

KEOKUK 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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Keokuk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2004 Election)		
Julia Logan	President	2006
Sandy Stark	Vice President	2005
David Barrett	Board Member	2005
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2004
Brent Gatton	Board Member	2004
Board of Education (After September 2004 Election)		
Julia Logan	President	2006
Sandy Stark	Vice President	2005
David Barrett	Board Member	2005
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2007
Brent Gatton	Board Member	2007
School Officials		
Jane Babcock	Superintendent	2005
Greg Reynolds	District Secretary/Treasurer and Business Manager	2005
Nyemaster, Goode, Voigts, West, Hansell & O'Brien, P.C.	Attorney	2005
Dorsey & Whitney, LLP	Attorney	2005
James F. Dennis	Attorney	2005

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keokuk 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 Keokuk Community School District, Keokuk, 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.

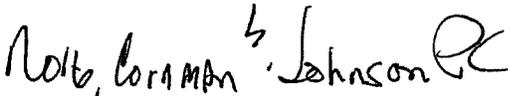
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Keokuk Community School District at June 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 September 8, 2005 on our consideration of Keokuk 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 13 and 37 through 40 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 an opinion on the financial statements that collectively comprise Keokuk 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 three years ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

September 8, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keokuk 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 \$17,253,229 in fiscal 2004 to \$18,325,138 in fiscal 2005, while General Fund expenditures increased from \$17,155,190 in fiscal 2004 to \$18,100,683 in fiscal 2005. This resulted in an increase in the District's General Fund balance from \$3,619,484 in fiscal 2004 to a balance of \$3,851,553 in fiscal 2005, a 6.4% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state grant revenue in fiscal 2005. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits.
- Capital expenditures of \$1,974,977 were made in fiscal 2005, for a roof replacement at the high school and the completion of the new Learning Center building.
- The School Nutrition Fund provides services to the Midwest Academy consisting of three meals a day for each student attending. In October 2004, Midwest Academy increased enrollment by 50% which increased operating revenues and marginal profits on services provided by the District to them. These extra profits, along with more state and federal revenues, allowed the fund balance to increase \$615,666 during fiscal 2005. The District is closely monitoring this fund balance to ensure that chargeable costs are appropriate, but yet not giving the services away either.
- This is the 3rd consecutive year that the school district ended its year with a positive special education balance.

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 Keokuk 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 Keokuk 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 Keokuk 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.

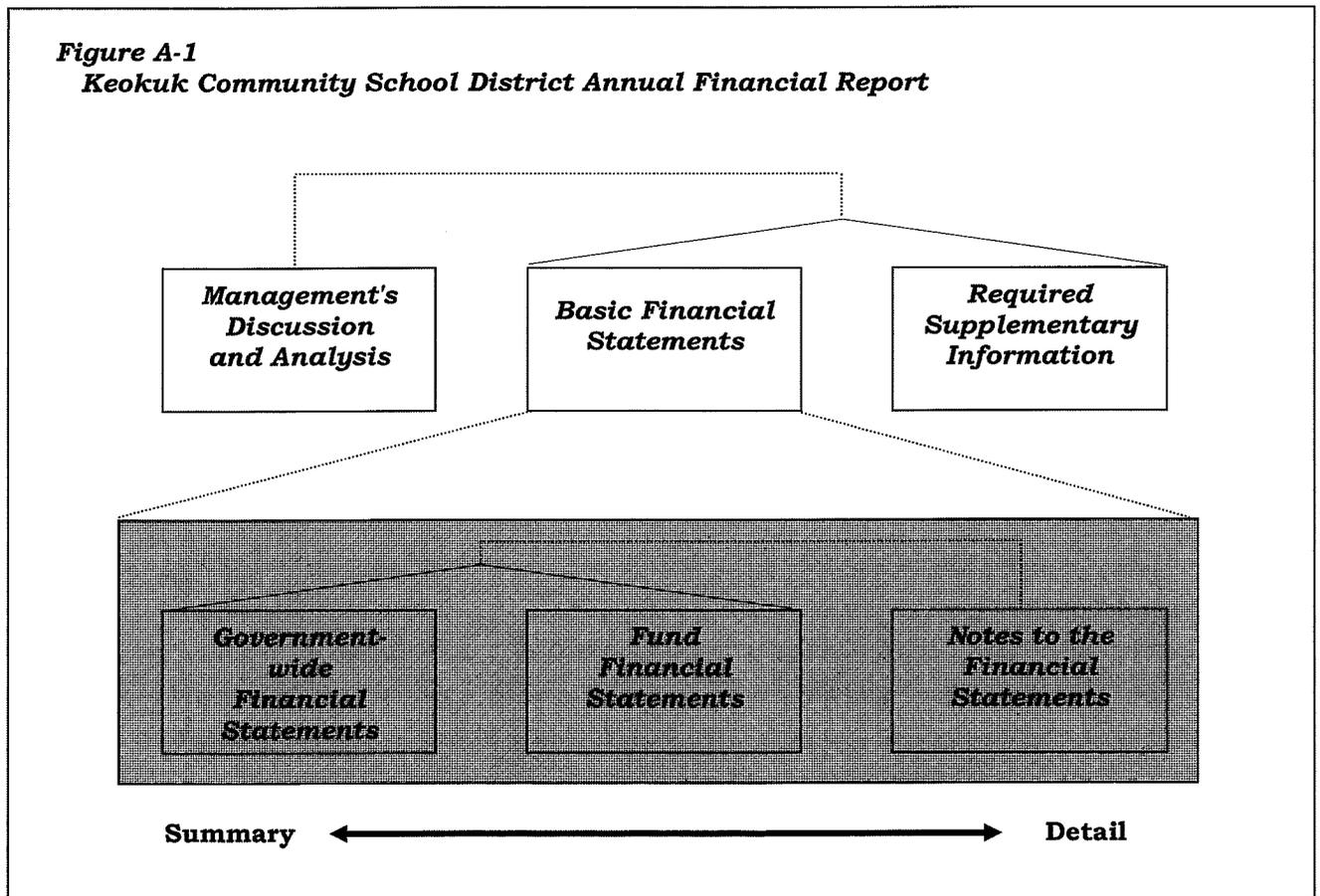


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

Reconciliation 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 for the year ended June 30, 2005.

