NEWTON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2005

Contents

		Page
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	Exhibit	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Propriety Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual(GAAP Basis) - All Governmental Funds and Proprietary Fund		36-37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	Schedule	
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	41
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	42
Schedule of Expenditures of Federal Awards	5	43
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		44-45
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		46-47
Schedule of Findings and Questioned Costs		48-51

Newton Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2004 election)	
Fred Chabot	President	2006
Cathi Fouts	Vice President	2005
Bev Price	Board Member	2004
Greg Davis	Board Member	2004
Jerry Sawin	Board Member	2005
Don Poynter	Board Member	2005
Dennis Combs	Board Member	2006
	Board of Education (After September 2004 election)	
Cathi Fouts	President	2005
Greg Davis	Vice President	2007
Jerry Sawin	Board Member	2005
Don Poynter	Board Member	2005
Dennis Combs	Board Member	2006
Fred Chabot	Board Member	2006
Donna Cook	Board Member	2007
	School Officials	
Steve McDermott	Superintendent	2005
Jackie Black	District Secretary/Treasurer	2005
Tim Campbell	Attorney	Indefinite
Terry Rickers	Attorney	Indefinite
Alhers and Cooney P.C.	Attorney	Indefinite

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District, Newton, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as 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 that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Newton Community School District at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 2, 2005 on our consideration of the Newton 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 those reports are 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 36 through 38 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, 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 Newton 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 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 5, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 2, 2005

Newton 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 $23,550,428 in fiscal year 2004 to $24,058,810 in fiscal year 2005, while General Fund expenditures increased from $23,441,750 in fiscal 2004 to $23,987,353 in fiscal 2005.

- The District's General Fund undesignated, unreserved fund balance increased slightly from $2,721,514 in fiscal 2004 to $2,812,015 in fiscal 2005, a 3.30% increase over the prior year.

- Improved interest rates over the past year have resulted in an increase of interest earnings in the General Fund alone from $23,002 in fiscal 2004 to $70,947 in fiscal 2005.

- The Capital Improvement projects at Woodrow Wilson Elementary are nearing completion at the end of the 2004-2005 school year and are expected to be finished in the summer of 2005. In January 2005 the Aurora Heights Elementary renovation project began with completion scheduled for the summer of 2006. The Local Option Sales and Services Tax election passed in May 6, 2003 has provided monies to fund these capital improvement projects.

- The Infinite Campus software program was purchased by the District in the spring of 2005 following a study of many student information management systems. Infinite Campus will provide a complete student-focused and web-based system organizing student attendance, grades, assignments and achievement data with access to both staff and families. Implementation began in the 2004-2005 year and will be completed in phases over the next couple of years.

- The School Dining System was purchased by the School Nutrition Fund in June 2005 to upgrade the lunch accounting software system to a web-based program allowing for parental access to student lunch accounts.

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 Newton 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 Newton 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 Newton Community School District acts solely as an agent or custodial for the benefit of those outside of 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. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

Figure A-1
Newton Community School District Annual Financial Report

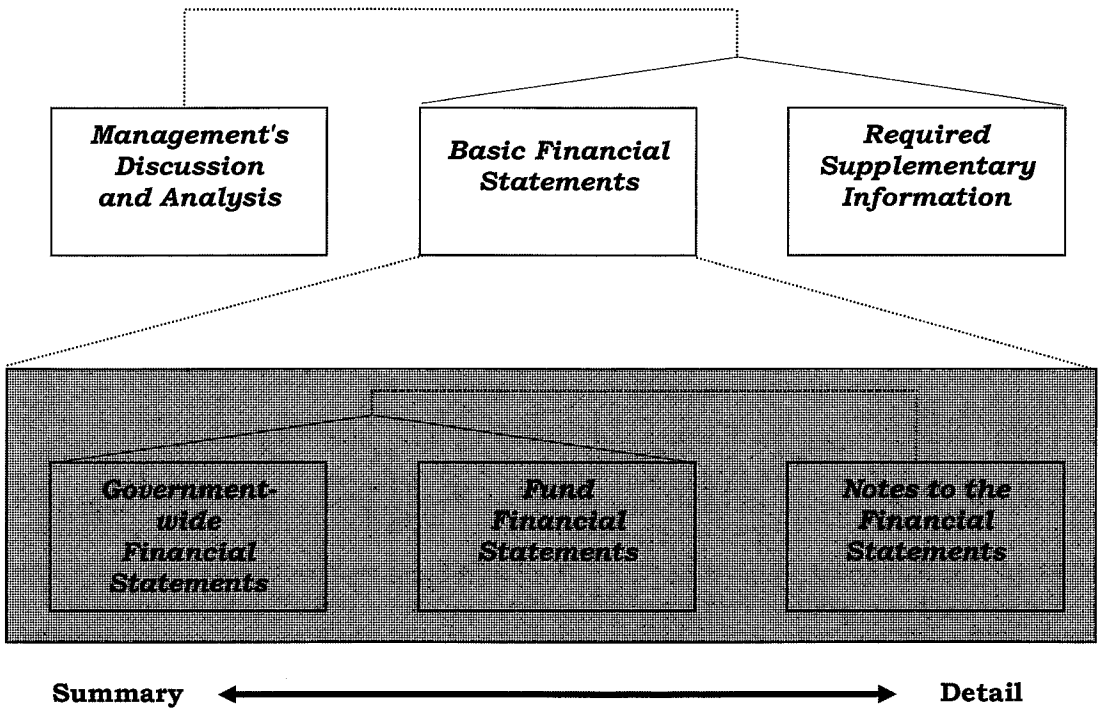

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2
Major Features of the Government-wide and Fund Financial Statements

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

District's property tax base and the condition of school buildings and other facilities, need to be considered.

