

WALNUT COMMUNITY SCHOOL DISTRICT

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

June 30, 2005

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Independent Auditor's Report

To the Board of Education of
Walnut 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 Walnut Community School District, Walnut, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the District's financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Walnut 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 August 18, 2005, on our consideration of Walnut Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 39 through 41 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. 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 Walnut 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 three years ended June 30, 2004, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 8, 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

August 18, 2005

WALNUT MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2005 Financial Highlights

- General Fund revenues increased from \$2,171,425 in fiscal 2004 to \$2,172,558 in fiscal 2005, while General Fund expenditures decreased from \$2,204,884 in fiscal 2004 to \$2,133,063 in fiscal 2005. The District's General Fund deficit decreased from \$(127,860) in fiscal 2004 to \$(88,290) in fiscal 2005
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2005. The decrease in expenditures was due primarily to a decrease in the negotiated salary and benefits and restricted grant expenditures.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor Special Revenue Funds.

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

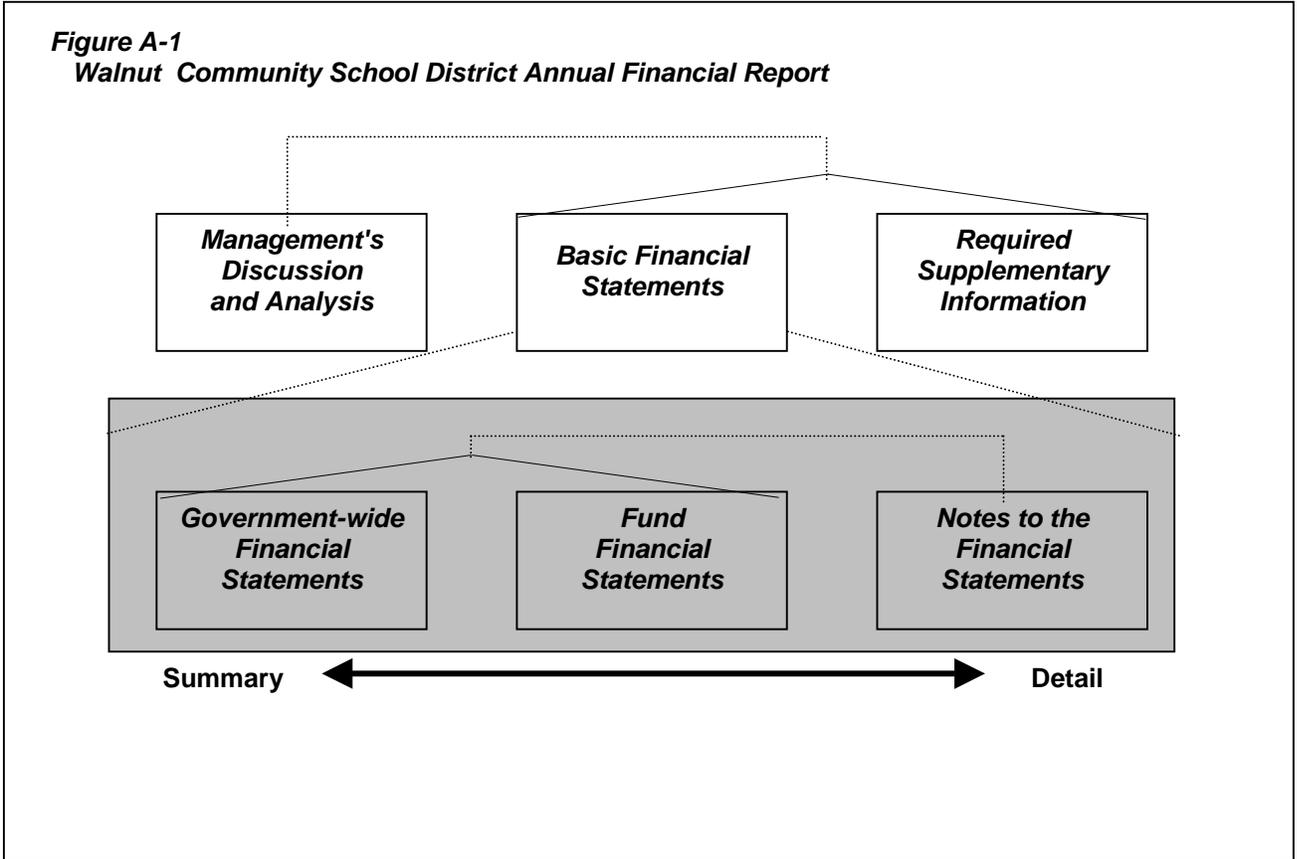


Figure A-2 summarizes the major features of the district’s financial statements, including the portion of the district’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
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 fund 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, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT’S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The two government-wide financial statements report the district’s net assets and how they have changed. Net assets – the difference between the district’s assets and liabilities – are one way to measure the district’s financial health or financial position. Over time, increases or decreases in the district’s net assets are an indicator of whether financial position is improving or deteriorating. To

assess the district's overall health, additional non-financial factors, such as changes in the district's property tax base and the condition of school buildings and other facilities, need to be considered.

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

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

Fund Financial Statements

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

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

The district has three kinds of funds:

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

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

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

- 1) *Proprietary funds*: Services for which the district charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The district's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The district currently has two Enterprise Funds, the School Nutrition Fund and the Day Care fund.
- 2) The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.
- 3) *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.
 - Agency Funds – These are funds through which the district administers and accounts for certain federal and/or state grants on behalf of other districts and certain revenue collected for district employee purchases of pop and related expenditures.