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	\$ 13,492,272	16,485,977	860,710	259,248	14,352,982	16,745,225
Capital assets	19,674,787	18,604,893	203,316	188,079	19,878,103	18,792,972	5.77%
Total assets	33,167,059	35,090,870	1,064,026	447,327	34,231,085	35,538,197	-3.68%
Long-term obligations	12,307,241	13,239,973	0	0	12,307,241	13,239,973	-7.04%
Other liabilities	7,116,998	9,605,073	15,144	14,111	7,132,142	9,619,184	-25.86%
Total liabilities	19,424,239	22,845,046	15,144	14,111	19,439,383	22,859,157	-14.96%
Net assets:							
Invested in capital assets, net of related debt	10,453,567	9,088,775	203,316	188,079	10,656,883	9,276,854	14.88%
Restricted	354,718	351,400	0	0	354,718	351,400	0.94%
Unrestricted	2,934,535	2,805,649	845,566	245,137	3,780,101	3,050,786	23.91%
Total net assets	\$ 13,742,820	12,245,824	1,048,882	433,216	14,791,702	12,679,040	16.66%

The District's combined net assets increased by 16.7% or \$2,112,662 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 \$3,318 or .94% over the prior year. The increase was primarily a result of normal increases in the Physical Plant and Equipment Levy and Student Activity Funds.

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 - increased \$729,315 or nearly 24%. This increase in unrestricted net assets was a result of the increase in the School Nutrition fund balance, as discussed earlier.

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

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	\$ 787,152	766,349	1,328,477	542,498	2,115,629	1,308,847	61.64%
Operating grants and contributions and restricted interest	3,563,044	3,408,449	582,418	525,361	4,145,462	3,933,810	5.38%
Capital grants and contributions and restricted interest	833,125	100,000	0	0	833,125	100,000	733.13%
General revenues:							
Property tax	6,008,642	6,183,222	0	0	6,008,642	6,183,222	-2.82%
Local option sales and service tax	1,367,367	1,377,057	0	0	1,367,367	1,377,057	-0.70%
Unrestricted state grants	9,302,029	8,430,869	0	0	9,302,029	8,430,869	10.33%
Other	222,956	157,414	3,969	1,309	226,925	158,723	42.97%
Total revenues	22,084,315	20,423,360	1,914,864	1,069,168	23,999,179	21,492,528	11.66%
Program expenses:							
Governmental activities:							
Instructional	12,419,569	11,428,663	0	0	12,419,569	11,428,663	8.67%
Support services	5,380,441	5,283,368	0	0	5,380,441	5,283,368	1.84%
Non-instructional programs	916,281	828,507	1,299,198	871,852	2,215,479	1,700,359	30.29%
Other expenses	1,871,028	1,590,351	0	0	1,871,028	1,590,351	17.65%
Total expenses	20,587,319	19,130,889	1,299,198	871,852	21,886,517	20,002,741	9.42%
Changes in net assets	1,496,996	1,292,471	615,666	197,316	2,112,662	1,489,787	41.81%
Net assets beginning of year	12,245,824	10,953,353	433,216	235,900	12,679,040	11,189,253	13.31%
Net assets end of year	\$ 13,742,820	12,245,824	1,048,882	433,216	14,791,702	12,679,040	16.66%

Property tax and unrestricted state grants account for 63.8% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 81.3% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$22,084,315 and expenses were \$20,587,319.

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	\$ 12,419,569	8,760,655
Support services	5,380,441	5,349,463
Non- instructional	916,281	916,281
Other expenses	1,871,028	377,599
Totals	<u>\$ 20,587,319</u>	<u>15,403,998</u>

- The cost financed by users of the District’s programs was \$787,152.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$4,396,169.
- The net cost of governmental activities was financed with \$6,008,642 in local tax, \$1,367,367 in local option sales and service tax, \$9,302,029 in unrestricted state grants, and \$231,342 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$1,914,864 and expenses were \$1,299,198. The District’s business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Keokuk 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 \$6,494,878, compared to last year’s ending fund balances of \$7,019,588. However, the primary reason for the decline was the increase in costs associated with the completion of the Learning Center building.

Governmental Fund Highlights

- The District’s improving General Fund financial position is the product of many factors.
 - Total revenues were greater than total expenditures ensuring the increase in the financial position of the District.
 - In spite of the increase in revenues, the District actually received \$237,757 less in local taxes during fiscal 2005. The increases came from receiving more in intermediate, state grant and federal grant sources during the year.
 - The revenues and expenses associated with the 21st Century Grant caused both areas to increase. The District received \$113,953 more from this grant in FY05 than in FY04.
 - Instructional expenditures increased \$726,023 in FY05. A portion of this increase is due to the increases in the employees salaries and benefits.
- The Capital Projects fund balance decreased \$855,067 during the current year. Expenditures increased as construction on the new Learning Center and the replacement of the high school roof was completed. To offset some of the costs associated with the construction, the District used the \$833,125 they received from an Iowa Demonstration Construction Grant.

- An increase in local tax revenue allowed the Debt Service fund balance to increase from \$1,344,018 to \$1,379,903.

Proprietary Fund Highlights

As discussed earlier, the School Nutrition Fund net assets increased \$615,666 due to the increased services to the Midwest Academy. The change in net assets associated with the serving of the District’s students was minimal.

BUDGETARY HIGHLIGHTS

The District’s revenues were \$378,108 more than budgeted revenues, a variance of 1.6%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested \$19,878,103, 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 increase of 5.77% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$928,168.