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects 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 net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-05
Current and other assets	$ 21,581,552	25,266,998	50,547	69,655	21,632,099	25,336,653	-14.62%
Capital assets	30,633,195	27,960,259	76,904	67,974	30,710,099	28,028,233	9.57%
Total assets	52,214,747	53,227,257	127,451	137,629	52,342,198	53,364,886	-1.92%
Long-term obligations	21,964,568	23,488,085	0	0	21,964,568	23,488,085	-6.49%
Other liabilities	10,214,703	11,139,441	12,834	13,152	10,227,537	11,152,593	-8.29%
Total liabilities	32,179,271	34,627,526	12,834	13,152	32,192,105	34,640,678	-7.07%
Net assets:							
Invested in capital assets, net of related debt	14,605,996	13,449,772	76,904	67,974	14,682,900	13,517,746	8.62%
Restricted	2,283,978	2,074,297	0	0	2,283,978	2,074,297	10.11%
Unrestricted	3,145,502	3,075,662	37,713	56,503	3,183,215	3,132,165	1.63%
Total net assets	$ 20,035,476	18,599,731	114,617	124,477	20,150,093	18,724,208	7.62%

The District's combined net assets increased by 7.62%, or $1,425,885, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents 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 $209,681, or 10.11% over the prior year. The increase was primarily a result of the District increase in the restricted fund balances.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased $51,050, or 1.63%. This increase in unrestricted net assets was primarily a result of the District General Fund balance improving during the year.

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

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2005	2004	2005	2004	2005	2004	2004-05
Revenues:							
Program revenues:							
Charges for services	$ 1,297,171	1,420,725	811,201	801,706	2,108,372	2,222,431	-5.13%
Operating grants and contributions and restricted interest	2,408,979	2,426,903	456,332	430,094	2,865,311	2,856,997	0.29%
General revenues:							
Property tax	9,911,828	10,164,448	0	0	9,911,828	10,164,448	-2.49%
Income surtax	416,242	425,879	0	0	416,242	425,879	-2.26%
Local option sales and services tax	1,378,681	772,541	0	0	1,378,681	772,541	78.46%
Unrestricted state grants	13,026,904	12,303,279	0	0	13,026,904	12,303,279	5.88%
Other	240,059	109,122	673	567	240,732	109,689	119.47%
Total revenues	28,679,864	27,622,897	1,268,206	1,232,367	29,948,070	28,855,264	3.79%
Program expenses:							
Governmental activities:							
Instructional	17,196,090	16,863,048	0	0	17,196,090	16,863,048	1.97%
Support services	7,234,904	7,445,771	0	0	7,234,904	7,445,771	-2.83%
Non-instructional programs	18,262	19,239	1,276,084	1,222,201	1,294,346	1,241,440	4.26%
Other expenses	2,798,917	3,101,343	0	0	2,798,917	3,101,343	-9.75%
Total expenses	27,248,173	27,429,401	1,276,084	1,222,201	28,524,257	28,651,602	-0.44%
Changes in net assets before other financing sources(uses)	1,431,691	193,496	(7,878)	10,166	1,423,813	203,662	599.11%
Other financing sources(uses), net	4,054	0	(1,982)	0	2,072	0	100.00%
Changes in net assets	1,435,745	193,496	(9,860)	10,166	1,425,885	203,662	600.12%
Beginning Net Assets	18,599,731	18,406,235	124,477	114,311	18,724,208	18,520,546	1.10%
Ending Net Assets	$ 20,035,476	18,599,731	114,617	124,477	20,150,093	18,724,208	7.62%

The FY 05 total revenues net increase of 3.79% is reflective in a large part to the increase in local option sales and services tax revenue of $606,140.

The largest program expenditure area change was in the instructional function area, which was primarily due to increases in staff salaries and benefits.

Governmental Activities

Revenues for governmental activities were $28,679,864 and expenses were $27,248,173. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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	$ 17,196,090	14,473,208
Support services	7,234,904	7,189,697
Non-instructional programs	18,262	18,262
Other expenses	2,798,917	1,860,856
Totals	$ 27,248,173	23,542,023

- The cost financed by users of the District's programs was $1,297,171.
- Federal and state governments subsidized certain programs with grants and contributions totaling $2,408,979.
- The net cost of governmental activities was financed with $9,911,828 in local property tax, $416,242 in income surtax, $1,378,681 in local option sales and services tax, $13,026,904 in state foundation aid and $240,059 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $1,268,206 and expenses were $1,276,084. 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 Newton 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 balances of $11,122,579, below last year's ending fund balances of $13,861,844. However, the primary reason for the decrease in combined fund balances in fiscal 2005 is due to increased expenditures for capital construction at Woodrow Wilson and Aurora Heights Elementaries.

