0	56,592
Other support services	160,696	0	0	160,696	0	160,696
Other expenditures:						
Facilities acquisitions	0	0	73,957	73,957	0	73,957
Long-term debt:						
Principal	0	0	0	0	260,000	260,000
Interest and fiscal charges	0	0	0	0	96,202	96,202
TOTAL EXPENDITURES	182,111	455,014	130,549	767,674	356,202	1,123,876
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(85,454)	67,971	81,251	63,768	(5,581)	58,187
OTHER FINANCING SOURCES:						
Sale or property	0	0	5,000	5,000	0	5,000
Total other financing sources	0	0	5,000	5,000	0	5,000
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES	(85,454)	67,971	86,251	68,768	(5,581)	63,187
FUND BALANCE BEGINNING OF YEAR	168,280	113,435	(233,055)	48,660	177,881	226,541
FUND BALANCE END OF YEAR	\$ 82,826	181,406	(146,804)	117,428	172,300	289,728

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 1,619	1,060	1,347	1,332
Vocal Music	16	250	250	16
Band	189	6,976	6,736	429
Middle School Band	691	2,073	2,398	366
Flag Team	339	375	669	45
Co-Ed Athletics	27,580	157,457	116,756	68,281
Girls Soccer	(119)	0	0	(119)
Boys Soccer	247	396	797	(154)
Boys Track	302	830	1,112	20
Girls Track	0	444	429	15
Cross Country	424	0	0	424
Girls Tennis	(48)	48	0	0
Boys Tennis	0	428	428	0
Boys Basketball	283	4,588	5,169	(298)
Football	1,742	21,659	16,519	6,882
Baseball	1,213	7,019	6,299	1,933
Wrestling	740	7,163	7,565	338
Weight Room	2,271	488	1,755	1,004
Golf	252	820	820	252
Girls Basketball	1,431	3,193	3,170	1,454
Volleyball	818	2,065	1,708	1,175
Softball	60	1,167	1,487	(260)
Class of 2004	1,699	0	200	1,499
Class of 2005	6,413	5	3,869	2,549
Class of 2006	488	39,578	33,562	6,504
Class of 2007	620	0	145	475
Class of 2008	0	116	0	116
Contingency	1,850	14,499	14,578	1,771
Concessions	(15,306)	55,379	45,423	(5,350)
Student Council	978	12,582	10,311	3,249
Life	82	0	0	82
Scholarship Club	4,280	4,300	3,800	4,780
Grads	200	0	0	200
Spanish Club	2,875	5,295	6,134	2,036
Art Service	711	721	832	600
C Club	637	990	795	832
SSI	398	0	0	398
FFA	6,965	16,648	15,163	8,450
FBLA	332	3,802	3,838	296
SES Club	998	5,358	4,595	1,761
Communic Club	172	0	0	172
On Other Hand	0	1,508	1,543	(35)

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Yearbook	8,625	14,333	18,497	4,461
Cap & Gown	0	1,620	1,687	(67)
Cheerleaders	(272)	4,384	3,904	208
Drill Team	(1,512)	19,041	13,384	4,145
MS Cheerleaders	135	40	93	82
Musical	2,866	4,705	3,170	4,401
Horticulture	767	3,598	3,587	778
MOC	98	0	0	98
Med Cntr Fine	15	0	0	15
HS Ind Arts	1,126	37	92	1,071
Towel Fees	3,951	1,704	1,908	3,747
HS Home Ec	57	0	344	(287)
MS Home Ec	1,521	0	0	1,521
Woods Club	2,937	250	1,107	2,080
Club Construction	758	2,287	1,420	1,625
Baby Think	107	0	0	107
Donations	(1,255)	3,655	8,253	(5,853)
Ses Scholarship	356	0	0	356
MS Media Center	30	0	0	30
MS Student Council	1,059	3,168	3,175	1,052
6th Grade	463	198	0	661
7th Grade	589	0	503	86
8th Grade	282	2,629	1,449	1,462
MS Ind Tech	341	0	0	341
MS Pop	8,128	17,204	17,279	8,053
MS BLD Initiative	3,647	887	2,466	2,068
MS Soar	0	200	0	200
MS Yearbook Club	5,125	5,914	5,749	5,290
Chariton Elementary	9,905	43,962	32,801	21,066
Van Allen Elementary	5,745	13,874	13,944	5,675
HS Band	3,399	15	0	3,414
Total	\$ 113,435	522,985	455,014	181,406