The original cost of the District’s capital assets was \$30,903,130. Governmental funds account for \$30,558,649 with the remainder of \$344,481 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District’s construction in progress totaled \$8,075 at June 30, 2005, compared to \$55,285 reported at June 30, 2004. This decrease resulted from the completion of the new Learning Center during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
	Land	\$ 902,602	902,602	0	0	902,602	902,602
Construction in progress	8,075	55,285	0	0	8,075	55,285	-85.39%
Buildings	17,579,698	16,204,193	0	0	17,579,698	16,204,193	8.49%
Improvements other than buildings	465,959	507,975	0	0	465,959	507,975	-8.27%
Machinery and equipment	718,453	934,838	203,316	188,079	921,769	1,122,917	-17.91%
Total	\$ 19,674,787	18,604,893	203,316	188,079	19,878,103	18,792,972	5.77%

Long-Term Debt

At June 30, 2005, the District had long-term debt outstanding of \$12,307,241 in general obligation bonds, revenue bonds, compensated absences, and early retirement. This represents a decrease of approximately 7% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

A decrease of \$405,000 during the year leaves the District with total outstanding general obligation bonds payable of \$7,075,000 at June 30, 2005.

Principal payments totaling \$690,000 reduced the District's revenue bonds payable to \$4,025,000, at June 30, 2005.

At June 30, 2005, the District has a liability in compensated absences of \$144,000. Compensated absences are an accumulation of the Districts employees unused vacation days.

A net increase of \$147,239 during the year increased the total outstanding early retirement payable reported by the District to an ending balance of \$1,063,241.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2005	2004	
General obligation bonds	\$ 7,075,000	7,480,000	-5.4%
Revenue Bonds	4,025,000	4,715,000	-14.63%
Early retirement	1,063,241	916,002	16.07%
Compensated absences	144,000	128,971	11.65%
Total	<u>\$ 12,307,241</u>	<u>13,239,973</u>	<u>-7.04%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced an increase in enrollment the past few years; however, the trend is not expected to continue. The September 2004 count resulted in an increase of 95.7 students or 4.2%, which will affect the funding received by the District in the 2005-06 fiscal year.
- Funding for the District's before and after school program has been received from Federal and State Grants. The grants for this program will continue for one more year. The future of this program will depend upon the District's ability to fund this through alternative sources.
- Low allowable growth over several years and enrollment trends impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has experienced a decline in taxable valuations the last two years and has forced a shift in funding between state aid and property taxes.

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 Gregory Reynolds, District Board Secretary/Business Manager, Keokuk Community School District, 727 Washington Street, Keokuk, Iowa, 52632.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 4)	\$ 754,173	0	754,173
Other	6,068,942	642,044	6,710,986
Receivables:			
Property tax:			
Delinquent	121,925	0	121,925
Succeeding year	5,870,135	0	5,870,135
Accounts	10,635	215,131	225,766
Accrued interest			
ISCAP(Note 4)	10,217	0	10,217
Due from other governments	656,245	0	656,245
Inventories	0	3,535	3,535
Capital assets, net of accumulated depreciation(Note 5)	19,674,787	203,316	19,878,103
TOTAL ASSETS	33,167,059	1,064,026	34,231,085
LIABILITIES			
Accounts payable	314,811	7,311	322,122
Interest payable	119,604	0	119,604
Salaries and benefits payable	15,707	0	15,707
ISCAP warrants payable(Note 4)	752,000	0	752,000
ISCAP accrued interest payable(Note 4)	11,032	0	11,032
ISCAP premiums payable	4,471	0	4,471
Bond principal due and unpaid	25,000	0	25,000
Bond interest due and unpaid	4,238	0	4,238
Deferred revenue:			
Succeeding year property tax	5,870,135	0	5,870,135
Other	0	7,833	7,833
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds	410,000	0	410,000
Revenue bonds	725,000	0	725,000
Early retirement	388,779	0	388,779
Compensated absences	144,000	0	144,000
Portion due after one year:			
General obligation bonds	6,665,000	0	6,665,000
Revenue bonds	3,300,000	0	3,300,000
Early retirement	674,462	0	674,462
TOTAL LIABILITIES	19,424,239	15,144	19,439,383
NET ASSETS			
Investment in capital assets, net of related debt	10,453,567	203,316	10,656,883
Restricted for:			
Physical plant & equipment levy	167,359	0	167,359
Other special revenue purposes	187,359	0	187,359
Unrestricted	2,934,535	845,566	3,780,101
TOTAL NET ASSETS	\$ 13,742,820	1,048,882	14,791,702

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 8,000,802	70,129	2,902,740	0
Special instruction	2,539,537	34,385	0	0
Other instruction	1,879,230	651,660	0	0
	<u>12,419,569</u>	<u>756,174</u>	<u>2,902,740</u>	<u>0</u>
Support services:				
Student services	647,940	0	0	0
Instructional staff services	417,255	0	0	0
Administration services	2,023,498	0	0	0
Operation and maintenance of plant services	1,818,079	0	0	0
Transportation services	473,669	30,978	0	0
	<u>5,380,441</u>	<u>30,978</u>	<u>0</u>	<u>0</u>
Non-instructional:				
Food service operations	2,955	0	0	0
Community service and education operations	913,326	0	0	0
	<u>916,281</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	253,201	0	0	833,125
Long-term debt interest	468,362	0	0	0
AEA flowthrough	660,304	0	660,304	0
Depreciation(unallocated)*	489,161	0	0	0
	<u>1,871,028</u>	<u>0</u>	<u>660,304</u>	<u>833,125</u>
Total governmental activities	20,587,319	787,152	3,563,044	833,125
Business-Type activities:				
Non-instructional programs:				
Nutrition services	1,299,198	1,328,477	582,418	0
Total business-type activities	<u>1,299,198</u>	<u>1,328,477</u>	<u>582,418</u>	<u>0</u>
Total	<u>\$ 21,886,517</u>	<u>2,115,629</u>	<u>4,145,462</u>	<u>833,125</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Loss on disposal of capital assets