Governmental Fund Highlights

- The District's slight growth in its General Fund financial position from $2,752,830 in fiscal 2004 to $2,824,287 in fiscal 2005 is the product of many factors. Revenues increased due to an increase in state aid funding. The District's increase in General Fund expenditures was primarily due to salary settlement increases and normal increased operating costs.
- The Physical Plant and Equipment Levy Fund balance increased from $1,551,498 in fiscal 2004 to $1,762,364 in fiscal 2005 due to a decrease in capital improvement expenditures compared to the prior year. The District follows a five-year capital improvement plan that is reviewed annually.
- The Capital Projects Fund balance decreased from $7,487,822 to $4,446,054 due to capital construction improvements at Woodrow Wilson Elementary, which is nearing completion, and Aurora Heights Elementary, which began in the Spring of 2005.

- The Debt Service Fund balance decreased from $1,482,662 to $1,474,057. This decrease is due to normal principal and interest payments of bonded debt. Also included in the fund balance at year end is a required reserve of $875,000 as part of the issuance of the sales tax revenue bonds.

- The Management Fund balance decreased from $374,097 to $383,162. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits. The District levies for retirement benefits the budget year following the expense.

- The Student Activity Fund balance increased slightly from $213,740 to $232,655 due to the variance of student activities from year to year.

Proprietary Fund Highlights

The Proprietary Fund net assets increased from $124,477 at June 30, 2004 to $114,617 at June 30, 2005, representing a decrease of 7.92%. The increase in revenues was less than the cost to provide student lunches resulting in the decrease of net assets.

BUDGETARY HIGHLIGHTS

The District's revenues were $237,070 less than budgeted revenues, a variance of 0.79%. The most significant variance resulted from the District receiving more in local and federal sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had invested $30.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 9.57% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $1,316,867.

The original cost of the District's capital assets was $55.1 million. Governmental funds account for $54.6 million with the remainder of $0.5 million 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 $4,047,759 at June 30, 2005, compared to $530,141 reported at June 30, 2004. This significant increase resulted from the capital improvements paid by the capital projects fund for additions and improvements on Woodrow Wilson Elementary, which is nearing completion, and Aurora Heights Elementary, which began in the Spring of 2005.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-05
Land	$ 1,124,348	1,091,066	0	0	1,124,348	1,091,066	3.05%
Construction in progress	4,047,759	530,141	0	0	4,047,759	530,141	663.52%
Buildings	23,548,946	24,185,057	0	0	23,548,946	24,185,057	-2.63%
Land improvements	1,006,450	1,081,997	0	0	1,006,450	1,081,997	-6.98%
Machinery and equipment	905,692	1,071,998	76,904	67,974	982,596	1,139,972	-13.81%
Total	$ 30,633,195	27,960,259	76,904	67,974	30,710,099	28,028,233	9.57%

Long-Term Debt

At June 30, 2005, the District had $21,964,568 in general obligation and other long-term debt outstanding. This represents a decrease of 6.49% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of $13,900,000 at June 30, 2005.

The District also had outstanding revenue bonds of $7,880,000 at June 30, 2005.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2005	2004	2004-05
General obligation bonds	$ 13,900,000	14,670,000	-5.25%
Revenue bonds	7,880,000	8,650,000	100.00%
Early retirement	106,475	96,354	10.50%
Compensated absences	78,093	71,731	8.87%
Totals	$ 21,964,568	23,488,085	-6.49%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District's enrollment declined slightly in fiscal 2005 by 7.6 students, or a 0.22% decrease from 3,396.8, the previous year's budgeted enrollment. Under Iowa's school funding formula, District fund is highly dependent upon a District's enrollment. Future enrollment stability is a critical element in maintaining a sound financial foundation.

- While the state's economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District. The state legislature set a 2% allowable growth increase for FY 05, which resulted in a $93 per student increase. The state legislature set a 4% allowable growth for the 2005-06 school year.

- The Newton Community is almost certain to be economically affected by the proposed merger of the Maytag Corporation and the Whirlpool Corporation. The current loss of employment

over the past two years as well as the potential loss of additional employment will affect the community. Specific concerns of the loss of our student enrollment as well as the property tax valuation are areas deserving close monitoring.

- The Iowa Speedway Project has begun construction in Newton for scheduled events to begin September 2006. Projections on the increased Local Option Sales and Services Tax revenue this event center will attract are very encouraging.

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 Jackie Black, Director of Business Affairs, Newton Community School District, 807 S 6th Ave W, Newton, Iowa, 50208.

