

OTTUMWA COMMUNITY SCHOOL DISTRICT
OTTUMWA, IOWA

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

JUNE 30, 2005

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OTTUMWA COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2004 Election)		
Mark Zeller	President	2005
Don Krieger	Vice President	2004
Pat Curran	Board Member	2004
Bob Warren	Board Member	2004
Kenneth Crosser	Board Member	2005
Carol Mitchell	Board Member	2006
R. Payson Moreland	Board Member	2006
<u>Board of Education</u>		
(After September 2004 Election)		
Mark Zeller	President	2005
Carol Mitchell	Vice President	2006
Kenneth Crosser	Board Member	2005
R. Payson Moreland	Board Member	2006
Bob Warren	Board Member	2007
Pat Curran	Board Member	2007
Cindy Kurtz-Hopkins	Board Member	2007
<u>School Officials</u>		
Dr. Thomas Rubel	Superintendent	2008
John Donner	Business Manager District Secretary/Treasurer	2005
Richard Gaumer	Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Ottumwa Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic 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, business-type activities, each major fund, and the aggregate remaining fund information of Ottumwa Community School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2005 on our consideration of Ottumwa Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 18 and 52 through 53 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ottumwa Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The financial statements for the two years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, 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.

Oskaloosa, Iowa
October 11, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Ottumwa 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.

Financial Highlights

- The District's financial status continued to improve during the 2005 fiscal year with net assets increasing by 30% to \$9.7 million.
- The District's General Fund Unrestricted Fund Balance increased to \$1,305,139, or a \$716,337 increase from 2004. In 2000 the District had a negative balance of \$2,053,568 and a solvency ratio of negative 7.1%. In 2005 the balance is \$1,305,139 or a \$3,358,707 improvement with a positive solvency ratio of 3.8%.
- Wapello County voters passed a one percent sales tax effective July 1st 2004 with funds to be used for school infrastructure and property tax reduction. The District used the funds to eliminate the PPEL and Debt Service levies for the 2004-05 fiscal year, which lowered the tax levy by \$2.77 dollars per thousand or 15%. The \$2.8 million generated will be used for school facility needs.
- The District's self-funded insurance fund ended the year with net assets of \$33,542, after accounting for \$290,000 of incurred but not reported claims. This is a substantial improvement from the previous year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

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

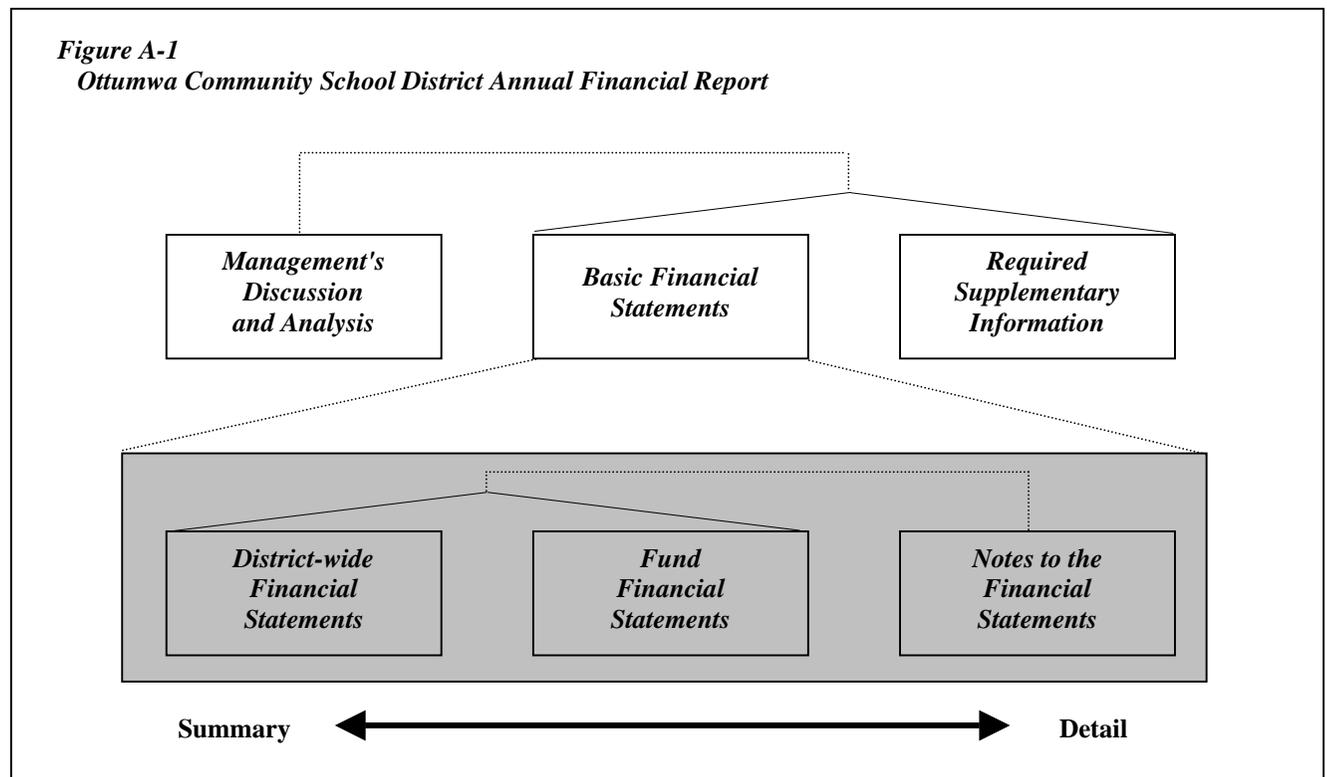


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management’s discussion and analysis highlights the structure and contents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

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

District-wide Statements

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

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's School Nutrition Program, Student Construction and Child Care Programs are included here.

Fund Financial Statements

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

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

The District has three kinds of funds:

- *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. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has three enterprise funds, the School Nutrition Fund Student Construction and Prime Time Youth Care.
 - The District uses internal service funds to account for activities that provide supplies and services to its other programs. The District currently has one internal service fund: the self-insured health and dental fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
 - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

Financial Analysis of the District as a Whole

Net assets - 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.

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>		<u>Total</u>
	<u>Activities</u>		<u>Activities</u>		<u>School District</u>		
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	
Current and other assets	16,871	16,020	649	567	17,520	16,587	5.6%
Capital assets	<u>12,883</u>	<u>12,937</u>	<u>86</u>	<u>102</u>	<u>12,969</u>	<u>13,039</u>	<u>-.05%</u>
Total Assets	29,754	28,957	735	669	30,489	29,626	2.9%
Long-term obligations	7,793	8,224			7,793	8,224	-5.2%
Other liabilities	<u>12,867</u>	<u>13,819</u>	<u>144</u>	<u>119</u>	<u>13,011</u>	<u>13,938</u>	<u>-6.6%</u>
Total Liabilities	20,660	22,043	144	119	20,804	22,162	-6.1%
Net assets							
Invested in capital assets, net of debt	5,604	5,314	86	102	5,690	5,416	5.1%
Restricted	2,448	1,314			2,448	1,314	86%
Unrestricted	<u>1,042</u>	<u>286</u>	<u>504</u>	<u>448</u>	<u>1,546</u>	<u>734</u>	<u>134%</u>
Total Net Assets	9,094	6,914	590	550	9,684	7,464	30%

The District's combined net assets increased by approximately \$2,220,000 or 30% during the fiscal year. Governmental activities total net assets increased by \$2,180,000 with Business type activities increasing by \$40,000. Total assets increased by approximately \$863,000 while total liabilities declined by approximately \$1,358,000 during the year due to a reduction in ISCAP borrowing. Unrestricted net assets increased by approximately \$812,000 to \$1,546,000.