Total general revenues

Changes in net assets

Net assets beginning of year

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
(5,027,933)	0	(5,027,933)
(2,505,152)	0	(2,505,152)
(1,227,570)	0	(1,227,570)
(8,760,655)	0	(8,760,655)
(647,940)	0	(647,940)
(417,255)	0	(417,255)
(2,023,498)	0	(2,023,498)
(1,818,079)	0	(1,818,079)
(442,691)	0	(442,691)
(5,349,463)	0	(5,349,463)
(2,955)	0	(2,955)
(913,326)	0	(913,326)
(916,281)	0	(916,281)
579,924	0	579,924
(468,362)	0	(468,362)
0	0	0
(489,161)	0	(489,161)
(377,599)	0	(377,599)
(15,403,998)	0	(15,403,998)
0	611,697	611,697
0	611,697	611,697
(15,403,998)	611,697	(14,792,301)
\$ 5,446,081	0	5,446,081
455,126	0	455,126
107,435	0	107,435
1,367,367	0	1,367,367
9,302,029	0	9,302,029
231,342	3,969	235,311
(8,386)	0	(8,386)
16,900,994	3,969	16,904,963
1,496,996	615,666	2,112,662
12,245,824	433,216	12,679,040
\$ 13,742,820	1,048,882	14,791,702

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments:					
ISCAP (Note 5)	\$ 754,173	0	0	0	754,173
Other	3,421,082	569,773	1,400,333	677,754	6,068,942
Receivables:					
Property tax					
Delinquent	99,143	0	8,808	13,974	121,925
Succeeding year	4,775,861	0	395,543	698,731	5,870,135
Accounts	10,028	0	0	607	10,635
Accrued interest					
ISCAP (Note 5)	10,217	0	0	0	10,217
Due from other governments	545,451	110,794	0	0	656,245
TOTAL ASSETS	\$ 9,615,955	680,567	1,804,684	1,391,066	13,492,272
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 205,331	62,086	0	47,394	314,811
Salaries and benefits payable	15,707	0	0	0	15,707
ISCAP warrants payable (Note 5)	752,000	0	0	0	752,000
ISCAP accrued interest payable (Note 5)	11,032	0	0	0	11,032
ISCAP premiums payable	4,471	0	0	0	4,471
Bond principal due and unpaid	0	0	25,000	0	25,000
Bond interest due and unpaid	0	0	4,238	0	4,238
Deferred revenue:					
Succeeding year property tax	4,775,861	0	395,543	698,731	5,870,135
Total liabilities	5,764,402	62,086	424,781	746,125	6,997,394
Fund balances:					
Reserved for:					
Debt Service	0	0	1,379,903	0	1,379,903
Unreserved:					
General	3,851,553	0	0	0	3,851,553
Capital projects	0	618,481	0	0	618,481
Management levy	0	0	0	290,223	290,223
Physical plant and equipment levy	0	0	0	167,359	167,359
Schoolhouse	0	0	0	46,350	46,350
Other special revenue	0	0	0	141,009	141,009
Total fund balances	3,851,553	618,481	1,379,903	644,941	6,494,878
TOTAL LIABILITIES AND FUND BALANCES	\$ 9,615,955	680,567	1,804,684	1,391,066	13,492,272

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK 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 17)	\$ 6,494,878
<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 reported as assets in in the governmental funds.	19,674,787
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(119,604)
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(12,307,241)</u>
Net assets of governmental activites (page 14)	<u><u>\$ 13,742,820</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 4,876,719	0	455,126	676,797	6,008,642
LOSST	0	1,367,367	0	0	1,367,367
Tuition	104,514	0	0	0	104,514
Other	231,210	27,339	54,774	351,752	665,075
Intermediate sources	248,905	0	0	0	248,905
State sources	10,541,184	0	506	777	10,542,467
Federal sources	2,322,606	833,125	0	0	3,155,731
Total revenues	18,325,138	2,227,831	510,406	1,029,326	22,092,701
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	7,234,824	0	0	329,387	7,564,211
Special instruction	2,551,755	0	0	0	2,551,755
Other instruction	1,692,031	0	0	328,515	2,020,546
	11,478,610	0	0	657,902	12,136,512
Support services:					
Student services	697,915	0	0	0	697,915
Instructional staff services	420,808	0	0	0	420,808
Administration services	1,898,158	0	0	49,237	1,947,395
Operation and maintenance of plant services	1,654,482	0	0	160,492	1,814,974
Transportation services	377,080	0	0	42,673	419,753
	5,048,443	0	0	252,402	5,300,845
Non-instructional:					
Food service operations	0	0	0	2,955	2,955
Community service and education operations	913,326	0	0	0	913,326
	913,326	0	0	2,955	916,281
Other expenditures:					
Facilities acquisitions	0	1,974,977	0	53,664	2,028,641
Long-term debt:					
Principal	0	0	1,095,000	0	1,095,000
Interest and fiscal charges	0	0	487,442	0	487,442
AEA flowthrough	660,304	0	0	0	660,304
	660,304	1,974,977	1,582,442	53,664	4,271,387
Total expenditures	18,100,683	1,974,977	1,582,442	966,923	22,625,025
Excess(deficiency) of revenues over(under) expenditures	224,455	252,854	(1,072,036)	62,403	(532,324)
Other financing sources(uses):					
Transfers in	0	0	1,107,921	0	1,107,921
Transfers out	0	(1,107,921)	0	0	(1,107,921)
Compensation for loss of fixed assets	3,265	0	0	0	3,265
Sale of equipment and materials	4,349	0	0	0	4,349
Total other financing sources(uses)	7,614	(1,107,921)	1,107,921	0	7,614
Net change in fund balances	232,069	(855,067)	35,885	62,403	(524,710)
Fund balance beginning of year	3,619,484	1,473,548	1,344,018	582,538	7,019,588
Fund balance end of year	\$ 3,851,553	618,481	1,379,903	644,941	6,494,878

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ (524,710)

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

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

Capital expenditures	\$ 1,990,133	
Depreciation expense	<u>(904,239)</u>	1,085,894

The proceeds from the sale of equipment (\$4,349) and compensation for loss of fixed assets (\$3,265) are reported as revenue in the governmental funds. However the cost of the equipment is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (16,000)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 1,095,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 19,080

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 fund.