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 3,936,979	3,360,097	3,350,539	3,258,504
Tuition	439,979	362,761	368,023	330,753
Other	618,054	535,889	608,218	569,843
Intermediate sources	20,500	200	52,100	10,096
State sources	6,528,149	5,959,825	5,816,608	6,641,249
Federal sources	580,644	772,270	408,962	362,167
Total	\$ 12,124,305	10,991,042	10,604,450	11,172,612
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 4,834,869	4,523,645	4,323,320	3,810,190
Special instruction	1,818,441	1,798,565	1,646,312	1,358,922
Other instruction	1,167,711	1,149,154	1,171,125	1,107,447
Support services:				
Student services	164,689	123,432	127,710	129,158
Instructional staff services	279,600	305,229	247,057	233,251
Administration services	1,063,622	926,241	945,379	915,416
Operation and maintenance of plant services	1,074,068	916,623	935,210	784,242
Transportation services	506,022	371,026	492,041	360,812
Central services	0	57,175	51,357	4,572
Other support services	176,605	121,839	100,651	78,506
Non-instructional programs	13,806	9,858	27,129	11,121
Other expenditures:				
Facilities acquisitions	102,635	403,221	1,439,106	332,415
Long-term debt:				
Principal	260,000	255,000	235,000	230,000
Interest and other charges	96,202	107,068	117,082	126,731
AEA flow-through	401,808	330,200	391,768	384,433
Total	\$ 11,960,078	11,398,276	12,250,247	9,867,216

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ 17,292
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	53,351
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	189,819
			<u>243,170</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1107-G	221,099
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 04	8,172
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	2,251
			<u>10,423</u>
IMPROVING TEACHER QUALITY			
STATE GRANTS	84.367	FY 05	42,903
READING FIRST STATE GRANTS	84.357	FY 04	31,142
READING FIRST STATE GRANTS	84.357	FY 05	138,922
			<u>170,064</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 05	10,854
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 05	24,140
TITLE I ACCOUNTABILITY GRANTS (DATA DRIVEN LEADERSHIP)			
	84.348	FY 05	888
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)			
	84.027	FY 05	1,544
SPECIAL EDUCATION - GRANTS TO STATES(PART B)			
	84.027	FY 05	73,532
TOTAL			<u>\$ 815,909</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Chariton 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 preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Chariton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Chariton Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated November 30, 2005. 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 Chariton 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, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

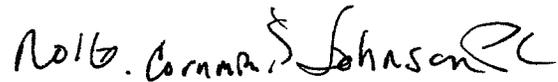
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chariton 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, 2005 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 Chariton Community School District and other parties to whom Chariton 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 Chariton 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.


NOLTE, CORNMAN & JOHNSON, P.C.

November 30, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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
Chariton Community School District:

Compliance

We have audited the compliance of Chariton 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, 2005. Chariton 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 grants agreements applicable to each of its major federal programs is the responsibility of Chariton Community School District's management. Our responsibility is to express an opinion on Chariton 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 Chariton 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 Chariton Community School District's compliance with those requirements.

In our opinion, Chariton 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, 2005.

Internal Control Over Compliance

The management of Chariton 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 Chariton 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.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Chariton Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud 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. Our consideration of the internal control over compliance 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 believe item III-A-05 is a material weakness.

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

Nolte, Cornman, Johnson PC
NOLTE, CORNMAN & JOHNSON, P.C.

November 30, 2005

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

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

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Chariton Community School District did not qualify as a low-risk auditee.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response - We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

II-B-05 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over one year.

Recommendation - The District should report the unclaimed property to the Great Iowa Treasure Hunt.