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

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

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

Government-Wide Financial Analysis

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

Figure A-3

	Condensed Statement of Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005	2004	2005	2004	2005	2004	
	\$	\$	\$	\$	\$	\$	
Current and other assets	2,643,453	1,989,570	9,572	11,825	2,653,025	2,001,395	33%
Capital assets	2,035,506	2,135,366	44,369	47,319	2,079,875	2,182,685	-5%
Total assets	4,678,959	4,124,936	53,941	59,144	4,732,900	4,184,080	13%
Long-term liabilities	1,546,438	1,695,937	-	-	1,546,438	1,695,937	-9%
Other liabilities	2,329,296	1,866,328	24,045	31,878	2,353,341	1,898,206	24%
Total liabilities	3,875,734	3,562,265	24,045	31,878	3,899,779	3,594,143	9%
Net Assets:							
Invested in capital assets, net of related debt	604,196	583,741	29,087	30,675	633,283	614,416	3%
Restricted	302,985	186,907	-	-	302,985	186,907	62%
Unrestricted	(103,956)	(207,987)	809	(3,409)	(103,147)	(211,396)	51%
TOTAL NET ASSETS	803,225	562,671	29,896	27,266	833,121	589,937	41%

The district's combined net assets increased by nearly 41%, or approximately \$244,000, over the prior year. The largest portion of the district's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The district's restricted net assets increased approximately \$115,000 or 62% over the prior year.

Unrestricted net assets deficit – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased approximately \$108,000, or 51%.

Figure A-4 shows the change in net assets for the years ended June 30, 2005 and 2004.

Figure A-4

	Change in Net Assets						Percentage Change 2004-2005
	Governmental Activities		Business-type Activities		Total School District		
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	
Revenues							
Program Revenues:							
Charges for services	225,557	311,300	92,717	90,511	318,274	401,811	-21%
Operating grants & contributions	376,738	259,446	60,659	83,047	437,397	342,493	28%
Capital grants & contributions	-	-	-	-	-	-	0%
General Revenues:							0%
Property taxes	961,148	1,028,143	-	-	961,148	1,028,143	-7%
Income Surtax	32,616	43,126	-	-	32,616	43,126	-24%
Local option sales tax	181,867	158,723	-	-	181,867	158,723	15%
Unrestricted state grants	876,106	759,128	-	-	876,106	759,128	15%
Unrestricted investment earnings	36,019	8,697	27	32	36,046	8,729	313%
Other revenue	75	-	10,662	-	10,737	-	0%
Total Revenues	<u>2,690,126</u>	<u>2,568,563</u>	<u>164,065</u>	<u>173,590</u>	<u>2,854,191</u>	<u>2,742,153</u>	<u>4%</u>
Expenses:							
Instruction	1,552,222	1,621,564	-	-	1,552,222	1,621,564	-4%
Support services	629,093	694,932	-	-	629,093	694,932	-9%
Non-instructional programs	35	-	161,435	166,474	161,470	166,474	-3%
Other expenditures	268,222	254,219	-	-	268,222	254,219	6%
Total expenses	<u>2,449,572</u>	<u>2,570,715</u>	<u>161,435</u>	<u>166,474</u>	<u>2,611,007</u>	<u>2,737,189</u>	<u>-5%</u>
Change in net assets before							
Transfers	240,554	(2,152)	2,630	7,116	243,184	4,964	4799%
Transfers	-	(3,800)	-	3,800	-	-	0%
CHANGE IN NET ASSETS	<u>240,554</u>	<u>(5,952)</u>	<u>2,630</u>	<u>10,916</u>	<u>243,184</u>	<u>4,964</u>	<u>4799%</u>
Net assets beginning of year	562,671	568,623	27,266	16,350	589,937	584,973	1%
Net assets end of year	<u>803,225</u>	<u>562,671</u>	<u>29,896</u>	<u>27,266</u>	<u>833,121</u>	<u>589,937</u>	<u>41%</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The district's expenses primarily relate to instruction and support services, which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,690,126 and expenses were \$2,449,572. The district was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5

Total and Net Cost of Governmental Activities

	Total Cost of Services 2005 \$	Total Cost of Services 2004 \$	Net Cost of Services 2005 \$	Net Cost of Services 2004 \$
Instruction	1,552,222	1,621,564	1,024,263	1,134,620
Support Services	629,093	694,932	628,932	682,625
Non-instructional Programs	35	-	35	-
Other Expenses	268,222	254,219	194,047	182,724
TOTAL	2,449,572	2,570,715	1,847,277	1,999,969

- The cost financed by users of the district's programs was \$225,557.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$376,738.
- The net cost of governmental activities was financed with \$1,175,631 in property and other taxes and \$876,106 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$164,065 and expenses were \$161,435. The district's business type activities include the School Nutrition Fund and Child Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the district as a whole is reflected in its governmental funds, as well. As the district completed the year, its governmental funds reported a combined fund balance of \$285,203, well above last year's ending fund balances of \$88,822.

Governmental Fund Highlights

- The district's General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues.
- The General Fund balance increased from \$(127,860) to \$(88,290).

Proprietary Fund Highlights

School Nutrition Fund net assets decreased from \$9,372 at June 30, 2004 to \$8,282 at June 30, 2005.

BUDGETARY HIGHLIGHTS

Over the course of the year, Walnut Community School District amended its annual budget one time to reflect additional revenue and expenditures associated with the elementary building capital project activity.

The district's receipts were \$231,108 more than budgeted receipts. The most significant variance resulted from the District receiving less in federal and state aid than originally anticipated.

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

In spite of the district's budgetary practice, the certified budget was exceeded in the instruction, non-instruction, and other expenditure functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the district had invested \$2.079 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about the district's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$108,303.

The original cost of the district's capital assets was \$5.063 million. Governmental funds account for \$4.98 million, with the remainder of \$.08 million accounted for in the Proprietary, School Nutrition Fund.

Figure A-6

Capital Assets (net of depreciation)

Governmental Activities	Business type Activities	Total School District	Percentage Change
----------------------------	-----------------------------	--------------------------	----------------------

	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	40,125	40,125	-	-	40,125	40,125	0%
Construction in progress	-	-	-	-	-	-	0%
Buildings	1,842,781	1,906,595	39,091	41,223	1,881,872	1,947,818	-3%
Improvements	40,938	41,791	-	-	40,938	41,791	-2%
Equipment & Furniture	111,662	146,855	5,278	6,096	116,940	152,951	-24%
TOTAL	2,035,506	2,135,366	44,369	47,319	2,079,875	2,182,685	-5%

Long-Term Debt

At June 30, 2005, the district had \$1,561,720 in general obligation, capital leases, and other long-term debt outstanding. This represents a decrease of approximately 9% from last year. (See Figure A-7) Additional information about the district's long-term debt is presented in Note 7 to the financial statements.