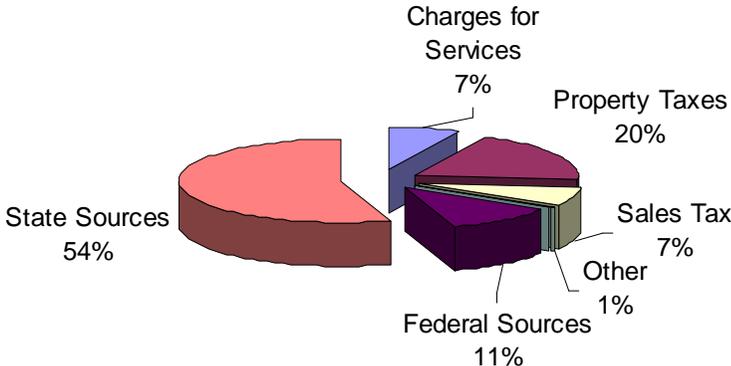
Statement of Activities and changes to net assets.
Figure A-4

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total School District</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program Revenues						
Charges for services	1,955,409	1,982,501	925,505	812,469	2,880,914	2,794,970
Operating grants and contributions	5,428,854	5,558,953	1,024,491	978,842	6,453,345	6,537,795
Capital grants and contributions	604,277	943,260			604,277	943,260
General Revenues						
Property and other taxes	8,156,575	9,169,216			8,156,575	9,169,216
Local option sales tax	2,811,349				2,811,349	
State foundation aid	19,913,006	19,526,816			19,913,006	19,526,816
Other	202,710	447,036	5,655	1,570	202,710	447,036
Total Revenues	39,072,180	37,627,782	1,955,651	1,792,881	41,027,831	39,420,663
Expenditures						
Instruction	23,876,887	23,204,152			23,876,887	23,204,152
Pupil and instructional services	2,740,468	2,134,626			2,740,468	2,134,626
Administrative and business services	3,070,089	3,027,932			3,070,089	3,027,932
Maintenance and operations	3,248,626	3,246,186			3,248,626	3,246,186
Transportation	1,036,927	992,278			1,036,927	992,278
Other	2,900,187	3,190,276			2,900,187	3,190,276
Non Instructional	18,886	96,537	1,915,196	1,728,243	1,934,082	1,800,433
Total Expenditures	36,891,964	35,891,987	1,915,196	1,728,243	38,807,160	37,620,230
Change in net assets	2,180,216	1,735,795	40,455	64,638	2,220,671	1,800,433
Net assets beginning of year, as restated	6,914,154	5,178,359	549,986	485,248	7,464,140	5,663,707
Net assets end of year	9,094,370	6,914,154	590,441	549,986	9,648,811	7,464,140

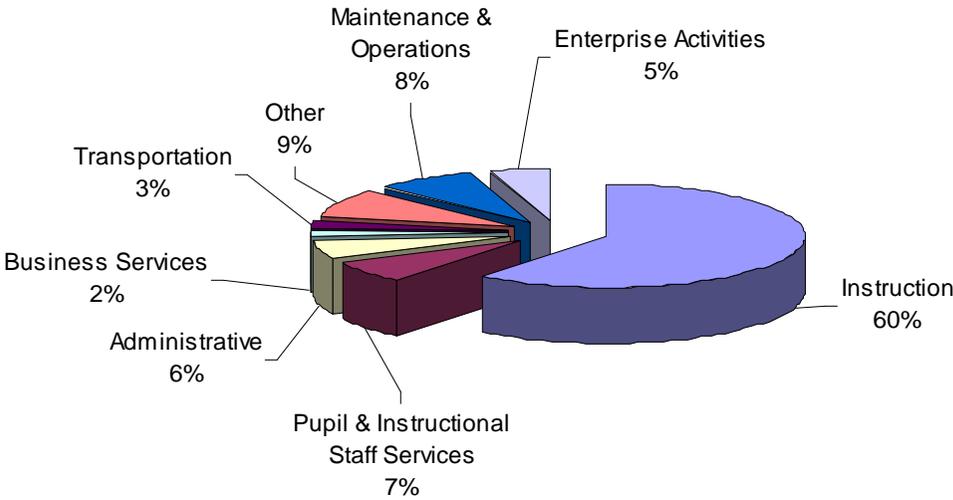
District revenues were approximately \$41 million, up \$1.6 million or 4.1% from the previous year. Expenditures grew by approximately \$1.2 million to \$38.8 million a 3.2% increase with revenue exceeding expenditures by \$2.2 million.

State sources provided 58% of the funding for governmental programs with local property taxes amounting to \$8.2 million, or 21% and federal funds were 9%. Governmental activities accounted for 95% of total district expenditures. Within the governmental activities the largest expenditures were for instructional programs (64.7%), maintenance and operations (8.8%) and administrative and business services (8.3%).

Sources of District Revenue for Fiscal 2005



Expenditures for Fiscal 2005



Financial Analysis of the District's Funds

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

Governmental Fund Highlights

- The District's General Fund unrestricted fund balance increased to \$1,305,139 or a \$716,337 increase from 2004, In 2000 the District had a negative balance of \$2,053,568 and a negative solvency ratio of -7.1%. Fiscal year 2005 ended with a balance of \$1,305,139, a \$3,358,707 improvement from 2000 and has a positive 3.8% solvency ratio. In 1999 the District set a goal to have a positive solvency ratio of at least 3% by 2007 and has now reached that goal.
- Of the other funds that make up governmental funds, the following showed increases in fund balance from the previous year: Debt Service \$892,324, an increase of \$882,389 and Capital Projects \$702,403, an increase of \$521,160. The Debt Service balance increased due to the requirement that any non property tax funded debt payments be in reserve prior to the fiscal year in which payment will be made. The District's use of Local Option Sales Tax funds to make debt payments in lieu of property tax necessitated the large reserve accumulation in 2004-05. The Capital Project reserves will be used for 2005-06 projects. The following funds experienced decreases: Student Activity \$520,952, a decrease of \$20,291, Management \$17,692, a decrease of \$21,680. The Physical Plant and Equipment fund was closed out during the year, expending the previous year's balance of \$40,584.
- Capital projects that the District either completed or started were: new metal roofs at two of our elementary schools (Douma and James), a new roof over the gym addition at the High School and tuck pointing-brick replacement at the high school.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$427,177 at June 30, 2004 to \$463,481 at June 30, 2005, representing an increase of \$36,304. Revenue increased by 2% with expenditures increasing 4%. Capital assets of the School Nutrition Fund are aging with accumulated depreciation at 77% of actual cost. The District is making some major equipment replacements during the summer of 2005.

The District's before-and-after School Child Care Program showed an operating profit of \$4,151 for the fiscal year leaving a very small positive balance of \$365.

The District reclassified a Student Constructed House Project from a general fund program to a proprietary fund per the federal accounting handbook.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget, following required public notice and hearing for all funds, except its private-purpose trust and agency funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared in accordance with generally accepted accounting principles. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with federal grants and a building improvement project. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

Legal Budgetary Highlights

- The District's total actual receipts were approximately \$100,000 more than the total budgeted receipts, a variance of less than 1%. Total expenditures were approximately \$2,300,000 less than budgeted, a variance of 5.5%. This variance in expenditures was due mainly to construction projects not completed by year end and grants carried over to the next fiscal year.
- The District's certified budget was exceeded in the support services functional area by \$30,000 or .3%. This functional area exceeded budget due to the change in classification of a number of expenditure functions per the newly adopted federal accounting handbook.