Response - Checks which have been outstanding for over one year will be reported to the Great Iowa Treasure Hunt.

Conclusion - Response accepted.

II-C-05 Grants - We noted during our audit, that when expenditures for specific grants were posted; it appeared that the expenses were not always properly coded to those line item projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting Manual for Iowa LEAs and AEAs. The proper coding also allows the District to maintain accountability of the grants by matching the revenues to the expenditures.

Response - Each person in the district responsible for coding bills that correspond with a grant will be given the appropriate account numbers used for each grant.

Conclusion - Response accepted.

Response - Bank reconciliations will be done on a monthly basis.

Conclusion - Response accepted.

II-I-05 Scholarship Funds - We noted during our audit that the District has a SES Scholarship Club and Scholarship Club account in the Student Activity Fund.

Recommendation - The Scholarship accounts would be better handled in an Expendable Trust Fund.

Response - We will set up an Expendable Trust Fund.

Conclusion - Response accepted.

II-J-05 Bus Drivers Overpaid - We noted during our audit that the District overpaid bus drivers during the year. The amount of the contracts appeared to be incorrectly entered, resulting in payment calculations in error.

Recommendation - Individual contracts should be reviewed for appropriateness. The amounts entered on the contracts should be reviewed for correctness from the agreed or negotiated contract amounts.

Response - We are in the process of reviewing the payments to bus drivers for the prior year. We believe the bus drivers contracts have been corrected for the 2005-06 year.

Conclusion - Response accepted.

II-K-05 Insurance - We noted during our audit that the District is paying for insurance for employees, past employees and retirees. The insurance billings included people that retired, but are not on the early retirement listing provided by the District and one deceased person. In addition, the billing appeared to not include some of the current employees that the District should be paying insurance for.

Recommendation - The District should review procedures for payments to the insurance company. The District should review the billings, verifying the participants listed for the health insurance benefit. The retired individuals still included for insurance, but whose early retirement benefits have been exhausted should be billed for insurance costs for continued coverage.

Response - We will review our insurance billings from the insurance company to ensure all participants are legitimate and make the necessary changes. Procedures will also be reviewed to ensure the proper participants are receiving the health insurance benefit.

Conclusion - Response accepted.

II-D-05 Timely Deposits - We noted during our audit that deposits for the General Fund were prepared, but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The District should review procedures to ensure that the deposits are made timely.

Response - All money will be deposited within one day of receipt.

Conclusion - Response accepted.

II-E-05 Nutrition Fund Payroll - The District should develop a workout plan for the School Nutrition Fund for repayments to the General Fund. The District is carrying an outstanding transfer of \$80,982.85 which is included in the reconciled cash, as well as a liability of \$84,359.59 due to the General Fund. The District currently pays for salaries which are direct deposited from the General Fund and no transfer of money is made to reimburse these amounts.

Recommendation - The District should develop a plan to pay the current salaries timely from the School Nutrition Fund and a workout plan to repay the General Fund.

Response - The Nutrition Fund is monthly reimbursing the General Fund for payroll paid timely. The Nutrition Fund will continue to attempt to reduce this debt to the General Fund.

Conclusion - Response acknowledged.

II-F-05 Student Activity Fund Accounts - We noted during our audit that the District has accounts in the Student Activity Fund that appear instructional in nature. These accounts in question include Industrial Arts, Home Economics, Towel Fees, LIFE, Media, Contingency and Baby Think Donation. The District should also close the past class accounts upon graduation.

Recommendation - Accounts in the Student Activity Fund that are instructional in nature should be closed and moved to the General Fund. The District should also close past class accounts.

Response - We will review these accounts and make the necessary changes.

Conclusion - Response accepted.

II-G-05 Authorized Check Signatures - Checks written from the Student Activity Fund require only one signature.