**Figure A-7
Outstanding Long-Term Obligations**

	Total School District		Percentage
	2005	2004	Change 2004-2005
	\$	\$	
General Obligation Bonds	1,415,000	1,520,000	-7%
Capital Leases	31,592	48,269	-35%
Early Retirement	115,128	144,312	-20%
	1,561,720	1,712,581	-9%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- School financing is highly dependent upon student enrollment. The district's September 2005 enrollment decreased by 11 students. This drop in enrollment will decrease the district's funding for fiscal year 2007.
- Open enrollment out for the district increased by 14 students next year. This increase will decrease the district's funding for resident students.
- The district has evaluated the condition of its transportation vehicles and determined, due to safety precautions, is considering the purchase of a new bus and a new car. To pay for a new bus, the district will use a combination of resources from the General Fund and the Physical Plant and Equipment Levy Fund.

- Annually the district negotiates a new Master Contract with the WISEA. The district will negotiate a new agreement during fiscal year 2007. Settlements in excess of “new money” or allowable growth in state funding will have an adverse effect on the district’s General Fund budget and related fund balance.

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 Jeff Kruse, Walnut Superintendent, Walnut Community School District, 415 Antique City Drive, Walnut, Iowa, 51577.

BASIC FINANCIAL STATEMENTS

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	959,576	-	959,576
Other	390,618	13,459	404,077
Receivables:			
Property tax:			
Delinquent	19,820	-	19,820
Succeeding year	1,118,929	-	1,118,929
Accounts	-	2,073	2,073
Accrued interest:			
ISCAP	5,928	-	5,928
Other	1,227	-	1,227
Due from other governments	140,599	-	140,599
Interfund receivable\payable	6,756	(6,581)	175
Inventories	-	621	621
Capital assets, net of accumulated depreciation	2,035,506	44,369	2,079,875
	<u>4,678,959</u>	<u>53,941</u>	<u>4,732,900</u>
Liabilities			
Salaries and benefits payable	223,629	7,856	231,485
Due to other governments	7,321	-	7,321
Accrued interest payable	7,401	879	8,280
Deferred revenue:			
Succeeding year property tax	1,118,929	-	1,118,929
Other	-	28	28
ISCAP warrants payable	956,000	-	956,000
ISCAP accrued interest payable	6,380	-	6,380
ISCAP premium	9,636	-	9,636
Long-term liabilities:			
Portion due within one year:			
General obligation bonds payable	115,000	-	115,000
Capital leases	16,310	2,307	18,617
Early retirement	25,600	-	25,600
Portion due after one year:			
General obligation bonds payable	1,300,000	-	1,300,000
Capital leases	-	12,975	12,975
Early retirement	89,528	-	89,528
	<u>3,875,734</u>	<u>24,045</u>	<u>3,899,779</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2005

	Governmental Activities	Business Type Activities	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Net assets			
Invested in capital assets, net of related debt	604,196	29,087	633,283
Restricted for:			
Physical plant and equipment levy	64,313	-	64,313
Other special revenue purposes	45,518	-	45,518
Local option sales tax capital projects	131,605	-	131,605
Debt service	61,549	-	61,549
Unrestricted	<u>(103,956)</u>	<u>809</u>	<u>(103,147)</u>
Total net assets	<u><u>803,225</u></u>	<u><u>29,896</u></u>	<u><u>833,121</u></u>

WALNUT 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	1,015,005	119,819	156,994	-
Special instruction	214,994	-	48,212	-
Other instruction	322,223	105,738	97,196	-
	<u>1,552,222</u>	<u>225,557</u>	<u>302,402</u>	<u>-</u>
Support services:				
Student services	7,010	-	-	-
Instructional staff services	61,268	-	-	-
Administration services	316,334	-	-	-
Operation and maintenance of plant services	173,027	-	-	-
Transportation services	71,454	-	161	-
	<u>629,093</u>	<u>-</u>	<u>161</u>	<u>-</u>
Non-instructional programs	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	41,530	-	-	-
Long-term debt interest	77,873	-	-	-
AEA flowthrough	74,175	-	74,175	-
Depreciation (unallocated)*	74,644	-	-	-
	<u>268,222</u>	<u>-</u>	<u>74,175</u>	<u>-</u>
Total governmental activities	<u>2,449,572</u>	<u>225,557</u>	<u>376,738</u>	<u>-</u>
Business type activities:				
Non-instructional programs:				
Food service operations	111,600	49,824	60,659	-
Daycare	49,835	42,893	10,662	-
Total business-type activities	<u>161,435</u>	<u>92,717</u>	<u>71,321</u>	<u>-</u>
Total	<u>2,611,007</u>	<u>318,274</u>	<u>448,059</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
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