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:	$ 10,556,846	10,844	10,567,690
Receivables:			
Property tax:			
Delinquent	149,547	0	149,547
Succeeding year	9,788,305	0	9,788,305
Income surtax	411,580	0	411,580
Accounts	0	2,070	2,070
Due from other governments	635,465	0	635,465
Inventories	39,809	37,633	77,442
Capital assets, net of accumulated depreciation(Note 4)	30,633,195	76,904	30,710,099
TOTAL ASSETS	52,214,747	127,451	52,342,198
LIABILITIES			
Accounts payable	214,953	0	214,953
Salaries and benefits payable	44,135	0	44,135
Accrued interest payable	167,310	0	167,310
Deferred revenue:			
Succeeding year property tax	9,788,305	0	9,788,305
Other	0	12,834	12,834
Long-term liabilities(Note 5):			
Portion due within one year:			
Bonds payable	805,000	0	805,000
Revenue bonds payable	760,000	0	760,000
Early retirement payable	66,902	0	66,902
Compensated absences payable	78,093	0	78,093
Portion due after one year:			
Bonds payable	13,095,000	0	13,095,000
Revenue bonds payable	7,120,000	0	7,120,000
Early retirement payable	39,573	0	39,573
TOTAL LIABILITIES	32,179,271	12,834	32,192,105
NET ASSETS			
Investment in capital assets, net of related debt	14,605,996	76,904	14,682,900
Restricted for:			
Talented and gifted	10,113	0	10,113
Salary improvement program	2,159	0	2,159
Management levy	276,687	0	276,687
Physical plant and equipment levy	1,762,364	0	1,762,364
Other special revenue purposes	232,655	0	232,655
Unrestricted	3,145,502	37,713	3,183,215
TOTAL NET ASSETS	$ 20,035,476	114,617	20,150,093

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	$ 11,147,663	183,854	1,287,516
Special instruction	3,762,277	269,504	165,849
Other instruction	2,286,150	816,159	0
	17,196,090	1,269,517	1,453,365
Support services:			
Student services	1,327,772	0	0
Instructional staff services	542,975	0	0
Adminstration services	2,079,624	0	0
Operation and maintenance of plant services	2,311,794	0	0
Transportation services	972,739	27,654	17,553
	7,234,904	27,654	17,553
Non-instructional programs:			
Food service operations	5,303	0	0
Community service and education operations	12,959	0	0
	18,262	0	0
Other expenditures:			
Facilities acquisitions	260,126	0	0
Long-term debt interest	889,072	0	0
AEA flowthrough	938,061	0	938,061
Depreciation(unallocated)*	711,658	0	0
	2,798,917	0	938,061
Total governmental activities	27,248,173	1,297,171	2,408,979
Business-Type activities:			
Non-instructional programs:			
Nutrition services	1,276,084	811,201	456,332
Total business-type activities	1,276,084	811,201	456,332
Total	$ 28,524,257	2,108,372	2,865,311
General Revenues:			
Property tax levied for:			
General purposes			
Capital outlay			
Debt service			
Income surtax			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Total general revenues			
Changes in net assets before other financing sources(uses)			
Other Financing Sources(Uses):			
Gain(loss) on disposal of capital assets			
Changes in net assets			
Net assets beginning of year, as restated(Note 9)			
Net assets end of year			

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

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(9,676,293)	0	(9,676,293)
(3,326,924)	0	(3,326,924)
(1,469,991)	0	(1,469,991)
(14,473,208)	0	(14,473,208)
(1,327,772)	0	(1,327,772)
(542,975)	0	(542,975)
(2,079,624)	0	(2,079,624)
(2,311,794)	0	(2,311,794)
(927,532)	0	(927,532)
(7,189,697)	0	(7,189,697)
(5,303)	0	(5,303)
(12,959)	0	(12,959)
(18,262)	0	(18,262)
(260,126)	0	(260,126)
(889,072)	0	(889,072)
0	0	0
(711,658)	0	(711,658)
(1,860,856)	0	(1,860,856)
(23,542,023)	0	(23,542,023)
0	(8,551)	(8,551)
0	(8,551)	(8,551)
(23,542,023)	(8,551)	(23,550,574)
$ 7,920,023	0	7,920,023
617,346	0	617,346
1,374,459	0	1,374,459
416,242	0	416,242
1,378,681	0	1,378,681
13,026,904	0	13,026,904
240,059	673	240,732
24,973,714	673	24,974,387
1,431,691	(7,878)	1,423,813
4,054	(1,982)	2,072
1,435,745	(9,860)	1,425,885
18,599,731	124,477	18,724,208
$ 20,035,476	114,617	20,150,093

Exhibit C

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

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
ASSETS						
Cash and cash equivalents	$ 2,471,128	1,752,421	4,233,460	1,451,920	647,917	10,556,846
Receivables:						
Property tax						
Delinquent	109,320	9,943	0	22,137	8,147	149,547
Succeeding year	7,434,132	625,808	0	1,128,365	600,000	9,788,305
Income surtax	411,580	0	0	0	0	411,580
Due from other governments	399,798	0	235,667	0	0	635,465
Inventories	39,809	0	0	0	0	39,809
TOTAL ASSETS	$ 10,865,767	2,388,172	4,469,127	2,602,422	1,256,064	21,581,552
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 191,880	0	23,073	0	0	214,953
Salaries and benefits payable	3,888	0	0	0	40,247	44,135
Deferred revenue:						
Succeeding year property tax	7,434,132	625,808	0	1,128,365	600,000	9,788,305
Income surtax	411,580	0	0	0	0	411,580
Total liabilities	8,041,480	625,808	23,073	1,128,365	640,247	10,458,973
Fund balances:						
Reserved for:						
Debt service	0	0	0	1,474,057	0	1,474,057
Talented and gifted	10,113	0	0	0	0	10,113
Salary improvement program	2,159	0	0	0	0	2,159
Unreserved:						
Undesignated:						
General	2,812,015	0	0	0	0	2,812,015
Management levy	0	0	0	0	383,162	383,162
Physical plant and equipment levy	0	1,762,364	0	0	0	1,762,364
Capital projects	0	0	4,446,054	0	0	4,446,054
Other special revenue purposes	0	0	0	0	232,655	232,655
Total fund balances	2,824,287	1,762,364	4,446,054	1,474,057	615,817	11,122,579
TOTAL LIABILITIES AND FUND BALANCES	$ 10,865,767	2,388,172	4,469,127	2,602,422	1,256,064	21,581,552