Recommendation - The Board President and Board Secretary are required to sign all checks written by the District to be in compliance with Chapter 291.1 and Chapter 291.8 of the Code of Iowa. The District should review the current process and adopt procedures to comply with Chapters 291.1 and 291.8 of the Code of Iowa.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

II-H-05 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis. The bank reconciliation provides for an opportunity to make adjustments to the general ledger in a timely manner. These

reconciliations aid in maintaining the district's general ledger for use of decisions of financial nature.

Response - Bank reconciliations will be done on a monthly basis.

Conclusion - Response accepted.

II-I-05 Scholarship Funds - We noted during our audit that the District has a SES Scholarship Club and Scholarship Club account in the Student Activity Fund.

Recommendation - The Scholarship accounts would be better handled in an Expendable Trust Fund.

Response - We will set up an Expendable Trust Fund.

Conclusion - Response accepted.

II-J-05 Bus Drivers Overpaid - We noted during our audit that the District overpaid bus drivers during the year. The amount of the contracts appeared to be incorrectly entered, resulting in payment calculations in error.

Recommendation - Individual contracts should be reviewed for appropriateness. The amounts entered on the contracts should be reviewed for correctness from the agreed or negotiated contract amounts.

Response - We are in the process of reviewing the payments to bus drivers for the prior year. We believe the bus drivers contracts have been corrected for the 2005-06 year.

Conclusion - Response accepted.

II-K-05 Insurance - We noted during our audit that the District is paying for insurance for employees, past employees and retirees. The insurance billings included people that retired, but are not on the early retirement listing provided by the District and one deceased person. In addition, the billing appeared to not include some of the current employees that the District should be paying insurance for.

Recommendation - The District should review procedures for payments to the insurance company. The District should review the billings, verifying the participants listed for the health insurance benefit. The retired individuals still included for insurance, but whose early retirement benefits have been exhausted should be billed for insurance costs for continued coverage.

Response - We will review our insurance billings from the insurance company to ensure all participants are legitimate and make the necessary changes. Procedures will also be reviewed to ensure the proper participants are receiving the health insurance benefit.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast Program
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2005
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Number: 1107-G
Federal Award Year: 2005
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-05 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

CHARITON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Part IV: Other Findings Related to Statutory Reporting

IV-A-05 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget - District disbursements for the year ended June 30, 2005 exceeded the certified budget amounts in the support services functional area.

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

Response - The District will make every effort to avoid exceeding the certified budget amounts. If this should happen in the future, the District will amend the budget in accordance with Chapter 24.9

Conclusion - Response accepted.

IV-C-05 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dave Rich, Board Member Owner of True Value	Supplies	\$3,339

The above transactions do appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa.

Recommendation - The District should not exceed spending above the \$2,500 limit for related party transactions with Board Members. The District should seek legal counsel and refrain from doing business with related party officials.

Response - We will seek legal counsel on this matter.

Conclusion - Response acknowledged.

IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-05 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will publish the minutes timely in the future.

Conclusion - Response accepted.

II-H-05 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were open enrolled out was overstated by one student.

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

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

IV-I-05 Deposits and Investments - We noted 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. However, we did note that the District was not receiving the proper interest rate, set by the State Rate Setting Committee, on their Certificates of Deposit at US Bank and Midwest Heritage Bank.

Recommendation - The District should contact the appropriate banks and request reimbursement for underpayment of interest.

Response - The District will contact the appropriate bank and correct the problem.

Conclusion - Response accepted.

IV-J-05 Certified Annual Report - The Certified Annual Report was not filed with the Department of Education timely. However, we noted no significant deficiencies in the amounts reported.

Recommendation - The District should submit the Certified Annual Report in a timely manner in the future.

Response - We will comply with this recommendation.

Conclusion - Response accepted.

IV-K-05 Financial Condition - The District had a deficit unreserved undesignated fund balance of \$146,804 in the Physical Plant and Equipment Levy (PPEL) Fund at June 30, 2005. The District also had several negative account balances in the Student Activity Fund at June 30, 2005. The District had negative net assets in the School Nutrition Fund of \$25,981 at June 30, 2005.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will investigate alternatives to eliminate these deficits.

Conclusion - Response accepted.