Net assets end of year

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

See notes to financial statements.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(738,192)	-	(738,192)
(166,782)	-	(166,782)
(119,289)	-	(119,289)
<u>(1,024,263)</u>	<u>-</u>	<u>(1,024,263)</u>
(7,010)	-	(7,010)
(61,268)	-	(61,268)
(316,334)	-	(316,334)
(173,027)	-	(173,027)
(71,293)	-	(71,293)
<u>(628,932)</u>	<u>-</u>	<u>(628,932)</u>
<u>(35)</u>	<u>-</u>	<u>(35)</u>
(41,530)	-	(41,530)
(77,873)	-	(77,873)
-	-	-
<u>(74,644)</u>	<u>-</u>	<u>(74,644)</u>
<u>(194,047)</u>	<u>-</u>	<u>(194,047)</u>
<u>(1,847,277)</u>	<u>-</u>	<u>(1,847,277)</u>
-	(1,117)	(1,117)
-	3,720	3,720
-	2,603	2,603
<u>(1,847,277)</u>	<u>2,603</u>	<u>(1,844,674)</u>
800,761	-	800,761
90,132	-	90,132
70,255	-	70,255
32,616	-	32,616
181,867	-	181,867
876,106	-	876,106
36,019	27	36,046
75	-	75
<u>2,087,831</u>	<u>27</u>	<u>2,087,858</u>
240,554	2,630	243,184
562,671	27,266	589,937
<u>803,225</u>	<u>29,896</u>	<u>833,121</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	959,576	-	959,576
Other	87,742	302,876	390,618
Receivables:			
Property tax:			
Delinquent	15,064	4,756	19,820
Succeeding year	803,829	315,100	1,118,929
Accrued interest - ISCAP	5,928	-	5,928
Accrued interest - other	1,227	-	1,227
Interfund receivable/payable	-	36,756	36,756
Due from other governments	111,494	29,105	140,599
	<u>1,984,860</u>	<u>688,593</u>	<u>2,673,453</u>
Liabilities and Fund Balances			
Liabilities:			
Salaries and benefits payable	223,629	-	223,629
Due to other governments	7,321	-	7,321
Interfund payable	30,000	-	30,000
ISCAP warrants payable	956,000	-	956,000
ISCAP accrued interest payable	6,380	-	6,380
ISCAP premium	9,636	-	9,636
Deferred revenue:			
Succeeding year property tax	803,829	315,100	1,118,929
Other	36,355	-	36,355
Total liabilities	<u>2,073,150</u>	<u>315,100</u>	<u>2,388,250</u>
Fund balances:			
Reserved for:			
Debt service	-	68,950	68,950
Unreserved reported in:			
General Fund	(88,290)	-	(88,290)
Special Revenue Funds	-	172,938	172,938
Capital Projects Fund	-	131,605	131,605
Total fund balances	<u>(88,290)</u>	<u>373,493</u>	<u>285,203</u>
	<u>1,984,860</u>	<u>688,593</u>	<u>2,673,453</u>
Total liabilities and fund balances			

WALNUT 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 (Exhibit C)	285,203
<i>Amounts reported for governmental activities in the Statement of Net Assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	2,035,506
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	36,355
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	(7,401)
Long-term liabilities, including bonds payable, capital leases and early retirement benefits, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(1,546,438)</u>
Net assets of governmental activities (Exhibit A)	<u><u>803,225</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

Year ended June 30, 2005

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	764,139	417,637	1,181,776
Tuition	103,592	-	103,592
Other	51,986	105,998	157,984
State sources	1,156,673	3	1,156,676
Federal sources	96,168	-	96,168
Total revenues	<u>2,172,558</u>	<u>523,638</u>	<u>2,696,196</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,047,186	-	1,047,186
Special instruction	214,994	-	214,994
Other instruction	215,902	91,931	307,833
	<u>1,478,082</u>	<u>91,931</u>	<u>1,570,013</u>
Support services:			
Student services	7,010	-	7,010
Instructional staff services	61,268	-	61,268
Administration services	282,372	33,962	316,334
Operation and maintenance of plant services	172,920	537	173,457
Transportation services	57,201	-	57,201
	<u>580,771</u>	<u>34,499</u>	<u>615,270</u>
Non-instructional programs	35	-	35
Other expenditures:			
Facilities acquisition	-	41,530	41,530
Long-term debt:			
Principal	-	120,315	120,315
Interest and fiscal charges	-	78,552	78,552
AEA flowthrough	74,175	-	74,175
	<u>74,175</u>	<u>240,397</u>	<u>314,572</u>
Total expenditures	<u>2,133,063</u>	<u>366,827</u>	<u>2,499,890</u>
Excess (deficiency) of revenues over (under) expenditures	<u>39,495</u>	<u>156,811</u>	<u>196,306</u>
Other financing sources (uses):			
Sales of materials and equipment	75	-	75
Operating transfers in	-	160,965	160,965
Operating transfers out	-	(160,965)	(160,965)
Total other financing sources (uses)	<u>75</u>	<u>-</u>	<u>75</u>
Net change in fund balances	39,570	156,811	196,381
Fund balances beginning of year	(127,860)	216,682	88,822
Fund balances end of year	<u>(88,290)</u>	<u>373,493</u>	<u>285,203</u>

WALNUT 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 (Exhibit E)		196,381
<i>Amounts reported for governmental activities in the Statement of Activities are different because:</i>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the year as follows:		
Expenditures for capital assets	5,493	
Depreciation expense	<u>(105,353)</u>	(99,860)
Income surtaxes not collected for several months after the District's fiscal year ends are not considered "available" revenues in the governmental funds and are included as deferred revenues. They are, however, recorded as revenues in the statement of		(6,145)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		120,315
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities interest expense is recognized as the interest accrues, regardless of when it is due.		679
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:		
Early retirement		<u>29,184</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>240,554</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Assets	
Cash and cash equivalents	13,459
Accounts receivable	2,073
Inventories	621
Capital assets, net of accumulated depreciation	<u>44,369</u>
Total assets	<u>60,522</u>
Liabilities	
Interfund Payable	6,581
Interest payable	879
Salaries and benefits payable	7,856
Capital leases	15,282
Deferred revenue	<u>28</u>
Total liabilities	<u>30,626</u>
Net assets	
Invested in capital assets, net of related debt	29,087
Unrestricted	<u>809</u>
Total net assets	<u><u>29,896</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>92,717</u>
Operating expenses:	
Non-instructional programs:	
Salaries	75,301
Benefits	15,115
Purchased services	1,619
Supplies	65,571
Depreciation	2,950
Other	879
	<u>161,435</u>
Operating gain (loss)	<u>(68,718)</u>
Non-operating revenue:	
State sources	1,728
Federal sources	58,931
Donations	10,662
Interest income	27
Total non-operating revenue	<u>71,348</u>
Change in net assets	2,630
Net assets beginning of year	<u>27,266</u>
Net assets end of year	<u><u>29,896</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Nonmajor Enterprise Funds
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	48,845
Cash received from daycare services	47,474
Cash payments to employees for services	(90,546)
Cash payments to suppliers for goods or services	(57,236)
Net cash used by operating activities	<u>(51,463)</u>
Cash flows from non-capital financing activities:	
Donations	10,662
State grants received	1,728
Federal grants received	49,339
Net cash provided by non-capital financing activities	<u>61,729</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities:	
Interest on investments	<u>27</u>
Net increase (decrease) in cash and cash equivalents	10,293
Cash and cash equivalents at beginning of year	<u>3,166</u>
Cash and cash equivalents at end of year	<u><u>13,459</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:	
Operating gain (loss)	(68,718)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:	
Commodities used	9,592
Depreciation	2,950
Decrease (increase) in inventories	362
Decrease (increase) in accounts receivable	(444)
(Decrease) increase in accounts payable	5,460
(Decrease) increase in salaries and benefits payable	(130)
(Decrease) increase in deferred revenue	(535)
Net cash used in operating activities	<u><u>(51,463)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2005, the District received \$9,592 of federal commodities.