Early retirement	\$ (147,239)	
Compensated absences	<u>(15,029)</u>	<u>(162,268)</u>

Changes in net assets of governmental activities (page 16) \$ 1,496,996

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 642,044
Accounts receivable	215,131
Inventories	3,535
Capital assets, net of accumulated depreciation	203,316
TOTAL ASSETS	1,064,026
 LIABILITIES	
Accounts payable	7,311
Other:	
Deferred revenues	7,833
TOTAL LIABILITES	15,144
 NET ASSETS	
Invested in capital assets, net of related debt	203,316
Unrestricted	845,566
TOTAL NET ASSETS	\$ 1,048,882

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK 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:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 1,309,791
Adults	9,874
Miscellaneous	8,812
TOTAL OPERATING REVENUES	1,328,477
OPERATING EXPENSES:	
Food service operations:	
Salaries	393,931
Benefits	124,335
Services	12,221
Supplies	744,782
Depreciation	23,929
TOTAL OPERATING EXPENSES	1,299,198
OPERATING INCOME	29,279
NON-OPERATING REVENUES:	
Interest	3,969
State sources	10,905
Federal sources	571,513
TOTAL NON-OPERATING REVENUES	586,387
Change in net assets	615,666
Net assets beginning of year	433,216
Net assets end of year	\$ 1,048,882

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK 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	\$ 1,257,197
Cash received from miscellaneous operating activities	8,812
Cash payments to employees for services	(518,266)
Cash payments to suppliers for goods or services	(701,254)
Net cash provided by operating activities	46,489
Cash flows from non-capital financing activities:	
State grants received	10,905
Federal grants received	517,595
Net cash provided by non-capital financing activities	528,500
Cash flows from investing activities:	
Interest on investments	3,969
Net cash provided by investing activities	3,969
Cash flows from capital financing activities:	
Purchase of assets	(39,166)
Net cash used in financing activities	(39,166)
Net increase in cash and cash equivalents	539,792
Cash and cash equivalents at beginning of year	102,252
Cash and cash equivalents at end of year	\$ 642,044
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ 29,279
Adjustments to reconcile operating income to net cash provided by operating activities:	
Commodities consumed	53,918
Depreciation	23,929
Decrease in inventories	2,618
Increase in accounts receivables	(64,288)
Decrease in accounts payable	(787)
Increase in deferred revenue	1,820
Net cash provided by operating activities	\$ 46,489
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 642,044
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2005, the District received Federal commodities valued at \$53,918.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2005

	<u>Total Private- Purpose Trust</u>
ASSETS	
Cash and pooled investments	\$ 102,570
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 102,570</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2005

	<u>Total Private- Purpose Trust</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 2,722
DEDUCTIONS:	
Support services:	
Scholarship awarded	<u>2,985</u>
Change in net assets	(263)
Net assets beginning of year	<u>102,833</u>
Net assets end of year	<u>\$ 102,570</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005

(1) Summary of Significant Accounting Policies

The Keokuk 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 Keokuk, Iowa, and the predominate agricultural territory in Lee 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, Keokuk Community School District has included all funds, organizations, account groups, 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 Keokuk 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 Lee 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 used to account for all resources used in the acquisition of capital facilities.

The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt.

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

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, 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, machinery 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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

Salaries Payable - Payroll and related expenditures for 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.

Compensated absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, no disbursements 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 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.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified portfolio	\$ 5,080,943

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

(3) Transfers

The detail of transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,107,921

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. 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
2004-05B	1/28/2005	1/27/2006	\$ 754,173	10,217	752,000	11,032

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. No ISCAP advance activity was noted during the year.

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
2004-05B	3.500%	3.232%

(5) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 902,602	0	0	902,602
Construction in progress	55,285	1,775,440	1,822,650	8,075
Total capital assets not being depreciated	957,887	1,775,440	1,822,650	910,677
Capital assets being depreciated:				
Buildings	22,383,861	1,822,650	0	24,206,511
Land improvements	1,117,532	0	0	1,117,532
Machinery and equipment	4,129,236	214,693	20,000	4,323,929
Total capital assets being depreciated	27,630,629	2,037,343	20,000	29,647,972
Less accumulated depreciation for:				
Buildings	6,179,668	447,145	0	6,626,813
Land improvements	609,557	42,016	0	651,573
Machinery and equipment	3,194,398	415,078	4,000	3,605,476
Total accumulated depreciation	9,983,623	904,239	4,000	10,883,862
Total capital assets being depreciated, net	17,647,006	1,133,104	16,000	18,764,110
Governmental activities capital assets, net	\$ 18,604,893	2,908,544	1,838,650	19,674,787
Business-type activities:				
Machinery and equipment	\$ 305,315	39,166	0	344,481
Less accumulated depreciation	117,236	23,929	0	141,165
Business-type activities capital assets, net	\$ 188,079	15,237	0	203,316

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 196,384
Other	7,294
Support services:	
Instructional staff services	11,224
Administration services	103,040
Operation and maintenance of plant services	18,612
Transportation	78,524
	<u>415,078</u>
Unallocated depreciation	489,161
Total governmental activities depreciation expense	\$ 904,239
Business-type activities:	
Food services	\$ 23,929

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 7,480,000	0	405,000	7,075,000	410,000
Revenue bonds	4,715,000	0	690,000	4,025,000	725,000
Early retirement	916,002	460,764	313,525	1,063,241	388,779
Compensated absences	128,971	144,000	128,971	144,000	144,000
Total	\$ 13,239,973	604,764	1,537,496	12,307,241	1,667,779