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit D

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

Total fund balances of governmental funds (page 17)	$ 11,122,579
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	30,633,195
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	411,580
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(167,310)
Long-term liabilities, including bonds payable, revenue bonds payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(21,964,568)
Net assets of governmental activites (page 14)	$ 20,035,476

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit E

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

	General	Physical Plant and Equipment Levy	Capital Projects	Debt Service	Other Nonmajor Governmental Funds	Total
REVENUES:						
Local sources:						
Local tax	$ 7,801,281	617,346	1,378,681	1,374,459	549,283	11,721,050
Tuition	453,358	0	0	0	0	453,358
Other	365,939	26,305	106,192	28,992	556,444	1,083,872
State sources	14,793,560	473	0	1,054	458	14,795,545
Federal sources	640,338	0	0	0	0	640,338
Total revenues	24,054,476	644,124	1,484,873	1,404,505	1,106,185	28,694,163
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	10,694,196	0	0	0	326,053	11,020,249
Special instruction	3,758,206	0	0	0	0	3,758,206
Other instruction	1,770,811	0	0	0	508,644	2,279,455
	16,223,213	0	0	0	834,697	17,057,910
Support services:						
Student services	1,314,921	0	0	0	9,356	1,324,277
Instructional staff services	533,121	0	0	0	4,514	537,635
Administration services	1,978,906	58,449	0	0	56,991	2,094,346
Operation and maintenance of plant services	2,187,976	0	0	0	123,993	2,311,969
Transportation services	798,196	114,083	0	0	43,351	955,630
	6,813,120	172,532	0	0	238,205	7,223,857
Non-instructional programs:						
Food service operations	0	0	0	0	5,303	5,303
Community service and education operations	12,959	0	0	0	0	12,959
	12,959	0	0	0	5,303	18,262
Other expenditures:						
Facilities acquisitions	0	260,726	3,517,018	0	0	3,777,744
Long-term debt:						
Principal	0	0	0	1,540,000	0	1,540,000
Interest and fiscal charges	0	0	0	881,928	0	881,928
AEA flowthrough	938,061	0	0	0	0	938,061
	938,061	260,726	3,517,018	2,421,928	0	7,137,733
Total expenditures	23,987,353	433,258	3,517,018	2,421,928	1,078,205	31,437,762
Excess(deficiency) of revenues over(under) expenditures	67,123	210,866	(2,032,145)	(1,017,423)	27,980	(2,743,599)
Other financing sources:						
Transfer in	0	0	0	1,008,818	0	1,008,818
Transfer out	0	0	(1,008,818)	0	0	(1,008,818)
Sale of equipment	4,334	0	0	0	0	4,334
Total other financing sources	4,334	0	(1,008,818)	1,008,818	0	4,334
Net change in fund balances	71,457	210,866	(3,040,963)	(8,605)	27,980	(2,739,265)
Fund balance beginning of year	2,752,830	1,551,498	7,487,017	1,482,662	587,837	13,861,844
Fund balance end of year	$ 2,824,287	1,762,364	4,446,054	1,474,057	615,817	11,122,579

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit F

NEWTON 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)		$ (2,739,265)
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. Depreciation expense exceeded capital outlay expenditures in the current year, as follws:		
Expenditures for capital assets	$ 3,978,552	
Depreciation expense	(1,305,336)	
Loss on disposal of capital assets	(280)	2,672,936
Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		(14,299)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Repaid	$ 1,540,000	1,540,000
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.		(7,144)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early Retirement	$ (10,121)	
Compensated Absences	(6,362)	(16,483)
Changes in net assets of governmental activities (page 16)		$ 1,435,745

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and cash equivalents:	$ 10,844
Receivables:	
Accounts	2,070
Inventories	37,633
Capital assets, net of accumulated depreciation(Note 4)	76,904
TOTAL ASSETS	127,451
LIABILITIES	
Deferred revenue:	
Other	12,834
TOTAL LIABILITIES	12,834
NET ASSETS	
Investment in capital assets	76,904
Unrestricted	37,713
TOTAL NET ASSETS	$ 114,617

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	$ 811,201
TOTAL OPERATING REVENUES	811,201
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	446,783
Benefits	101,843
Services	13,361
Supplies	702,566
Depreciation	11,531
TOTAL OPERATING EXPENSES	1,276,084
OPERATING LOSS	(464,883)
NON-OPERATING REVENUES:	
State sources	14,013
Federal sources	442,319
Interest income	673
TOTAL NON-OPERATING REVENUES	457,005
Change in net assets before other financing uses	(7,878)
OTHER FINANCING USES:	
Loss on disposal of capital assets	(1,982)
Change in net assets	(9,860)
Net assets beginning of year	124,477
Net assets end of year	$ 114,617