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2005

	Private Purpose Trust Scholarship	Agency
	<u>\$</u>	<u>\$</u>
Assets		
Cash and pooled investments	<u>3,200</u>	<u>324</u>
Liabilities		
Interfund payable	175	-
Other payables	<u>-</u>	<u>324</u>
Total liabilities	<u>175</u>	<u>324</u>
Net assets		
Reserved for scholarships	<u><u>3,025</u></u>	<u><u>-</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trust Scholarship
	<u>\$</u>
Additions:	
Local sources:	
Interest	60
Deductions:	
Support services:	
Scholarships awarded	<u>175</u>
Change in net assets	(115)
Net assets beginning of year	<u>3,140</u>
Net assets end of year	<u><u>3,025</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2005

1. Summary of Significant Accounting Policies

Walnut Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Walnut, Iowa and the predominately agricultural territory in a portion of Pottawattamie, Shelby and Cass Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Walnut Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Walnut Community School District has no component units that 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 County Assessor's Conference Board.

B. Basis of Presentation

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

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, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that 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 government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 expenditures, including instruction, support and other costs.

The District's proprietary fund consists of the Enterprise, School Nutrition Fund and Day Care Fund. These funds are used to account for the operations of the District's food service and day care operations.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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 judgements, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the

District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds became 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.

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

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

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

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	5,000
Buildings	5,000
Improvements other than buildings	5,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	5-25 years
Furniture and equipment	3-20 years

The District's collection of library books and other similar materials are not capitalized. These collections are unencumbered, held for public exhibition and education, protected, cared for and preserved and subject to District policy that requires proceeds from the sale of these items, if any, to be used to acquire other collection items.

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

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

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted. The district also exceeded its spending authority in the General Fund as of June 30, 2005.

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.

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

	<u>Amortized Cost</u>
	\$
Diversified Portfolio	3,655

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

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

3. Interfund Receivables and Payables

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
		\$
Special Revenue Physical Plant and Equipment Levy Fund	General Fund	30,000
Special Revenue Physical Plant and Equipment Levy Fund	Enterprise: Day care Fund	6,581
Special Revenue: Activity Fund	Fiduciary: Private purpose trust Fund	175

The PPEL fund has advanced funds to the General Fund and Day Care Fund to help cash flow in those funds. The Activity fund had advanced funds for the Trust funds at June 30, 2005. These advances are to be repaid in the next fiscal year.

4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
		\$
Debt Service	Special Revenue: Physical Plant and Equipment Levy Fund	18,064
Debt Service	Capital Projects	142,901

These transfers reflect funds transferred for payment of debt service obligations.

5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. N.A. is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2005, is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments \$	Accrued Interest Receivable \$	Warrants Payable \$	Accrued Interest Payable \$
2004-05B	1/28/05	1/27/06	429,237	5,815	428,000	6,279
2005-06A	6/30/05	6/30/06	530,339	113	528,000	101
Total			959,576	5,928	956,000	6,380

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2005, is as follows:

Balance Beginning of Year \$	Advances Received \$	Advances Repaid \$	Balance End of Year \$
-	340,000	340,000	-

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

Series	Interest Rates on Warrants %	Interest Rates on Investments %
2004-05B	3.500	2.280
2005-06A	4.000	3.903

6. Capital Assets

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

	Balance Beginning of Year \$	Increases \$	Decreases \$	Balance End of Year \$
Governmental activities:				
Capital assets not being depreciated:				
Land	40,125	-	-	40,125
Capital assets being depreciated:				
Buildings	4,182,836	-	-	4,182,836
Improvements other than buildings	42,644	-	-	42,644
Furniture and equipment	713,123	5,493	505	718,111
Total capital assets being deprec.	4,938,603	5,493	505	4,943,591

Less accumulated depreciation for:				
Buildings	2,276,241	63,814	-	2,340,055
Improvements other than buildings	853	853	-	1,706
Furniture and equipment	<u>566,268</u>	<u>40,686</u>	<u>505</u>	<u>606,449</u>
Total accumulated depreciation	<u>2,843,362</u>	<u>105,353</u>	<u>505</u>	<u>2,948,210</u>
Total capital assets being depreciated, net	<u>2,095,241</u>	<u>(99,860)</u>	<u>-</u>	<u>1,995,381</u>
Governmental activities capital assets, net	<u>2,135,366</u>	<u>(99,860)</u>	<u>-</u>	<u>2,035,506</u>
	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	<u> \$</u>	<u> \$</u>	<u> \$</u>	<u> \$</u>
Business type activities:				
Capital assets being depreciated:				
Buildings	42,644	-	-	42,644
Furniture and equipment	<u>37,913</u>	<u>-</u>	<u>-</u>	<u>37,913</u>
Total capital assets being deprec.	<u>80,557</u>	<u>-</u>	<u>-</u>	<u>80,557</u>
Less accumulated depreciation for:				
Buildings	1,421	2,132	-	3,553
Furniture and equipment	<u>31,817</u>	<u>818</u>	<u>-</u>	<u>32,635</u>
Total accumulated depreciation	<u>33,238</u>	<u>2,950</u>	<u>-</u>	<u>36,188</u>
Business type activities capital assets, net	<u>47,319</u>	<u>(2,950)</u>	<u>-</u>	<u>44,369</u>
Depreciation expense was charged to the following functions:				\$
Governmental activities:				
Instruction:				
Regular				1,959
Other				14,390
Support Services:				
Operation and maintenance of plant				107
Transportation				<u>14,253</u>
				<u>30,709</u>
Unallocated depreciation				<u>74,644</u>
Total depreciation expense – governmental activities				<u>105,353</u>
Business type activities:				
Day Care				2,132
Food services				<u>818</u>
Total Business type activities				<u>2,950</u>

7. Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	1,520,000	-	105,000	1,415,000	115,000
Capital leases	48,269	-	16,677	31,592	18,617
Early retirement	144,312	-	29,184	115,128	25,600
Total	1,712,581	-	150,861	1,561,720	159,217

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement incentives are based on salary in effect in year of application. Early retirement expenditures for the year ended June 30, 2005 totaled \$29,184.

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of May, 1998			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2006	5.5	115,000	69,628	184,628
2007	5.3	120,000	63,303	183,303
2008	4.6	125,000	56,943	181,943
2009	4.6	130,000	51,193	181,193
2010	4.7	135,000	45,213	180,213
2011-2015	4.8-5.0	790,000	121,121	911,121
		1,415,000	407,401	1,822,401

Capital Leases

The District has leased technology equipment under a capital lease. The following is a schedule of future minimum lease payments at 8.66% under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2005.

	Year Ending June 30,	Amount
		\$
Minimum Lease Payments	2006	17,370
		<u>17,370</u>

Less Amount Representing Interest	<u>1,060</u>
Present Value of Minimum Lease Payments	<u><u>16,310</u></u>

The District has leased a portable building under a capital lease for the Day Care operation. The following is a schedule of future minimum lease payments at 5.75% under the capital lease, together with the net present value of the minimum lease payments as of June 30, 2005.

<u>Year Ending June 30,</u>	<u>Amount</u>
	\$
2006	2,000
2007	2,000
2008	2,000
2009	2,000
2010	2,000
2011	<u>7,942</u>
Minimum Lease Payments	17,942
Less Amount Representing Interest	<u>2,660</u>
Present Value of Minimum Lease Payments	<u><u>15,282</u></u>

8. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2005, 2004 and 2003. Contribution requirements are established by state statute. The District's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$71,232, \$77,284, and \$68,820 respectively, equal to the required contributions for each year.

9. Risk Management

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

In July 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members continuing membership in the Association had their deficit recovery assessment included in their annual premium for the 2004-2005 and 2005-2006 plan years. The deficit recovery is equal to 2% of the annual premium. The total amount of the deficit recoveries of current members is estimated to be \$2.2 million. The District's share of this assessment was \$11,944, of which \$5,972 was paid with the 2004-2005 premiums and \$5,972 is a liability as of June 30, 2005 and will be paid with the 2005-2006 premiums. Since the program is now fully insured, there will be no additional assessments due to claims exceeding premiums charged to members.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2005 were \$283,734.

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

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

10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$74,175 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.

11. Financial Condition

The General Fund has a deficit unreserved fund balance of \$88,290 at June 30, 2005.

REQUIRED SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	1,569,745	107,008	1,676,753	1,394,340	1,394,340	282,413
State sources	1,109,079	1,728	1,110,807	1,122,450	1,122,450	(11,643)
Federal sources	58,069	58,931	117,000	146,000	146,000	(29,000)
Total receipts	<u>2,736,893</u>	<u>167,667</u>	<u>2,904,560</u>	<u>2,662,790</u>	<u>2,662,790</u>	<u>241,770</u>
Disbursements:						
Instruction	1,620,320	-	1,620,320	1,412,991	1,412,991	(207,329)
Support services	626,020	-	626,020	849,754	849,754	223,734
Non-instructional programs	35	157,374	157,409	101,300	101,300	(56,109)
Other expenditures	314,572	-	314,572	300,868	300,868	(13,704)
Total disbursements	<u>2,560,947</u>	<u>157,374</u>	<u>2,718,321</u>	<u>2,664,913</u>	<u>2,664,913</u>	<u>(53,408)</u>
Excess (deficiency) of receipts over (under) disbursements	175,946	10,293	186,239	(2,123)	(2,123)	188,362
Other financing sources (uses) net	<u>75</u>	<u>-</u>	<u>75</u>	<u>-</u>	<u>-</u>	<u>75</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	176,021	10,293	186,314	(2,123)	(2,123)	188,437
Balance beginning of year	<u>214,597</u>	<u>3,166</u>	<u>217,763</u>	<u>2,123</u>	<u>2,123</u>	<u>215,640</u>
Balance end of year	<u><u>390,618</u></u>	<u><u>13,459</u></u>	<u><u>404,077</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>404,077</u></u>

See accompanying independent auditor's report.

WALNUT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2005

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	2,736,893	(40,697)	2,696,196
Expenditures	2,560,947	(61,057)	2,499,890
Net	175,946	20,360	196,306
Other financing sources (uses) net	75	-	75
Beginning fund balances	214,597	(125,775)	88,822
Ending fund balances	390,618	(105,415)	285,203

	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	167,667	(3,602)	164,065
Expenditures	157,374	4,061	161,435
Net	10,293	(7,663)	2,630
Beginning fund balances	3,166	24,100	27,266
Ending fund balances	13,459	16,437	29,896

WALNUT COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Internal Service, Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2005, disbursements in the instruction, non-instructional programs, and other expenditures functions exceeded the amounts budgeted. The District also exceeded its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2005

Assets	Special Revenue Funds			Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$		
Cash and pooled investments	61,541	45,343	26,029	102,500	67,463	302,876
Receivables:						
Property tax:						
Delinquent	1,566	-	1,703	-	1,487	4,756
Succeeding year	65,000	-	65,472	-	184,628	315,100
Interfund receivable	-	175	36,581	-	-	36,756
Due from other governments	-	-	-	29,105	-	29,105
Total assets	128,107	45,518	129,785	131,605	253,578	688,593
Liabilities & Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	65,000	-	65,472	-	184,628	315,100
Fund balances:						
Reserved for debt service	-	-	-	-	68,950	68,950
Unreserved fund balance reported in:						
Special Revenue Funds	63,107	45,518	64,313	-	-	172,938
Capital Projects Fund	-	-	-	131,605	-	131,605
Total fund balances	63,107	45,518	64,313	131,605	68,950	373,493
Total liabilities and fund balances	128,107	45,518	129,785	131,605	253,578	688,593