General Obligation Bonds Payable

Details of the District's June 30, 2005 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2006	2.00 %	\$ 410,000	241,950	651,950
2007	2.50	425,000	233,750	658,750
2008	3.00	435,000	223,126	658,126
2009	3.00	445,000	210,076	655,076
2010	3.25	460,000	196,726	656,726
2011	3.30	475,000	181,776	656,776
2012	3.40	490,000	166,100	656,100
2013	3.50	510,000	149,440	659,440
2014	3.60	525,000	131,590	656,590
2015	3.70	540,000	112,690	652,690
2016	3.80	555,000	92,710	647,710
2017	3.90	580,000	71,620	651,620
2018	4.00	600,000	49,000	649,000
2019	4.00	625,000	25,000	650,000
Total		\$ 7,075,000	2,085,554	9,160,554

Revenue Bonds Payable

Details of the District's June 30, 2005 revenue bonded indebtedness is as follows:

Year Ending June 30	Series A - Sales Tax Bond		Series B - Sales Tax Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 200,000	61,862	\$ 525,000	137,020	\$ 725,000	198,882
2007	200,000	50,400	560,000	110,395	760,000	160,795
2008	200,000	39,950	600,000	81,679	800,000	121,629
2009	200,000	29,475	650,000	50,515	850,000	79,990
2010	400,000	16,175	490,000	19,180	890,000	35,355
Total	\$ 1,200,000	197,862	\$ 2,825,000	398,789	\$ 4,025,000	596,651

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten

years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is governed by the Master Contract between the District and the Keokuk Education Association. Early retirement benefits paid for the year ended June 30, 2005 totaled \$313,525.

(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 salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$658,686, \$623,676, and \$624,655, respectively, equal to the required contributions for each year.

(8) Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium. The total amount of the deficit recoveries of current members is estimated to \$2.2 million. The District's share of this assessment is going to be 2% of the 2004-05 and 2005-06 premiums. As of June 30, 2005 the District had paid \$1,610 of the assessment. The remainder of the 2% assessment will be paid on a monthly basis along with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, 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 \$80,485.

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

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

(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 \$660,304 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) Construction Commitments

The District entered into various contract totaling \$65,000 for various projects of the Districts. At June 30, 2005, \$8,500 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

KEOKUK COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON 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	Total Actual
Receipts:			
Local sources	\$ 8,549,195	1,226,519	9,775,714
Intermediate sources	235,878	0	235,878
State sources	9,882,644	10,905	9,893,549
Federal sources	3,125,456	571,513	3,696,969
Total receipts	<u>21,793,173</u>	<u>1,808,937</u>	<u>23,602,110</u>
Disbursements:			
Instruction	12,127,357	0	12,127,357
Support services	5,194,378	0	5,194,378
Non-instructional programs	920,114	1,312,604	2,232,718
Other expenditures	4,232,056	0	4,232,056
Total disbursements	<u>22,473,905</u>	<u>1,312,604</u>	<u>23,786,509</u>
Excess(deficiency) of receipts over(under) disbursements	(680,732)	496,333	(184,399)
Other financing sources, net	7,614	0	7,614
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(673,118)	496,333	(176,785)
Balance beginning of year	<u>6,742,060</u>	<u>145,711</u>	<u>6,887,771</u>
Balance end of year	<u>\$ 6,068,942</u>	<u>642,044</u>	<u>6,710,986</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Budgeted Amounts		Final to Actual Variance - Positive (Negative)
Original	Final	
8,451,581	8,451,581	1,324,133
0	0	235,878
10,699,921	10,699,921	(806,372)
4,072,500	4,072,500	(375,531)
<u>23,224,002</u>	<u>23,224,002</u>	<u>378,108</u>
12,693,274	12,693,274	565,917
5,531,000	5,531,000	336,622
1,804,094	2,404,094	171,376
4,607,947	4,607,947	375,891
<u>24,636,315</u>	<u>25,236,315</u>	<u>1,449,806</u>
(1,412,313)	(2,012,313)	1,827,914
3,500	3,500	11,114
(1,408,813)	(2,008,813)	1,839,028
6,457,976	6,457,976	429,795
<u>5,049,163</u>	<u>4,449,163</u>	<u>2,268,823</u>

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 21,793,173	299,528	22,092,701
Expenses	22,473,905	151,120	22,625,025
Net	(680,732)	148,408	(532,324)
Other financing sources, net	7,614	0	7,614
Beginning fund balances	6,742,060	277,528	7,019,588
Ending fund balances	\$ 6,068,942	425,936	6,494,878

	Proprietary Fund Type		
	Cash Basis	Enterprise	
		Adjust- ments	Accrual Basis
Revenues	\$ 1,808,937	105,927	1,914,864
Expenses	1,312,604	(13,406)	1,299,198
Net	496,333	119,333	615,666
Beginning fund balance	145,711	287,505	433,216
Ending fund balance	\$ 642,044	406,838	1,048,882

KEOKUK 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 Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and 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 functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures from the non-instructional function by \$600,000.

OTHER SUPPLEMENTAL INFORMATION

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

	Management	Physical Plant & Equipment Levy	School- house 67.5	Student Activity	Total Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 278,584	165,280	86,250	147,640	677,754
Receivables:					
Property tax:					
Current year delinquent	11,895	2,079	0	0	13,974
Succeeding year	590,000	108,731	0	0	698,731
Accounts	0	0	0	607	607
TOTAL ASSETS	\$ 880,479	276,090	86,250	148,247	1,391,066
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 256	0	39,900	7,238	47,394
Deferred revenue:					
Succeeding year property tax	590,000	108,731	0	0	698,731
	590,256	108,731	39,900	7,238	746,125
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	290,223	167,359	46,350	141,009	644,941
Total fund balances	290,223	167,359	46,350	141,009	644,941
TOTAL LIABILITIES AND FUND EQUITY	\$ 880,479	276,090	86,250	148,247	1,391,066