Capital Asset and Debt Administration

Capital Assets

Capital Assets 6/30/2005

	Governmental Activities		Business-Type		District Total
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Land	320,904	320,904			320,904
Construction in progress	379,042	491,988			379,042
Buildings	26,593,580	25,657,700			26,593,580
Furniture and Equipment	<u>658,678</u>	<u>656,775</u>	<u>370,306</u>	<u>364,338</u>	<u>1,028,984</u>
Accumulated Depreciation	<u>15,068,613</u>	<u>14,189,982</u>	<u>284,001</u>	<u>262,329</u>	<u>15,352,614</u>
Capital Assets net	12,883,591	12,937,385	86,305	102,009	12,969,896

Of the approximately \$28 million cost of the District's depreciable capital assets (buildings and equipment) \$15 million has been depreciated or 55% of the original value.

Long-Term Debt

	Outstanding	Retired	Outstanding
	<u>2004</u>		<u>2005</u>
General Obligation Bonds 1995	1,075,000	525,000	550,000
General Obligation Bonds 1998	6,730,000		6,730,000
Refinancing of 1995 bonds			
Total	<u>7,805,000</u>	<u>525,000</u>	<u>7,280,000</u>

The District's other long-term liabilities consist of \$337,194 in early retirement benefits and \$175,504 in compensated absences payable. Note 6 to the financial statements provides further details of the District's long-term liabilities.

Factors Bearing on the District's Future

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

- The District's primary source of revenue is the State of Iowa's school aid formula, under which the state sets a state wide per pupil funding amount. State allowable growth for 2005-06 and 2006-07 is set at 4%.
- The other key element of the state foundation formula is certified enrollment, which has been fairly stable with a .4% decline in 2001, 1.9% increase in 2002, 1.4% decline in 2003, no change in 2004 and a decline of .6% in 2005.
- Voters in Wapello County passed a one cent sales tax effective July 1st 2004 to be used for school facilities and debt repayment. For 2004-05 the tax was expected to generate \$2.5 million, actual receipts were \$2.8 million. \$1.5 million of the proceeds are being used to reduce property tax and the remainder to be used for school infrastructure needs.
- Many of the District's buildings are more than 40 years old and are in need of major upgrades in the next 10 years. Many of the roofs have recently been replaced as well as a major remodeling projects at the High School. Funding from the one cent sales tax will be used to refurbish the other facilities.
- Much of the equipment in the food service operations is fully depreciated and will be replaced in the next few years. Reserves are currently available to fund this equipment replacement.

- Salaries and benefits constitute 79% of the District's general fund expenditures, contract settlements for 2005-06 averaged about 5%. Only one of the five union contracts (teacher associates) will be up for negotiation in June 2006. Multi-year agreement call for the following increases in 2006-07: teachers 4.275%, custodial 3.4%, food service workers 3.4% and secretarial staff 3.4%.
- Health care insurance costs continue to be a major concern as they continue to rise at many times the inflation rate. The District made additional contributions during the 2004-05 and 2005-06 years to increase reserves in the District's Self-funded Insurance Fund to the State's required minimum. If claims continue to increase, additional contributions will be needed to maintain the funds required reserves.

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 John Donner, Business Manager, Ottumwa Community School District, 422 McCarroll Drive, Ottumwa, Iowa, 52501.

Basic Financial Statements

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments	\$ 7,202,015	\$ 460,847	\$ 7,662,862
Receivables:			
Property tax:			
Current year	175,730	-	175,730
Succeeding year	7,707,000	-	7,707,000
Accrued interest	24,625	-	24,625
Accounts	34,452	-	34,452
Due from other governments	1,655,551	-	1,655,551
Inventories	71,228	187,544	258,772
Capital assets, net of accumulated depreciation (note 5)	12,883,591	86,305	12,969,896
	<hr/>	<hr/>	<hr/>
Total assets	29,754,192	734,696	30,488,888
Liabilities			
Accounts payable	875,223	32,424	907,647
Salaries and benefits payable	3,704,051	111,831	3,815,882
Accrued interest payable	59,212	-	59,212
Incurred but not reported claims	290,000	-	290,000
Deferred revenue:			
Succeeding year property tax	7,707,000	-	7,707,000
Other	231,638	-	231,638
Long-term liabilities (note 6):			
Portion due within one year:			
Early retirement	113,937	-	113,937
Bonds payable	550,000	-	550,000
Compensated absences	175,504	-	175,504
Portion due after one year:			
Early retirement	223,257	-	223,257
Bonds payable	6,730,000	-	6,730,000
	<hr/>	<hr/>	<hr/>
Total liabilities	20,659,822	144,255	20,804,077

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 5,603,591	\$ 86,305	\$ 5,689,896
Restricted for:			
State grant programs	392,371	-	392,371
Other special revenue purposes	520,952	-	520,952
Debt service	833,112	-	833,112
Capital projects	702,403	-	702,403
Unrestricted	<u>1,041,941</u>	<u>504,136</u>	<u>1,546,077</u>
Total net assets	<u>\$ 9,094,370</u>	<u>\$ 590,441</u>	<u>\$ 9,684,811</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities:				
Instruction:				
Regular instruction	\$ 15,306,529	\$ 638,794	\$ 1,718,558	\$ -
Special instruction	4,837,628	291,574	1,116,649	-
Other instruction	3,732,624	997,914	127,394	-
	<u>23,876,781</u>	<u>1,928,282</u>	<u>2,962,601</u>	<u>-</u>
Support services:				
Student services	1,576,887	-	709,410	-
Instructional staff services	1,163,581	-	384,653	-
Administration services	3,070,089	-	-	-
Operation and maintenance of plant services	3,248,626	27,127	23,804	-
Transportation services	1,036,927	-	4,722	-
	<u>10,096,110</u>	<u>27,127</u>	<u>1,122,589</u>	<u>-</u>
Non-instructional programs	<u>18,886</u>	-	-	-
Other expenditures:				
Facilities acquisition	365,065	-	2,300	604,277
Long-term debt interest and fiscal charges	362,011	-	-	-
AEA flowthrough	1,341,364	-	1,341,364	-
Depreciation (unallocated) *	831,747	-	-	-
	<u>2,900,187</u>	<u>-</u>	<u>1,343,664</u>	<u>604,277</u>
Total governmental activities	<u>36,891,964</u>	<u>1,955,409</u>	<u>5,428,854</u>	<u>604,277</u>
Business-Type Activities:				
Non-instructional programs:				
Food service operations	1,641,086	650,890	1,021,059	-
Other programs	274,110	274,615	3,432	-
	<u>1,915,196</u>	<u>925,505</u>	<u>1,024,491</u>	<u>-</u>
Total	<u>\$ 38,807,160</u>	<u>\$ 2,880,914</u>	<u>\$ 6,453,345</u>	<u>\$ 604,277</u>

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (12,949,177)	\$ -	\$ (12,949,177)
(3,429,405)	-	(3,429,405)
(2,607,316)	-	(2,607,316)
(18,985,898)	-	(18,985,898)
(867,477)	-	(867,477)
(778,928)	-	(778,928)
(3,070,089)	-	(3,070,089)
(3,197,695)	-	(3,197,695)
(1,032,205)	-	(1,032,205)
(8,946,394)	-	(8,946,394)
(18,886)	-	(18,886)
241,512	-	241,512
(362,011)	-	(362,011)
-	-	-
(831,747)	-	(831,747)
(952,246)	-	(952,246)
(28,903,424)	-	(28,903,424)
-	30,863	30,863
-	3,937	3,937
-	34,800	34,800
(28,903,424)	34,800	(28,868,624)

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs

General Revenues:

Property tax levied for:

 General purposes

Local option sales and services tax

Unrestricted state grants

Unrestricted investment earnings

Other

Total general revenues

Change in net assets

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

Net assets end of year

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

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 8,156,575	\$ -	\$ 8,156,575
2,811,349	-	2,811,349
19,913,006	-	19,913,006
137,473	5,655	143,128
65,237	-	65,237
<hr/>		
31,083,640	5,655	31,089,295
<hr/>		
2,180,216	40,455	2,220,671
<hr/>		
6,914,154	549,986	7,464,140
<hr/>		
<u>\$ 9,094,370</u>	<u>\$ 590,441</u>	<u>\$ 9,684,811</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets			
Cash and pooled investments	\$ 5,407,014	\$ 1,505,204	\$ 6,912,218
Receivables:			
Property tax:			
Current year	166,976	8,754	175,730
Succeeding year	7,291,000	416,000	7,707,000
Accrued interest	24,625	-	24,625
Interfund receivable (note 3)	145,170	-	145,170
Due from other governments	623,730	1,031,821	1,655,551
Inventories	71,228	-	71,228
	<hr/>	<hr/>	<hr/>
Total assets	\$ <u>13,729,743</u>	\$ <u>2,961,779</u>	\$ <u>16,691,522</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 608,268	\$ 266,248	\$ 874,516
Salaries and benefits payable	3,703,061	990	3,704,051
Interfund payable (note 3)	-	145,170	145,170
Deferred revenue:			
Succeeding year property tax	7,291,000	416,000	7,707,000
Other	231,638	-	231,638
Total liabilities	<u>11,833,967</u>	<u>828,408</u>	<u>12,662,375</u>
Fund balance:			
Reserved for:			
Inventories	71,228	-	71,228
Encumbrances	62,183	-	62,183
Educational trusts	64,855	-	64,855
State grant programs	392,371	-	392,371
Debt service	-	892,324	892,324
Unreserved:			
Reported in nonmajor Special Revenue Funds	-	1,241,047	1,241,047
Undesignated	1,305,139	-	1,305,139
Total fund balances	<u>1,895,776</u>	<u>2,133,371</u>	<u>4,029,147</u>
Total liabilities and fund balances	<u>\$ 13,729,743</u>	<u>\$ 2,961,779</u>	<u>\$ 16,691,522</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balances of governmental funds	\$ 4,029,147
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	12,883,591
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.	(59,212)
Long-term liabilities, including early retirement, bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(7,792,698)
The Internal Service Fund balance is incorporated into governmental activity net assets due the integral nature of the services performed.	<u>33,542</u>
Net assets of governmental activities	<u>\$ 9,094,370</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	General	Nonmajor Governmental Funds	Total
Revenues:			
Local sources:			
Local tax	\$ 7,763,447	\$ 3,217,992	\$ 10,981,439
Tuition	674,413	-	674,413
Other	439,117	1,029,571	1,468,688
Intermediate sources	44,665	-	44,665
State sources	22,597,708	544	22,598,252
Federal sources	2,717,506	604,277	3,321,783
Total revenues	<u>34,236,856</u>	<u>4,852,384</u>	<u>39,089,240</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	15,063,692	219,550	15,283,242
Special instruction	4,851,332	-	4,851,332
Other instruction	2,683,491	1,025,240	3,708,731
	<u>22,598,515</u>	<u>1,244,790</u>	<u>23,843,305</u>
Support services:			
Student services	1,576,887	-	1,576,887
Instructional staff services	1,163,541	-	1,163,541
Administration services	3,029,228	23,165	3,052,393
Operation and maintenance of plant services	3,061,506	178,606	3,240,112
Transportation services	1,032,484	-	1,032,484
	<u>9,863,646</u>	<u>201,771</u>	<u>10,065,417</u>
Non-instructional programs	<u>11,298</u>	<u>7,588</u>	<u>18,886</u>
Other expenditures:			
Facilities acquisition	-	1,187,999	1,187,999
Long term debt:			
Principal	-	525,000	525,000
Interest and fiscal charges	-	364,242	364,242
AEA flowthrough	1,341,364	-	1,341,364
	<u>1,341,364</u>	<u>2,077,241</u>	<u>3,418,605</u>
Total expenditures	<u>33,814,823</u>	<u>3,531,390</u>	<u>37,346,213</u>
Excess of revenues over expenditures	<u>422,033</u>	<u>1,320,994</u>	<u>1,743,027</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):			
Sale of equipment	\$ 7,343	\$ -	\$ 7,343
Interfund transfers in	-	1,761,221	1,761,221
Interfund transfers out	-	(1,761,221)	(1,761,221)
Total other financing sources (uses)	<u>7,343</u>	<u>-</u>	<u>7,343</u>
Net change in fund balances	429,376	1,320,994	1,750,370
Fund balances beginning of year	<u>1,466,400</u>	<u>812,377</u>	<u>2,278,777</u>
Fund balances end of year	<u>\$ 1,895,776</u>	<u>\$ 2,133,371</u>	<u>\$ 4,029,147</u>

See notes to financial statements.

OTTUMWA 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 \$ 1,750,370

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. The amounts of capital outlays and depreciation expense in the year are as follows:

	Capital outlays	\$ 843,962	
	Depreciation expense	<u>(897,756)</u>	(53,794)

Certain income not received until several months after the District's fiscal year ends is not considered available revenue in the governmental funds and is deferred. It is, however, recorded as revenue in the statement of activities. (24,403)

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 525,000

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, however, interest expense is recognized as the interest accrues, regardless of when it is due. 2,231

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 governmental funds. (93,838)

The change in net assets in the Internal Service Fund represents an overcharge for services to governmental activities. Expenses for governmental activities are adjusted to reflect this overcharge. 74,650

Change in net assets of governmental activities \$ 2,180,216

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005

	Nonmajor Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 460,847	\$ 289,797
Accounts receivable	-	34,452
Inventories	187,544	-
Capital assets, net of accumulated depreciation (note 5)	<u>86,305</u>	<u>-</u>
Total assets	<u>734,696</u>	<u>324,249</u>
Liabilities		
Accounts payable	32,424	707
Salaries and benefits payable	111,831	-
Incurred but not reported claims	<u>-</u>	<u>290,000</u>
Total liabilities	<u>144,255</u>	<u>290,707</u>
Net Assets		
Invested in capital assets, net of related debt	86,305	-
Unrestricted	<u>504,136</u>	<u>33,542</u>
Total net assets	<u>\$ 590,441</u>	<u>\$ 33,542</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Operating revenues:		
Local sources:		
Charges for services	\$ 925,505	\$ 2,438,620
	<u> </u>	<u> </u>
Operating expenses:		
Non-instructional programs:		
Food service operations:		
Salaries	678,572	-
Benefits	106,196	-
Purchased services	63,338	2,368,665
Supplies	1,045,418	-
Depreciation	21,672	-
	<u>1,915,196</u>	<u>2,368,665</u>
Operating income (loss)	<u>(989,691)</u>	<u>69,955</u>
Non-operating revenues:		
Interest on investments	5,655	4,695
State sources	20,010	-
Federal sources	1,004,481	-
Total non-operating revenues	<u>1,030,146</u>	<u>4,695</u>
Change in net assets	40,455	74,650
Net assets beginning of year, as restated (note 11 and 12)	<u>549,986</u>	<u>(41,108)</u>
Net assets end of year	<u>\$ 590,441</u>	<u>\$ 33,542</u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 642,745	\$ -
Cash received from miscellaneous operating activities	286,206	2,428,820
Cash payments to employees for services	(785,940)	-
Cash payments to suppliers for goods or services	<u>(948,579)</u>	<u>(2,217,498)</u>
Net cash provided by (used in) operating activities	<u>(805,568)</u>	<u>211,322</u>
Cash flows from non-capital financing activities:		
State grants received	20,010	-
Federal grants received	<u>905,019</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>925,029</u>	<u>-</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	<u>(5,968)</u>	<u>-</u>
Cash flows from investing activities:		
Interest on investments	<u>5,655</u>	<u>4,695</u>
Net increase in cash and cash equivalents	119,148	216,017
Cash and cash equivalents beginning of year	<u>341,699</u>	<u>73,780</u>
Cash and cash equivalents end of year	<u>\$ 460,847</u>	<u>\$ 289,797</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Nonmajor Enterprise Funds	Internal Service Fund
	<u> </u>	<u> </u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (989,691)	\$ 69,955
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation	21,672	-
Commodities used	99,462	-
(Increase) decrease in accounts receivable	3,446	(9,800)
Decrease in inventories	34,261	-
Increase (decrease) in accounts payable	26,454	(393)
(Decrease) in salaries and benefits payable	(1,172)	-
Increase in incurred but not reported claims	<u> -</u>	<u>151,560</u>
Net cash provided by (used in) operating activities	<u>\$ (805,568)</u>	<u>\$ 211,322</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$99,462 of federal commodities.