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds

Year ended June 30, 2005

	Special Revenue Funds			Capital Projects Fund	Debt Service	Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Local Option Sales Tax		
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	75,383	-	70,255	181,867	90,132	417,637
Other	-	105,860	46	20	72	105,998
State sources	1	-	1	-	1	3
Total revenues	<u>75,384</u>	<u>105,860</u>	<u>70,302</u>	<u>181,887</u>	<u>90,205</u>	<u>523,638</u>
Expenditures:						
Current:						
Instruction:						
Other instruction	-	91,931	-	-	-	91,931
Support services:						
Administration services	33,962	-	-	-	-	33,962
Operation and maintenance of plant services	-	-	537	-	-	537
Other expenditures:						
Facilities acquisition	-	-	35,916	5,614	-	41,530
Long-term debt:						
Principal	-	-	-	-	120,315	120,315
Interest and fiscal charges	-	-	-	-	78,552	78,552
Total expenditures	<u>33,962</u>	<u>91,931</u>	<u>36,453</u>	<u>5,614</u>	<u>198,867</u>	<u>366,827</u>
Excess (deficiency) of revenues over (under) expenditures	<u>41,422</u>	<u>13,929</u>	<u>33,849</u>	<u>176,273</u>	<u>(108,662)</u>	<u>156,811</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	160,965	160,965
Operating transfers out	-	-	(18,064)	(142,901)	-	(160,965)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(18,064)</u>	<u>(142,901)</u>	<u>160,965</u>	<u>-</u>
Net change in fund balance	41,422	13,929	15,785	33,372	52,303	156,811
Fund balances beginning of year	<u>21,685</u>	<u>31,589</u>	<u>48,528</u>	<u>98,233</u>	<u>16,647</u>	<u>216,682</u>
Fund balances end of year	<u>63,107</u>	<u>45,518</u>	<u>64,313</u>	<u>131,605</u>	<u>68,950</u>	<u>373,493</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Net Assets
Nonmajor Enterprise Funds

June 30, 2005

	School Nutrition	Daycare	Total
	\$	\$	\$
Assets			
Cash and cash equivalents	8,194	5,265	13,459
Accounts receivable	2,073	-	2,073
Inventories	621	-	621
Capital assets, net of accumulated depreciation	<u>5,278</u>	<u>39,091</u>	<u>44,369</u>
Total assets	<u>16,166</u>	<u>44,356</u>	<u>60,522</u>
Liabilities			
Interfund Payable	-	6,581	6,581
Interest payable	-	879	879
Salaries and benefits payable	7,856	-	7,856
Capital leases	-	15,282	15,282
Deferred revenue	<u>28</u>	<u>-</u>	<u>28</u>
Total liabilities	<u>7,884</u>	<u>22,742</u>	<u>30,626</u>
Net assets			
Invested in capital assets, net of related debt	5,278	23,809	29,087
Unrestricted	<u>3,004</u>	<u>(2,195)</u>	<u>809</u>
Total net assets	<u>8,282</u>	<u>21,614</u>	<u>29,896</u>

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenses and Changes in Net Assets
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition	Daycare	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for service	49,824	42,893	92,717
Operating expenses:			
Non-instructional programs:			
Salaries	36,188	39,113	75,301
Benefits	10,122	4,993	15,115
Purchased services	296	1,323	1,619
Supplies	64,176	1,395	65,571
Depreciation	818	2,132	2,950
Other	-	879	879
	<u>111,600</u>	<u>49,835</u>	<u>161,435</u>
Operating gain (loss)	<u>(61,776)</u>	<u>(6,942)</u>	<u>(68,718)</u>
Non-operating revenue:			
State sources	1,728	-	1,728
Federal sources	58,931	-	58,931
Donations	-	10,662	10,662
Interest income	27	-	27
Total non-operating revenue	<u>60,686</u>	<u>10,662</u>	<u>71,348</u>
Change in net assets	(1,090)	3,720	2,630
Net assets beginning of year	<u>9,372</u>	<u>17,894</u>	<u>27,266</u>
Net assets end of year	<u><u>8,282</u></u>	<u><u>21,614</u></u>	<u><u>29,896</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Cash Flows
Nonmajor Enterprise Funds

Year ended June 30, 2005

	School Nutrition	Daycare	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	48,845	-	48,845
Cash received from daycare services	-	47,474	47,474
Cash payments to employees for services	(46,440)	(44,106)	(90,546)
Cash payments to suppliers for goods or services	(54,518)	(2,718)	(57,236)
Net cash used by operating activities	<u>(52,113)</u>	<u>650</u>	<u>(51,463)</u>
Cash flows from non-capital financing activities:			
Donations	-	10,662	10,662
State grants received	1,728	-	1,728
Federal grants received	49,339	-	49,339
Net cash provided by non-capital financing activities	<u>51,067</u>	<u>10,662</u>	<u>61,729</u>
Cash flows from capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from investing activities:			
Interest on investments	<u>27</u>	<u>-</u>	<u>27</u>
Net increase (decrease) in cash and cash equivalents	(1,019)	11,312	10,293
Cash and cash equivalents at beginning of year	<u>9,213</u>	<u>(6,047)</u>	<u>3,166</u>
Cash and cash equivalents at end of year	<u><u>8,194</u></u>	<u><u>5,265</u></u>	<u><u>13,459</u></u>
Reconciliation of operating gain (loss) to net cash used by operating activities:			
Operating gain (loss)	(61,776)	(6,942)	(68,718)
Adjustments to reconcile operating gain (loss) to net cash used by operating activities:			
Commodities used	9,592	-	9,592
Depreciation	818	2,132	2,950
Decrease (increase) in inventories	362	-	362
Decrease (increase) in accounts receivable	(444)	-	(444)
(Decrease) increase in accounts payable	-	5,460	5,460
(Decrease) increase in salaries and benefits payable	(130)	-	(130)
(Decrease) increase in deferred revenue	(535)	-	(535)
Net cash used in operating activities	<u>(52,113)</u>	<u>650</u>	<u>(51,463)</u>