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Manage- ment	Physical Plant & Equipment Levy	School- house 67.5	Student Activity	Total Nonmajor Governmental Funds
REVENUES:					
Local sources:					
Local tax	\$ 569,362	107,435	0	0	676,797
Other	4,105	3,431	1,683	342,533	351,752
State sources	657	120	0	0	777
TOTAL REVENUES	574,124	110,986	1,683	342,533	1,029,326
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	323,568	5,819	0	0	329,387
Other instruction	0	0	0	328,515	328,515
	323,568	5,819	0	328,515	657,902
Support services:					
Administration services	49,237	0	0	0	49,237
Operation and maintenance of plant services	114,582	45,910	0	0	160,492
Transportation services	26,238	16,435	0	0	42,673
	190,057	62,345	0	0	252,402
Non-instructional:					
Food service operations	2,955	0	0	0	2,955
Other expenditures:					
Facilities acquisition	898	4,790	47,976	0	53,664
TOTAL EXPENDITURES	517,478	72,954	47,976	328,515	966,923
Excess (deficiency) of revenues over (under) expenditures	56,646	38,032	(46,293)	14,018	62,403
Fund balance beginning of year	233,577	129,327	92,643	126,991	582,538
Fund balance end of year	\$ 290,223	167,359	46,350	141,009	644,941

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK 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
HS interest earned	\$ 73	46	0	119
HS drama	1,768	572	847	1,493
HS speech	1,020	3,187	2,364	1,843
HS show choir	717	2,154	2,371	500
HS vocal music	500	2,769	2,769	500
HS instrument music	1,500	4,247	3,331	2,416
HS winterguard	150	865	515	500
HS athletics	1,065	0	503	562
HS tournaments	0	12,819	11,945	874
HS booster resale	481	33,200	33,807	(126)
HS cross country	609	1,558	1,177	990
HS boys basketball	6,056	6,069	3,589	8,536
HS football	17,056	16,065	15,759	17,362
HS baseball	3,654	2,769	4,345	2,078
HS boys track	1,082	2,115	1,918	1,279
HS boys tennis	364	1,427	1,520	271
HS boys golf	1,500	2,122	2,298	1,324
HS boys swimming	500	359	186	673
HS soccer	1,458	1,284	1,313	1,429
HS wrestling	2,323	4,003	4,547	1,779
HS girls basketball	4,297	13,124	11,531	5,890
HS volleyball	1,723	5,694	2,975	4,442
HS softball	3,926	3,504	4,971	2,459
HS girls track	1,043	1,381	1,313	1,111
HS girls tennis	1,037	874	879	1,032
HS girls golf	1,025	1,251	1,646	630
HS girls swimming	1,012	1,094	1,174	932
HS girls soccer	1,000	0	0	1,000
HS yearbook	500	10,887	3,920	7,467
HS general	1,801	34,933	31,652	5,082
HS FHA	783	0	40	743
HS summer drama	1,343	0	1,343	0
HS student newspaper	719	2,980	3,199	500
HS fallon student	1,549	0	76	1,473
HS lit project	1,502	49	134	1,417
HS student council	6,560	8,637	5,688	9,509
HS uniform repair	2,573	2,020	1,777	2,816
HS national honor society	500	1,917	1,902	515
HS french club	620	0	40	580
HS spanish club	500	2,164	1,606	1,058
HS class of 2001	137	0	137	0
HS class of 2002	2,727	0	2,727	0
HS class of 2004	1,957	0	1,957	0
HS class of 2005	4,181	581	4,306	456
HS class of 2006	2,284	7,863	7,899	2,248
HS class of 2007	3,069	4,016	2,289	4,796
HS class of 2008	250	714	0	964
HS class of 2009	0	250	0	250

KEOKUK 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
HS special education club	1,047	0	431	616
HS athletics	1,500	9,599	10,378	721
HS special athletics	722	734	1,309	147
HS weight room	428	4,876	40	5,264
HS student activity	0	13,825	13,825	0
HS concessions	1,116	37,856	37,033	1,939
HS little feather	5,059	14,410	16,169	3,300
HS cheerleaders	2,821	2,863	3,692	1,992
HS special needs friends	0	632	439	193
HS bowling	1,074	254	58	1,270
HS gaming	0	189	189	0
HS teacher activity	500	2,294	2,794	0
HS jets	39	252	0	291
HS learning center	1,073	0	184	889
HS nurse activity	372	0	372	0
HS SADD	500	846	880	466
MS vocal music	2,305	5,092	3,716	3,681
MS instrument music	389	1,016	850	555
MS cross country	0	304	304	0
MS boys basketball	724	1,397	1,273	848
MS football	0	2,867	2,867	0
MS boys track	0	601	601	0
MS soccer	2,500	0	0	2,500
MS wrestling	318	856	2,051	(877)
MS girls basketball	0	1,617	1,503	114
MS volleyball	729	1,374	942	1,161
MS softball	0	682	542	140
MS girls track	457	1,004	779	682
MS yearbook	883	4,060	2,842	2,101
MS student newspaper	248	0	0	248
MS lit project	6,034	13,686	16,162	3,558
MS student council	0	725	725	0
MS math contests	758	0	183	575
MS SPED club	282	342	594	30
MS student athletes	162	2,934	3,096	0
MS student activities	1,448	8,715	5,996	4,167
MS cheerleaders	96	200	118	178
MS teacher activity	335	1,131	1,466	0
MS student products	1,215	2,243	3,255	203
MS learn connects	317	757	45	1,029
MS int checking	88	392	307	173
HS soccer fundraiser	0	45	0	45
HS boys golf fundraiser	50	0	0	50
HS softball fundraiser	908	300	220	988
Total	\$ 126,991	342,533	328,515	141,009