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2005

		Private Purpose Trust
		<u>Scholarship</u>
Assets:		
Cash and pooled investments	\$	<u>73,918</u>
Liabilities:		
None		<u>-</u>
Net assets:		
Reserved for scholarships	\$	<u><u>73,918</u></u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2005

	<u>Private Purpose Trust</u>	<u>Scholarship</u>
Additions:		
Local sources:		
Interest		\$ <u>2,300</u>
Deductions:		
Instruction:		
Scholarships awarded		10,314
Non-instructional programs:		
Community services		<u>51,920</u>
Total deductions		<u>62,234</u>
Change in net assets		(59,934)
Net assets beginning of year		<u>133,852</u>
Net assets end of year		<u>\$ <u>73,918</u></u>

See notes to financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

Ottumwa Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Ottumwa, Iowa, and the predominate agricultural territory in Wapello 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, Ottumwa 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. Ottumwa 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 does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Wapello County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

Unrestricted net assets 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 which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are 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 District-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 main operating fund of the District. All general tax revenues and other revenues 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 District reports three enterprise funds: the School Nutrition Fund, used to account for the food service operations of the District, the Youth Care, used to account for daycare operations, and the Career Academy House, used to account for the student-built house activities. The District also reports one internal service fund: the self-funded insurance fund, used to account for the District's self-funded health and dental insurance activity.

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

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

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

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

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

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

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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the statement of net assets and the balance sheet:

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. 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 to the County Auditor by April 15 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 District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% 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.

Interfund Receivables/Payables – During the course of its operations, the District has numerous transactions between funds. To that extent that certain transactions between funds had not been paid or received as of June 30, 2005, balances of interfund amounts payable or receivable have been recorded.

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 contributed value for government commodities. Inventories of all funds are recorded as expenses when consumed rather than when purchased or received.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Capital Assets – Capital assets, which include property, furniture, and equipment are reported in the applicable governmental or business-type activities columns in the District-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	\$ 4,000
Buildings	4,000
Improvements other than buildings	4,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Other furniture and equipment	4,000

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

Asset Class	Estimated Useful Lives
Buildings	20-50 years
Improvements other than buildings	15 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable – Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds, the succeeding year property tax receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, and unspent federal grant proceeds.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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 District-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured as a result of employee resignations or retirements. 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 District-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 Balances – 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.

Invested in capital assets, net of related debt – In the District-wide statement of net assets, the net asset balance invested in capital assets, net of related debt is equal to the capital assets balances, including restricted capital assets, less accumulated depreciation and the outstanding balances of any bonds, notes, or other debt that are attributable to the acquisition, construction, or improvement of those assets.

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

E. Budgets and Budgetary Control

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

Note 2. Cash and Pooled Investments

The District's deposits in banks 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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 2. Cash and Pooled Investments (continued)

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

Note 3. Interfund Receivables/Payables

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

Transfer to	Transfer from	Amount
General	Special Revenue: Physical Plant and Equipment Levy Capital Projects	\$ 2,165 <u>143,005</u>
Total		\$ <u><u>145,170</u></u>

All amounts arise due to pooled cash balances.

Note 4. Interfund Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ <u><u>1,761,221</u></u>

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

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets

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

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 320,904	\$ -	\$ -	\$ 320,904
Construction in progress	491,988	760,204	873,150	379,042
Total capital assets not being depreciated	<u>812,892</u>	<u>760,204</u>	<u>873,150</u>	<u>699,946</u>
Capital assets being depreciated:				
Buildings	25,657,700	873,150	-	26,530,850
Improvements other than buildings	-	62,730	-	62,730
Furniture and equipment	656,775	21,028	19,125	658,678
Total capital assets being depreciated	<u>26,314,475</u>	<u>956,908</u>	<u>19,125</u>	<u>27,252,258</u>
Less accumulated depreciation for:				
Buildings	13,605,785	859,437	-	14,465,222
Improvements other than buildings	-	4,182	-	4,182
Furniture and equipment	584,197	34,137	19,125	599,209
Total accumulated depreciation	<u>14,189,982</u>	<u>897,756</u>	<u>19,125</u>	<u>15,068,613</u>
Total capital assets being depreciated, net	<u>12,124,493</u>	<u>59,152</u>	<u>-</u>	<u>12,183,645</u>
Governmental activities capital assets, net	<u>\$ 12,937,385</u>	<u>\$ 819,356</u>	<u>\$ 873,150</u>	<u>\$ 12,883,591</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 5. Capital Assets (continued)

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Furniture and equipment	\$ 364,338	\$ 5,968	\$ -	\$ 370,306
Less accumulated depreciation	262,329	21,672	-	284,001
Business-type activities capital assets, net	\$ 102,009	\$ (15,704)	\$ -	\$ 86,305

Depreciation expense was charged by the District to the following functions:

Governmental activities:

Instruction:

Regular	\$ 8,706
Other	23,409

Support services:

Administration	13,580
Operation and maintenance of plant services	15,871
Transportation	4,443
	66,009

Unallocated depreciation	831,747
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Total governmental activities depreciation expense	\$ 897,756
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Business-type activities:

Food service operations	\$ 21,672
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OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 6. Long-Term Liabilities

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

	<u>Early Retirement</u>	<u>General Obligation Bonds</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance beginning of year	\$ 246,750	\$ 7,805,000	\$ 172,110	\$ 8,223,860
Additions	184,226	-	175,504	359,730
Reductions	<u>93,782</u>	<u>525,000</u>	<u>172,110</u>	<u>790,892</u>
Balance end of year	<u>\$ 337,194</u>	<u>\$ 7,280,000</u>	<u>\$ 175,504</u>	<u>\$ 7,792,698</u>
Due within one year	<u>\$ 113,937</u>	<u>\$ 550,000</u>	<u>\$ 175,504</u>	<u>\$ 839,441</u>

Early Retirement

The District offers a voluntary early retirement plan to its employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District.

Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$3,500 annual payments for up to five years, until the employee reaches age 65, or until the employee becomes eligible for Medicare, whichever comes first. Early retirement benefits paid during the year ended June 30, 2005, totaled \$93,782. The long-term portion of early retirement is recorded as a long-term liability of the Governmental Activities in the District-wide financial statements.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2005

Note 6. Long-Term Liabilities (continued)

Bonds Payable

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

Year Ending June 30,	Issued dated August 1, 1995			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2006	5.250 %	\$ 550,000	\$ 402,500		
2007	-	-	-		
2008	-	-	-		
2009	-	-	-		
2010	-	-	-		
2011	-	-	-		
2012	-	-	-		
2013	-	-	-		
2014	-	-	-		
2015	-	-	-		
		<u>\$ 550,000</u>	<u>\$ 402,500</u>		
Year Ending June 30,	Issued dated September 1, 1998			Total	
	Interest Rates	Principal	Interest	Principal	Interest
2006	4.500 %	\$ -	\$ 308,043	\$ 550,000	\$ 710,543
2007	4.500	615,000	308,043	615,000	308,043
2008	4.500	635,000	280,367	635,000	280,367
2009	4.500	680,000	251,793	680,000	251,793
2010	4.500	710,000	221,193	710,000	221,193
2011	4.600	745,000	189,242	745,000	189,242
2012	4.600	795,000	154,973	795,000	154,973
2013	4.600	810,000	118,402	810,000	118,402
2014	4.625	850,000	81,143	850,000	81,143
2015	4.700	890,000	41,830	890,000	41,830
		<u>\$ 6,730,000</u>	<u>\$ 1,955,029</u>	<u>\$ 7,280,000</u>	<u>\$ 2,357,529</u>

During the year ended June 30, 2005, the District retired \$525,000 in general obligation bonds.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$1,372,935, \$1,274,886, and \$1,173,291 respectively, equal to the required contributions for each year.

Note 8. Risk Management

Self-Funded Health and Dental Insurance

Health – The district has a self-funded insurance plan for employee medical coverage. The District contributes to the self-insurance plan an amount equal to 125% of regular insurance coverage plus an amount for terminal funding. The fund reinsures for stop-loss insurance for individual claims in excess of \$40,000 per year and aggregate total claims of 125% of expected claims. A third party administrator is paid a fee to process the claims.

Dental – The District has a self-funded dental insurance plan for employee dental coverage. District employees contribute to the insurance plan and the plan reimburses the insurance carrier monthly for the claims paid plus pays an administrative fee. Professional services through the plan for the participants are limited to a combined maximum payment of \$750 per member per benefit period.

Payments are made to the plans based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for incurred but unpaid claims. The reserve for the Self-Funded Health and Self-Funded Dental plans were \$33,542 at June 30, 2005 and is recorded in the Internal Service Fund. The incurred but not reported claims liability of \$290,000 is reported as a liability of the Internal Service Fund at June 30, 2005.

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

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,341,364 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.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 10. Construction Commitments

The District entered into contracts totaling \$559,079, including change orders, for various projects. At June 30, 2005, \$379,043 of the contracts were completed. The remaining amounts of the contracts will be paid as work on the projects progresses.

Note 11. Self-Funded Insurance Fund

In past years, the District has maintained separate internal service funds for the District's self-funded health and self-funded dental insurance transactions. During the year ended June 30, 2005, the District combined these two funds into one Internal Service, Self-Funded Insurance Fund. The net assets of the self-funded health and self-funded dental funds of \$(99,587) and \$58,479, respectively, reported at June 30, 2004, were combined into the beginning net assets of the self-funded insurance fund of \$(41,108) at July 1, 2004.

Note 12. Restatement of Beginning Balances

The District received a grant in previous years to create a student-built house program. The District operated this program from the General Fund in the first and subsequent years of the grant. For the year ended June 30, 2004, the district had not sold that year's house by year end but had not recorded the expenditures related to the project as inventory at year end. During the year ended June 30, 2005, the District properly established an Enterprise Fund, Career Academy House, to account for the student-built house activities. The balance of the Enterprise Fund, Career Academy House has been restated at July 1, 2004, to include the prior year student-built house expenditures of \$126,595 as beginning inventory. This restatement will not affect the General Fund for the year ended June 30, 2005. The effects of this change are as follows on the various financial statement components:

	Net Assets		
Entity Wide Business- type Activities	Nonmajor Enterprise Fund - Career Academy House	Total Enterprise Funds	
Balance at June 30, 2004, as previously reported	\$ 423,391	\$ -	\$ 423,391
Addition:			
Inventory adjustment	126,595	126,595	126,595
Balance at July 1, 2004, as restated	\$ 549,986	\$ 126,595	\$ 549,986

Required Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances –
Budget and Actual – All Governmental Funds
and Proprietary Fund
Required Supplementary Information
Year Ended June 30, 2005

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
REVENUES:						
Local sources	\$ 13,124,540	\$ 931,160	\$ 14,055,700	\$ 13,741,618	\$ 13,741,618	\$ 314,082
Intermediate sources	44,665	-	44,665	10,000	10,000	34,665
State sources	22,598,252	20,010	22,618,262	23,019,280	23,019,280	(401,018)
Federal sources	3,321,783	1,004,481	4,326,264	4,170,000	4,170,000	156,264
Total revenues	39,089,240	1,955,651	41,044,891	40,940,898	40,940,898	103,993
EXPENDITURES/EXPENSES:						
Instruction	23,843,305	-	23,843,305	24,491,204	24,491,204	647,899
Support services	10,065,417	-	10,065,417	9,585,000	10,035,000	(30,417)
Non-instructional programs	18,886	1,915,196	1,934,082	1,893,000	2,093,000	158,918
Other expenditures	3,418,605	-	3,418,605	4,940,469	4,940,469	1,521,864
Total expenditures/expenses	37,346,213	1,915,196	39,261,409	40,909,673	41,559,673	2,298,264
Excess (deficiency) of revenues over (under) expenditures/ expenses	1,743,027	40,455	1,783,482	31,225	(618,775)	2,402,257
Other financing sources, net	7,343	-	7,343	-	-	7,343
Excess (deficiency) of revenues and other financing sources over (under) expenditures/ expenses	1,750,370	40,455	1,790,825	31,225	(618,775)	2,409,600
Balance beginning of year, as restated	2,278,777	549,986	2,828,763	2,155,638	-	2,828,763
Balance end of year	\$ 4,029,147	\$ 590,441	\$ 4,619,588	\$ 2,186,863	\$ (618,775)	\$ 5,238,363

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except internal service, private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared according to U.S. generally accepted accounting practices. Encumbrances are not recognized on the accrual basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$650,000.

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

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Other Supplementary Information

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Assets				
Cash and pooled investments	\$ 11,679	\$ 601,201	\$ -	\$ 892,324
Receivables:				
Property tax:				
Current year	8,754	-	-	-
Succeeding year	416,000	-	-	-
Due from other governments	-	-	2,165	-
Total assets	<u>\$ 436,433</u>	<u>\$ 601,201</u>	<u>\$ 2,165</u>	<u>\$ 892,324</u>
Liabilities and Fund Equity				
Liabilities:				
Accounts payable	\$ 2,741	\$ 79,259	\$ -	-
Salaries and benefits payable	-	990	-	-
Interfund payable	-	-	2,165	-
Deferred revenue:				
Succeeding year property tax	416,000	-	-	-
Total liabilities	<u>418,741</u>	<u>80,249</u>	<u>2,165</u>	<u>-</u>
Fund equity:				
Fund balances:				
Reserved for:				
Debt service	-	-	-	892,324
Unreserved:				
Undesignated	17,692	520,952	-	-
Total fund equity	<u>17,692</u>	<u>520,952</u>	<u>-</u>	<u>892,324</u>
Total liabilities and fund equity	<u>\$ 436,433</u>	<u>\$ 601,201</u>	<u>\$ 2,165</u>	<u>\$ 892,324</u>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ -	\$ 1,505,204
-	8,754
-	416,000
<u>1,029,656</u>	<u>1,031,821</u>
\$ <u><u>1,029,656</u></u>	\$ <u><u>2,961,779</u></u>
\$ 184,248	\$ 266,248
-	990
143,005	145,170
-	416,000
<u>327,253</u>	<u>828,408</u>
-	892,324
<u>702,403</u>	<u>1,241,047</u>
<u>702,403</u>	<u>2,133,371</u>
\$ <u><u>1,029,656</u></u>	\$ <u><u>2,961,779</u></u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Revenues:				
Local sources:				
Local tax	\$ 406,643	\$ -	\$ -	-
Other	42	1,004,949	-	10,410
State sources	544	-	-	-
Federal sources	-	-	127,207	-
Total revenues	407,229	1,004,949	127,207	10,410
Expenditures:				
Current:				
Instruction:				
Regular instruction	219,550	-	-	-
Other instruction	-	1,025,240	-	-
Support services:				
Administration services	23,165	-	-	-
Operation and maintenance of plant services	178,606	-	-	-
Non instructional programs	7,588	-	-	-
Other expenditures:				
Facilities acquisition	-	-	167,791	-
Long term debt:				
Principal	-	-	-	525,000
Interest and fiscal charges	-	-	-	364,242
Total expenditures	428,909	1,025,240	167,791	889,242
Excess (deficiency) of revenues over (under) expenditures	(21,680)	(20,291)	(40,584)	(878,832)
Other financing sources (uses):				
Interfund transfers in	-	-	-	1,761,221
Interfund transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	1,761,221