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

Exhibit I

NEWTON 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	$ 804,274
Cash received from miscellaneous operating activities	5,055
Cash payments to employees for services	(548,626)
Cash payments to suppliers for goods or services	(650,183)
Net cash used in operating activities	(389,480)
Cash flows from non-capital financing activities:	
State grants received	14,013
Federal grants received	389,259
Net cash provided by non-capital financing activities	403,272
Cash flows from capital financing activities:	
Acquisition of capital assets	(22,443)
Net cash used in capital financing activities	(22,443)
Cash flows from investing activities:	
Interest on investments	673
Net cash provided by investing activities	673
Net decrease in cash and cash equivalents	(7,978)
Cash and cash equivalents at beginning of year	18,822
Cash and cash equivalents at end of year	$ 10,844
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (464,883)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	53,060
Depreciation	11,531
Decrease in inventories	12,684
Increase in accounts receivable	(1,554)
Decrease in deferred revenue	(318)
Net cash used in operating activities	$ (389,480)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 10,844

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2005, the District received Federal commodities valued at $53,060.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Newton 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 Cities of Newton and Kellogg, Iowa, and the predominate agricultural territory in Jasper County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

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

The District reports the following proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

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

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

Capital Assets - Capital assets, which include property, 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	$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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
Land improvements	20 years
Machinery and equipment:	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for 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. 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.

(2) Cash and Pooled Investments

The District's deposits at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	$ 11,845,824

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

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

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	$ 1,008,818

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

(4) Capital Assets

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

	Balance Beginning of Year, as Restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,091,066	33,282	0	1,124,348
Construction in progress	530,141	3,517,618	0	4,047,759
Total capital assets not being depreciated	1,621,207	3,550,900	0	5,172,107
Capital assets being depreciated:				
Buildings	33,579,296	0	0	33,579,296
Land improvements	2,734,098	0	0	2,734,098
Machinery and equipment	13,039,205	427,652	353,039	13,113,818
Total capital assets being depreciated	49,352,599	427,652	353,039	49,427,212
Less accumulated depreciation for:				
Buildings	9,394,239	636,111	0	10,030,350
Land improvements	1,652,101	75,547	0	1,727,648
Machinery and equipment	11,967,207	593,678	352,759	12,208,126
Total accumulated depreciation	23,013,547	1,305,336	352,759	23,966,124
Total capital assets being depreciated, net	26,339,052	(877,684)	280	25,461,088
Governmental activities capital assets, net	$ 27,960,259	2,673,216	280	30,633,195

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 508,751	22,443	13,798	517,396
Less accumulated depreciation	440,777	11,531	11,816	440,492
Business-type activities capital assets, net	$ 67,974	10,912	1,982	76,904

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 371,796
Special	8,151
Other	28,448
Support services:	
Student	3,495
Instructional staff	29,134
Administration	11,250
Operation and maintenance of plant	8,672
Transportation	132,732
	593,678
Unallocated depreciation	711,658
Total governmental activities depreciation expense	$ 1,305,336
Business-type activities:	
Food services	$ 11,531
Total business-type activities depreciation expense	$ 11,531

(5) 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	$ 14,670,000	0	770,000	13,900,000	805,000
Revenue bonds	8,650,000	0	770,000	7,880,000	760,000
Early retirement	96,354	88,247	78,126	106,475	66,902
Compensated absences	71,731	78,093	71,731	78,093	78,093
Total	$ 23,488,085	166,340	1,689,857	21,964,568	1,709,995

Bonds Payable

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

Year Ending June 30,	Bond Issue of August 1, 1998 Interest Rates	Principal	Interest	Bond Issue of January 1, 1999 Interest Rates	Principal	Interest	Total Principal	Total Interest
2006	4.50%	$ 355,000	276,690	4.15%	$ 450,000	336,275	$ 805,000	612,965
2007	4.50	370,000	260,715	4.15	470,000	317,600	840,000	578,315
2008	4.50	390,000	244,065	4.15	490,000	298,095	880,000	542,160
2009	4.50	405,000	226,515	4.15	515,000	277,760	920,000	504,275
2010	4.50	425,000	208,290	4.15	540,000	256,387	965,000	464,677
2011	4.50	445,000	189,165	4.20	565,000	233,978	1,010,000	423,143
2012	4.50	465,000	169,140	4.25	590,000	210,247	1,055,000	379,387
2013	4.50	485,000	148,215	4.25	615,000	185,173	1,100,000	333,388
2014	4.50	510,000	126,390	4.40	645,000	159,035	1,155,000	285,425
2015	4.50	530,000	103,440	4.40	675,000	130,655	1,205,000	234,095
2016	4.50	555,000	79,590	4.50	705,000	100,955	1,260,000	180,545
2017	4.50	585,000	54,615	4.60	735,000	69,230	1,320,000	123,845
2018	4.60	615,000	28,290	4.60	770,000	35,420	1,385,000	63,710
Total		$ 6,135,000	2,115,120		$ 7,765,000	2,610,810	$ 13,900,000	4,725,930