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2005

	Balance Beginning of year	Revenues	Expenditures	Balance End of year
Black Sims Award	\$ 500	8	0	508
Kilborne Prize	9,664	175	130	9,709
William Aldrich Trust	3,711	56	185	3,582
Elizabeth Wilson Leake Award	13,649	230	283	13,596
Maud Marshall Hassall	11,164	212	410	10,966
WM J Sigmund Memorial	8,448	163	327	8,284
Edna Sears Trust	7,348	250	350	7,248
Wilbur Erickson	6,132	254	200	6,186
Edna Meirotto (1)	10,211	328	300	10,239
Edna Meirotto (2)	10,257	346	300	10,303
Ming Chung	21,749	700	500	21,949
	<u>\$ 102,833</u>	<u>2,722</u>	<u>2,985</u>	<u>102,570</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK 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	\$ 7,376,009	7,560,279	7,835,340	7,942,449
Tuition	104,514	132,977	79,151	80,341
Other	665,075	738,371	965,510	1,435,570
Intermediate sources	248,905	17,335	0	0
State sources	10,542,467	9,658,197	9,529,374	9,377,292
Federal sources	3,155,731	2,281,121	2,300,586	1,910,262
Total	\$ 22,092,701	20,388,280	20,709,961	20,745,914
Expenditures:				
Instruction:				
Regular instruction	\$ 7,564,211	7,201,553	7,204,922	6,480,648
Special instruction	2,551,755	3,174,324	2,948,706	2,900,575
Other instruction	2,020,546	1,112,618	1,130,085	1,300,509
Support services:				
Student services	697,915	715,383	766,190	732,079
Instructional staff services	420,808	421,299	399,603	538,396
Administration services	1,947,395	1,834,299	1,709,331	1,773,559
Operation and maintenance of plant services	1,814,974	1,749,993	1,547,588	1,676,518
Transportation services	419,753	440,308	525,785	490,994
Other	0	767	0	0
Non-instructional	916,281	828,507	799,318	757,623
Other expenditures:				
Facilities acquisitions	2,028,641	636,168	4,007,977	8,503,240
Long Term Debt:				
Principal	1,095,000	1,050,000	1,010,000	995,000
Interest	487,442	531,523	989,078	768,703
AEA flow-through	660,304	645,987	667,716	672,452
Total	\$ 22,625,025	20,342,729	23,706,299	27,590,296

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 04	\$ 1,101,590
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 05	\$ 53,918
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	88,785
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	428,810
			<u>517,595</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-GC-04	42,454
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-G-05	492,665
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-GC-05	17,938
			<u>553,057</u>
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM (TITLE I MIGRANTS)	84.011	FY 05	5,000
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	641
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 05	14,897
			<u>15,538</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	7,064
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 05	27,461
			<u>34,525</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	28,282
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 05	152,252
			<u>180,534</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	11,014
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 05	6,057
			<u>17,071</u>

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DEPARTMENT OF EDUCATION (CONT):			
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 04	105,461
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 05	209,756
			<u>315,217</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 04	23,040
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)	84.318	FY 05	3,973
			<u>27,013</u>
FUNDS FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 04	432,528
FUNDS FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 05	481,250
			<u>913,778</u>
RURAL EDUCATION ACHIEVEMENT PROGRAM (REAP)	84.358	FY 05	3,176
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	736
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	40,532
			<u>41,268</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 03	4,763
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	6,334
			<u>11,097</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 05	134,463
TOTAL			<u>\$ 3,924,840</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Keokuk Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general-purpose 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 50208-3050
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
Keokuk 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 Keokuk 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 September 8, 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 Keokuk Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keokuk 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.

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 Keokuk Community School District and other parties to Keokuk 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 Keokuk 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.

September 8, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3050

Telephone (641) 792-1910

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

To the Board of Education of
Keokuk Community School District

Compliance

We have audited the compliance of Keokuk Community School District with the types of compliance requirements described in the 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. Keokuk 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 Keokuk Community School District's management. Our responsibility is to express an opinion on Keokuk 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 noncompliance 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 Keokuk Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Keokuk Community School District's compliance with those requirements.

In our opinion, Keokuk 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 Keokuk 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 Keokuk 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 operations 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 Keokuk 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 8, 2005

KEOKUK 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, none of which are a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, none of which are a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.332 - Comprehensive School Reform Demonstration
 - CFDA Number 84.215 - Fund for the Improvement of Education
 - CFDA Number 84.010 - Title I Grants to Local Education Agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keokuk Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 Credit Card Policy - We noted during our audit that the District had instances where there was no supporting documents with their credit card statements. We also noted that the District's credit card policy does not state procedures in using the credit cards.

Recommendation - The District needs to initiate and follow a policy that requires a detailed receipt with any purchase using a credit card. A detailed receipt should be present before reimbursement would occur.

Response - We will review the policy and also ensure that all receipts are attached before reimbursement is made.

Conclusion - Response accepted.

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

III-B-05 Free and Reduced Lunch Applications - We noted during our audit that three of the free and reduced lunch applications in our testing were marked incorrectly. Two of them were marked as income over allowed amount, but actually should have been processed as reduced and the other application was marked as free and should have been processed as reduced.

Recommendation - The District should review the procedures in place for filing free and reduced lunch applications to ensure that the applications are filed correctly. The District should contact the Department of Education to correct the necessary reports.

Response - A close review of the lunch applications will be made at time of application. The applications for the three in question have been corrected.

Conclusion - Response accepted.

KEOKUK 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, did not exceed the amount budgeted.

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
Tyler McGhghy, Board Member Employee of Athletic Center	Athletic apparel and supplies	\$24,792
James Vandenberg, Board Member Assistant coach	Coaching	\$1,848

In accordance with an Attorney General Opinion dated November 9, 1976, the transactions with the Tyler McGhghy do not appear to be a conflict of interest.

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with James Vandenberg do not appear to be a conflict of interest.

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.

IV-H-05 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-I-05 Deposits and Investments - During our audit, we noted 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. Certain certificates of deposits were not receiving the proper rate of interest as mandated by the State of Iowa for public funds.

Recommendation - The District should contact the banks where the certificates of deposits are held and request for them to make the proper corrections.

Response - We have contacted the bank and the correction has been made.

Conclusion - Response accepted.

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