	<u>Capital Projects</u>	<u>Total</u>
\$	2,811,349	\$ 3,217,992
	14,170	1,029,571
	-	544
	477,070	604,277
	<u>3,302,589</u>	<u>4,852,384</u>
	-	219,550
	-	1,025,240
	-	23,165
	-	178,606
	-	7,588
	1,020,208	1,187,999
	-	525,000
	-	364,242
	<u>1,020,208</u>	<u>3,531,390</u>
	2,282,381	1,320,994
	-	1,761,221
	<u>(1,761,221)</u>	<u>(1,761,221)</u>
	<u>(1,761,221)</u>	<u>-</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2005

	Special Revenue			
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ (21,680)	\$ (20,291)	\$ (40,584)	\$ 882,389
Fund balances beginning of year	39,372	541,243	40,584	9,935
Fund balances end of year	\$ 17,692	\$ 520,952	\$ -	\$ 892,324

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Total</u>
\$ 521,160	\$ 1,320,994
<u>181,243</u>	<u>812,377</u>
<u>\$ 702,403</u>	<u>\$ 2,133,371</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF NET ASSETS
ENTERPRISE FUNDS

June 30, 2005

	School Nutrition	Youth Care	Career Academy House	Total
Assets				
Cash and pooled investments	\$ 421,551	\$ 25,884	\$ 13,412	\$ 460,847
Inventories	74,361	-	113,183	187,544
Capital assets, net of accumulated depreciation	86,305	-	-	86,305
	<u>582,217</u>	<u>25,884</u>	<u>126,595</u>	<u>734,696</u>
Liabilities				
Accounts payable	29,029	3,395	-	32,424
Salaries and benefits payable	89,707	22,124	-	111,831
	<u>118,736</u>	<u>25,519</u>	<u>-</u>	<u>144,255</u>
Net Assets				
Invested in capital assets, net of related debt	86,305	-	-	86,305
Unrestricted	377,176	365	126,595	504,136
	<u>\$ 463,481</u>	<u>\$ 365</u>	<u>\$ 126,595</u>	<u>\$ 590,441</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 ENTERPRISE FUNDS
 Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Youth Care</u>	<u>Career Academy House</u>	<u>Total</u>
Operating revenues:				
Local sources:				
Charges for services	\$ 650,890	\$ 148,020	\$ 126,595	\$ 925,505
Operating expenses:				
Non-instructional programs:				
Salaries	575,618	102,954	-	678,572
Benefits	94,347	11,849	-	106,196
Purchased services	43,945	19,393	-	63,338
Supplies	905,504	13,319	126,595	1,045,418
Depreciation	21,672	-	-	21,672
	<u>1,641,086</u>	<u>147,515</u>	<u>126,595</u>	<u>1,915,196</u>
Operating income (loss)	<u>(990,196)</u>	<u>505</u>	<u>-</u>	<u>(989,691)</u>
Non-operating revenues:				
Interest on investments	5,441	214	-	5,655
State sources	20,010	-	-	20,010
Federal sources	1,001,049	3,432	-	1,004,481
Total non-operating revenues	<u>1,026,500</u>	<u>3,646</u>	<u>-</u>	<u>1,030,146</u>
Change in net assets	36,304	4,151	-	40,455
Net assets beginning of year, as restated	<u>427,177</u>	<u>(3,786)</u>	<u>126,595</u>	<u>549,986</u>
Net assets end of year	<u>\$ 463,481</u>	<u>\$ 365</u>	<u>\$ 126,595</u>	<u>\$ 590,441</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2005

	School Nutrition	Youth Care	Career Academy House	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ 642,745	\$ -	\$ -	\$ 642,745
Cash received from miscellaneous operating activities	8,145	151,466	126,595	286,206
Cash payments to employees for services	(670,915)	(115,025)	-	(785,940)
Cash payments to suppliers for goods or services	(801,045)	(34,351)	(113,183)	(948,579)
Net cash provided by (used in) operating activities	(821,070)	2,090	13,412	(805,568)
Cash flows from non-capital financing activities:				
State grants received	20,010	-	-	20,010
Federal grants received	901,587	3,432	-	905,019
Net cash provided by non-capital financing activities	921,597	3,432	-	925,029
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(5,968)	-	-	(5,968)
Cash flows from investing activities:				
Interest on investments	5,441	214	-	5,655
Net increase in cash and cash equivalents	100,000	5,736	13,412	119,148
Cash and cash equivalents at beginning of year	321,551	20,148	-	341,699
Cash and cash equivalents at end of year	\$ 421,551	\$ 25,884	\$ 13,412	\$ 460,847

OTTUMWA COMMUNITY SCHOOL DISTRICT
COMBINING SCHEDULE OF CASH FLOWS
ENTERPRISE FUNDS
Year Ended June 30, 2005

	<u>School Nutrition</u>	<u>Youth Care</u>	<u>Career Academy House</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided by (used in) in operating activities:				
Operating income (loss)	\$ (990,196)	\$ 505	\$ -	\$ (989,691)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	21,672	-	-	21,672
Commodities used	99,462	-	-	99,462
Decrease in accounts receivable	-	3,446	-	3,446
(Increase) decrease in inventories	20,849	-	13,412	34,261
Increase (decrease) in accounts payable	28,093	(1,639)	-	26,454
(Decrease) in salaries and benefits payable	(950)	(222)	-	(1,172)
Net cash provided by (used in) operating activities	<u>\$ (821,070)</u>	<u>\$ 2,090</u>	<u>\$ 13,412</u>	<u>\$ (805,568)</u>

See accompanying independent auditor's report.

OTTUMWA 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
District-Wide:				
Interest	\$ 50,953	\$ 7,035	\$ 8,535	\$ 49,453
Foreign Language	3,863	-	-	3,863
Musical Fees	34,240	4,299	-	38,539
Administration	17,176	-	3,215	13,961
Trips	203,795	374,100	383,380	194,515
Other	7,880	35,775	18,784	24,871
Agassiz	6,811	4,310	5,774	5,347
Douma	9,908	14,327	15,077	9,158
Eisenhower	7,653	31,755	29,110	10,298
Horace Mann	10,197	28,871	28,022	11,046
James Team	703	11,107	11,867	(57)
Pickwick	34,035	17,284	28,111	23,208
Wildwood	4,461	10,222	9,713	4,970
Wilson Pop Fund	5,398	11,962	11,532	5,828
Evans	33,472	41,322	35,948	38,846
High School	106,720	423,018	445,859	83,879
Alternative High School	3,978	1,096	1,847	3,227
Less: Intrafund Transfers	-	(11,534)	(11,534)	-
Total	\$ 541,243	\$ 1,004,949	\$ 1,025,240	\$ 520,952