Revenue Bonds Payable

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

Year Ending June 30,	Bond Issue of February 1, 2004 Interest Rates	Principal	Interest	Total
2006	2.95%	$ 760,000	232,460	992,460
2007	2.95	780,000	210,040	990,040
2008	2.95	805,000	187,030	992,030
2009	2.95	835,000	163,282	998,282
2010	2.95	865,000	138,650	1,003,650
2011	2.95	900,000	113,133	1,013,133
2012	2.95	935,000	86,583	1,021,583
2013	2.95	980,000	59,000	1,039,000
2014	2.95	1,020,000	30,090	1,050,090
Total		$ 7,880,000	1,220,268	9,100,268

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

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

a) $865,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.

b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.

c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.

d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

Early Retirement

The District offers a voluntary early retirement plan to its certified employees and administration. 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 required to be approved by the Board of Education. The early retirement incentive for each employee's base salary, depending on the individual's classification, calculated by using the current year salary schedule, less any other additional pay. In addition, a portion of unused sick leave is included in the early retirement stipend. Early retirement benefits expensed during the year ended June 30, 2005 totaled $78,126. The cost of early retirement payments expected to liquidated currently are recorded as a liability of the government-wide financial statements representing the District's commitment to fund non-current early retirement of $106,475.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were $910,602, $899,320 and $863,262 respectively, equal to the required contributions for each year.

(7) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and 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: medical, dental, disability and life insurance.

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 for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be $2.2 million. The District's share of this assessment is undeterminable, of which $49,685 was paid with the 2004-2005 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 $2,484,258.

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.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $938,061 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.

(9) Restate Capital Assets/Net Assets Beginning Balances

The restatement of the capital assets and net assets are as follows:

	Balance 6/30/2004 as Previously Reported	Increases	Decreases	Balance 7/1/2004 as Restated
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 1,091,066	0	0	1,091,066
Construction in progress	0	530,141	0	530,141
Total capital assets not being depreciated	1,091,066	530,141	0	1,621,207
Capital assets being depreciated:				
Buildings	33,579,296	0	0	33,579,296
Land improvements	2,733,584	514	0	2,734,098
Machinery and equipment	13,842,183	0	802,978	13,039,205
Total capital assets being depreciated	50,155,063	514	802,978	49,352,599
Less accumulated depreciation for:				
Buildings	9,394,239	0	0	9,394,239
Land improvements	1,652,101	0	0	1,652,101
Machinery and equipment	12,762,050	0	794,843	11,967,207
Total accumulated depreciation	23,808,390	0	794,843	23,013,547
Total capital assets being depreciated, net	26,346,673	514	8,135	26,339,052
Governmental activities capital assets, net	$ 27,437,739	530,655	8,135	27,960,259

The effect of the adjustment to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2004, as previously reported	$ 18,077,211
Capital asset adjustments, net	522,520
Net assets, July 1, 2004, as restated	$ 18,599,731

(10) Construction Commitment

The District has entered into various general contracts totaling $5,982,450 for the renovations and additions of the Woodrow Wilson and Aurora Heights Elementaries. As of June 30, 2005, costs of $4,047,759 had been incurred against the contracts. The balance of $1,934,691 remaining at June 30, 2005 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 13,258,280	811,874
State sources	14,795,545	14,013
Federal sources	640,338	442,319
Total revenues	28,694,163	1,268,206
Expenditures:		
Instruction	17,057,910	0
Support services	7,223,857	0
Non-instructional programs	18,262	1,276,084
Other expenditures	7,137,733	0
Total expenditures	31,437,762	1,276,084
Excess(deficiency) of revenues over(under) expenditures	(2,743,599)	(7,878)
Other financing sources(uses), net	4,334	(1,982)
Excess(deficiency) of revenues and other financing sources over(under) expenditures and other financing uses	(2,739,265)	(9,860)
Balance beginning of year	13,861,844	124,477
Balance end of year	$ 11,122,579	114,617

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
14,070,154	14,315,600	14,315,600	(245,446)
14,809,558	14,923,839	14,923,839	(114,281)
1,082,657	960,000	960,000	122,657
29,962,369	30,199,439	30,199,439	(237,070)
17,057,910	17,220,000	17,220,000	162,090
7,223,857	7,927,000	7,927,000	703,143
1,294,346	1,350,000	1,350,000	55,654
7,137,733	10,206,294	10,206,294	3,068,561
32,713,846	36,703,294	36,703,294	3,989,448
(2,751,477)	(6,503,855)	(6,503,855)	3,752,378
2,352	5,000	5,000	(2,648)
(2,749,125)	(6,498,855)	(6,498,855)	3,749,730
13,986,321	13,632,694	13,632,694	353,627
11,237,196	7,133,839	7,133,839	4,103,357

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

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

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

NEWTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2005

	Nonmajor Special Revenue Funds		
	Management Fund	Student Activity	Total Nonmajor Special Revenue Funds
ASSETS			
Cash and pooled investments	$ 415,262	232,655	647,917
Receivables:			
Property tax			
Current year delinquent	8,147	0	8,147
Succeeding year	600,000	0	600,000
TOTAL ASSETS	$ 1,023,409	232,655	1,256,064
LIABILITIES AND FUND EQUITY			
Liabilities:			
Salaries and benefits payable	$ 40,247	0	40,247
Deferred revenue:			
Succeeding year property tax	600,000	0	600,000
	640,247	0	640,247
Fund equity:			
Fund balances:			
Unreserved, undesignated	383,162	232,655	615,817
	383,162	232,655	615,817
TOTAL LIABILITIES AND FUND EQUITY	$ 1,023,409	232,655	1,256,064