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2005	2004	2003	2002
Revenues:				
Local sources:				
Local tax	\$ 10,981,439	\$ 9,154,683	\$ 9,125,960	\$ 9,027,190
Tuition	674,413	656,652	64,882	70,093
Other	1,468,688	1,947,936	2,023,987	2,563,911
Intermediate sources	44,665	7,193	-	-
State sources	22,598,252	22,286,299	22,239,902	22,297,474
Federal sources	3,321,783	3,349,311	2,428,015	1,628,036
Total revenues	<u>\$ 39,089,240</u>	<u>\$ 37,402,074</u>	<u>\$ 35,882,746</u>	<u>\$ 35,586,704</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 15,283,242	\$ 14,784,116	\$ 14,209,485	\$ 13,246,755
Special instruction	4,851,332	5,751,077	5,437,563	5,222,455
Other instruction	3,708,731	2,479,510	2,470,826	1,372,568
Support services:				
Student services	1,576,887	1,180,904	933,826	1,919,990
Instructional staff services	1,163,541	952,636	948,814	1,652,641
Administration services	3,052,393	3,010,152	2,975,424	3,328,725
Operation and maintenance of plant services	3,240,112	3,381,279	3,401,257	3,364,852
Transportation services	1,032,484	987,835	938,906	905,540
Non-instructional programs	18,886	96,537	91,571	66,566
Other expenditures:				
Facilities acquisition	1,187,999	1,159,943	1,990,217	724,998
Long-term debt:				
Principal	525,000	500,000	475,000	450,000
Interest and fiscal charges	364,242	763,052	479,000	502,100
AEA flowthrough	1,341,364	1,345,454	1,393,542	1,394,773
Total expenditures	<u>\$ 37,346,213</u>	<u>\$ 36,392,495</u>	<u>\$ 35,745,431</u>	<u>\$ 34,151,963</u>

See accompanying independent auditor's report.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Direct:			
Department of Education:			
Safe and Drug Free Schools and Communities - National Programs	84.184	FY 05	\$ <u>10,974</u>
Indirect:			
U. S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY 05	<u>99,462</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 05	127,793
National School Lunch Program	10.555	FY 05	773,794
Summer Food Service Program for Children	10.556	FY 05	<u>3,432</u>
			<u>905,019</u>
			<u>1,004,481</u>
U. S. Department of Education:			
Iowa Department of Education:			
Migrant Education - State Grant Program	84.011	FY 04	4,879
Migrant Education - State Grant Program	84.011	FY 05	<u>144,450</u>
			<u>149,329</u>
Title 1 Grants to Local Educational Agencies	84.010	5049-GC-05	84,144
Title 1 Grants to Local Educational Agencies	84.010	5049-G-05	<u>875,583</u>
			<u>959,727</u>
Grants for State Assessments and Related Activities	84.369	FY 04	13,002
Grants for State Assessments and Related Activities	84.369	FY 05	<u>28,542</u>
			<u>41,544</u>
State Grants for Innovative Programs	84.298	FY 05	<u>17,440</u>
Improving Teacher Quality State Grants	84.367	FY 04	111,124
Improving Teacher Quality State Grants	84.367	FY 05	<u>195,128</u>
			<u>306,252</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>35,622</u>

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

Grantor / Program	CFDA Number	Grant Number	Expenditures
Indirect (continued):			
U. S. Department of Education (continued):			
Iowa Department of Education (continued):			
Tech-Prep Education	84.243	FY 05	\$ <u>89,346</u>
Fund for the Improvement of Education	84.215	FY 04	602,112
Fund for the Improvement of Education	84.215	FY 05	<u>8,477</u>
			<u>610,589</u>
Reading First State Grants	84.357	FY 04	40,886
Reading First State Grants	84.357	FY 05	<u>223,194</u>
			<u>264,080</u>
Special Education - Grants to States	84.027	FY 05	<u>237,027</u>
Education for Homeless Children and Youth	84.196	FY 05	<u>25,000</u>
Education Technology - State Grants	84.318	FY 04	6,878
Education Technology - State Grants	84.318	FY 05	<u>35,925</u>
			<u>42,803</u>
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FY 05	<u>12,481</u>
Comprehensive School Reform Demonstration	84.332	FY 05	<u>38,217</u>
Medical Assistance Program	93.778	FY 05	<u>84,917</u>
			<u>2,914,374</u>
Total			\$ <u><u>3,929,829</u></u>

Basis of Presentation –

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

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Board of Education of
Ottumwa 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 Ottumwa 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 October 11, 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 Ottumwa Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ottumwa 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance 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 Ottumwa Community School 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 Ottumwa Community School District and other parties to whom Ottumwa 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 Ottumwa 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.

Oskaloosa, Iowa
October 11, 2005

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

To the Board of Education of
Ottumwa Community School District:

Compliance

We have audited the compliance of Ottumwa 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. Ottumwa Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Ottumwa Community School District's management. Our responsibility is to express an opinion on Ottumwa 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 Ottumwa 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 Ottumwa Community School District's compliance with those requirements.

In our opinion, Ottumwa 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 Ottumwa 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 Ottumwa 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.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Ottumwa Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no material weaknesses during the course of our audit.

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

Oskaloosa, Iowa
October 11, 2005

OTTUMWA 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 non-compliance 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 disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - CFDA Number 84.367 – Improving Teacher Quality State Grants
 - Clustered programs:
 - CFDA Number 10.553 – School Breakfast Program
 - CFDA Number 10.555 – National School Lunch Program
 - CFDA Number 10.556 – Summer Food Service Program for Children
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ottumwa Community School District qualified as a low-risk auditee.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

II-A-05 Contract Overpayment – We noted in our testing of payroll that one employee received \$700 more than actually contracted for in relation to a coaching contract.

Recommendation – An independent District employee should recalculate all payroll contract amounts when originally entered into the payroll system by payroll personnel to insure accuracy of periodic contract payments. The District should seek full reimbursement of the \$700 overpayment from the District employee.

Response – We will take the necessary steps to insure the accuracy of payroll contract payments in the future. We will seek full reimbursement from the employee.

Conclusion – Response accepted.

OTTUMWA 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.

OTTUMWA 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 – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

IV-B-05 Certified Budget – Disbursements for the year ended June 30, 2005, exceeded the amount budgeted in the support services function.

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

Response – We will amend our budget before disbursements exceed the budget.

Conclusion – Response accepted.

IV-C-05 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

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

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

Name, Title and Business Connection	Transaction Description	Amount
Larry Northup, Teacher Owner of Ottumwa Coaches, Inc.	Student activity transportation	\$188,584

In accordance with an Attorney General’s opinion dated November 9, 1976, the transaction with Mr. Northup does not appear to represent a conflict of interest.

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

IV-G-05 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.

OTTUMWA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2005

Part IV: Other Findings Related to Statutory Reporting (continued):

IV-H-05 Certified Enrollment – We noted a variance in the basic enrollment data certified to the Department of Education. The District certified 20 students as open enrolled in but the correct number was 21.

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

Response – We will contact the proper Departments to resolve this situation.

Conclusion – Response accepted.

IV-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.

IV-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.

IV-K-05 National School Lunch Program/School Breakfast Program – We noted in our testing of the district’s free and reduced price meal application income verification process that District personnel did not follow eligibility status changes through the system. We also noted three errors in eligibility determination decisions.

Recommendation – The District is required by the national meal program guidelines to verify the income of a minimum of three percent of households approved to receive free or reduced price meals. The District should keep comprehensive, organized records of all transactions related to this process. The District should monitor all eligibility status changes by tracing the change through the District’s records to the subsequent month eligibility listing and determine if the correct change was made. All eligibility decisions should be properly reviewed to insure accuracy. Total estimated questioned federal costs for errors noted are \$717.

Response – We will improve our records in the future and we will investigate methods that may insure better accuracy in eligibility decisions.

Conclusion – Response accepted.

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