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

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

	Nonmajor Special Revenue Funds		
	Management Fund	Student Activity	Total Nonmajor Special Revenue Funds
REVENUES:			
Local sources:			
Local tax	$ 549,283	0	549,283
Other	28,885	527,559	556,444
State sources	458	0	458
TOTAL REVENUES	578,626	527,559	1,106,185
EXPENDITURES:			
Current:			
Instruction:			
Regular	326,053	0	326,053
Other instruction	0	508,644	508,644
Support services:			
Student services	9,356	0	9,356
Instructional staff services	4,514	0	4,514
Administration services	56,991	0	56,991
Operation and maintenance of plant services	123,993	0	123,993
Transportation services	43,351	0	43,351
Non-instructional programs:			
Food service operations	5,303	0	5,303
TOTAL EXPENDITURES	569,561	508,644	1,078,205
EXCESS OF REVENUES OVER EXPENDITURES	9,065	18,915	27,980
FUND BALANCE BEGINNING OF YEAR	374,097	213,740	587,837
FUND BALANCE END OF YEAR	$ 383,162	232,655	615,817

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

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

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Aurora Hieghts Elementary	$ 9,054	7,633	7,795	8,892
Berg Elementary	5,774	3,585	2,456	6,903
Emerson Hough Elementary	1,461	1,898	1,913	1,446
Woodrow Wilson Elementary	3,030	473	512	2,991
Berg Middle School:				
Band	575	874	804	645
Orchestra	406	448	567	287
Athletics	8,026	2,135	6,059	4,102
Yearbook	650	7,191	7,115	726
Other Clubs	40,034	8,905	4,330	44,609
Basic and Beyond	302	4	0	306
Newton High School:				
Band	(473)	44,332	42,447	1,412
Orchestra	3,510	1,934	1,404	4,040
Athletics	53,348	234,758	233,193	54,913
FFA	36,559	17,432	16,634	37,357
Newtonia Yearbook	7,622	34,438	29,067	12,993
Other Clubs	43,862	161,519	154,348	51,033
Total	$ 213,740	527,559	508,644	232,655

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NEWTON 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	$ 11,721,050	11,362,868	10,573,124	9,949,262
Tuition	453,358	412,233	473,281	476,288
Other	1,083,872	1,117,614	1,248,922	1,475,826
Intermediate sources	0	0	0	16,720
State sources	14,795,545	14,091,309	14,505,030	14,009,881
Federal sources	640,338	638,873	561,432	437,158
Total	$ 28,694,163	27,622,897	27,361,789	26,365,135
Expenditures:				
Instruction:				
Regular instruction	$ 11,020,249	10,613,601	10,204,504	10,647,354
Special instruction	3,758,206	3,992,418	3,619,406	3,760,872
Other instruction	2,279,455	1,957,337	1,850,872	1,801,779
Support services:				
Student services	1,324,277	1,539,283	1,446,400	1,400,219
Instructional staff services	537,635	397,022	382,879	485,717
Adminstration services	2,094,346	2,217,113	2,085,889	2,290,006
Operation and maintenance of plant services	2,311,969	2,228,373	2,096,450	1,986,790
Transportation services	955,630	903,706	890,888	862,342
Central support services	0	0	0	395
Non-instructional programs	18,262	19,239	48,525	43,792
Other expenditures:				
Facilities acquisitions	3,777,744	967,623	653,507	3,263,901
Long-term debt:				
Principal	1,540,000	740,150	710,000	305,000
Interest and other charges	881,928	679,812	708,945	722,670
AEA flow-through	938,061	946,198	1,014,197	1,001,918
Total	$ 31,437,762	27,201,875	25,712,462	28,572,755

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION(NON-CASH)	10.550	FY 05	$ 53,060
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 05	63,015
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 05	326,244
			389,259
TEAM NUTRITION GRANT	10.574	FY 05	1,285
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	4725-G	240,763
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATES GRANTS	84.186	FY 05	12,959
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 05	12,235
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 05	98,971
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 05	19,938
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 05	25,088
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 05	165,849
TOTAL			$ 1,019,407

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of the
Newton 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 Newton 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 2, 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 Newton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a 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 Newton 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 an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Newton Community School District and other parties to whom Newton 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 Newton 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 2, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

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

To the Board of Education of
Newton Community School District:

Compliance

We have audited the compliance of Newton Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Newton 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 Newton Community School District's management. Our responsibility is to express an opinion on Newton Community School District's compliance based on our audit.

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

In our opinion, Newton 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 Newton 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 Newton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts

and 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 operations 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 Newton Community School District and other parties to whom Newton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be use by anyone other than these specified parties.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 2, 2005

NEWTON 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) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

(d) No material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.

(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 programs were as follows:

Clustered Programs
- CFDA Number 10.553 - School Breakfast Program
- CFDA Number 10.555 - National School Lunch Program

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Newton Community School District qualified as a low-risk auditee.

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

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-05 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General fund. The district should receipt rent collected for facility usage into the General fund.

Response - We will make the necessary changes.

Conclusion - Response accepted.

NEWTON 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:

No matters were reported.

NEWTON 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 - No business transactions between the District and District officials were noted.

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

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

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

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

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 - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

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.