See accompanying independent auditor's report.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance	Revenues	Expenditures	Balance
	Beginning of Year			End of Year
	\$	\$	\$	\$
Music	(2,777)	4,706	2,044	(115)
Show choir	2,291	-	2,013	278
Athletics	13,207	41,806	34,211	20,802
Cheerleaders	(232)	390	390	(232)
Student services	1,436	3,348	3,354	1,430
FFA	1,631	12,436	11,590	2,477
FHA	437	9,517	12,729	(2,775)
Industrial arts	(690)	1,329	610	29
Class of 2004	51	(51)	-	-
Class of 2005	5,805	208	6,014	(1)
Class of 2006	1,475	10,956	6,867	5,564
Class of 2007	223	1,222	547	898
Class of 2008	777	-	-	777
Class of 2009	1,581	93	359	1,315
Class of 2010	-	261	261	-
Class of 2011	-	50	20	30
National Honor Society	204	-	-	204
Student council	1,337	773	432	1,678
Annual	2,386	2,699	6,282	(1,197)
Academic programs	82	411	32	461
Dare	40	556	74	522
K-2 classroom	972	-	492	480
Wetlands	-	10,000	-	10,000
AR/Reading	1,327	5,176	3,610	2,893
June 30, 2004 accrual entries	26	(26)	-	-
Total	31,589	105,860	91,931	45,518

WALNUT COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2005

	<u>WEA</u> \$
Balance beginning of year	459
Additions:	
Collections	181
Deductions:	
Miscellaneous	<u>316</u>
Balance end of year	<u><u>324</u></u>

WALNUT COMMUNITY SCHOOL DISTRICT

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

For the Last Four Years

	Modified Accrual Basis			
	2005	2004	2003	2002
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,181,776	1,223,342	1,181,369	975,167
Tuition	103,592	102,756	81,119	76,248
Other	157,984	217,241	137,319	116,589
Intermediate sources	-	8,653	-	-
State sources	1,156,676	947,343	993,583	939,605
Federal sources	96,168	62,578	90,718	52,560
Total revenues	<u>2,696,196</u>	<u>2,561,913</u>	<u>2,484,108</u>	<u>2,160,169</u>
Expenditures:				
Instruction:				
Regular instruction	1,047,186	1,068,045	926,440	851,885
Special instruction	214,994	186,190	149,211	192,434
Other instruction	307,833	326,994	332,302	285,077
Support services:				
Student services	7,010	6,922	78,954	31,873
Instructional staff services	61,268	72,740	66,419	116,063
Administration services	316,334	329,441	270,056	251,250
Operation and maintenance of plant services	173,457	182,263	200,608	166,742
Transportation services	57,201	56,063	65,188	60,317
Central support services	-	33,251	28,369	25,663
Non-instructional programs	35	-	809	6,716
Other expenditures:				
Facilities acquisition	41,530	67,185	57,215	17,505
Long-term debt:				
Principal	120,315	114,380	108,502	102,041
Interest and other charges	78,552	84,194	90,306	96,707
AEA flowthrough	74,175	71,495	74,999	74,764
Total expenditures	<u>2,499,890</u>	<u>2,599,163</u>	<u>2,449,378</u>	<u>2,279,037</u>

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
Walnut 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 Walnut 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 August 18, 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 Walnut 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 I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items 05-I-A and 05-I-B are material weaknesses.

Compliance and Other Matters

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

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

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

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

August 18, 2005

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

05-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

05-I-B Accounting System: We noted that the bank reconciliations did not always agree with the books without adjustments, and that some payments were credited to expense accounts when they should have been recorded in revenue accounts.

Recommendation: The District should ensure that the bank reconciles to the district records each month without adjustments and that all receipts are recorded as revenues so the board has a more accurate reporting of actual expenses with which to make decisions and for proper reporting to governmental agencies.

District Response: We will review our procedures and make any necessary adjustments.

Conclusion: Response accepted.

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting:

05-II-A 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.

05-II-B Certified Budget: Disbursements for the year ended June 30, 2005, exceeded the amounts budgeted in the instruction, non-instructional programs, and other expenditures functional areas. The District also exceeded its General Fund spending authority for the year ended June 30, 2005

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. The District should contact the Iowa Department of Education and the School Budget Review committee to resolve the unspent authorized budget issue.

District Response: We will amend future budgets before disbursements exceed the budgeted amounts in any of the four functional areas. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

Conclusion: Response accepted.

05-II-C Questionable Expenditures: We noted several invoices with no supporting documents including credit card payments

Recommendation: All payments of bills should have supporting invoices or documentation before any payments are made. A credit card statement is not a supporting document, there must be invoices supporting all credit card charges.

District Response: We will ensure that all future bills and credit card payments have supporting documentation.

Conclusion: Response accepted.

05-II-D Travel Expenses: 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.

05-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

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

05-II-G Board Minutes: We noted that the lists of Student Activity Fund bills were not approved by the Board or published and many automatic bank debits for payments were not signed off by the President or approved by the board. In addition the minutes in some cases were not signed by the President.

Recommendation: All District bills should be approved by the Board prior to payment. Bills that are paid prior to Board approval in accordance with Iowa law and District policy should be approved by the Board at the next meeting. All bill payments should be signed by the

WALNUT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2005

Part II: Other Findings Related to Statutory Reporting (Continued):

president and published monthly including any automatic debits paid out of the bank accounts such as debt service payments.

District Response: All bills will be approved by the Board and a list of the approved bills will be kept with the minutes and published monthly. The minutes will be signed in the future.

Conclusion: Response accepted.

05-II-H Certified Enrollment: The number of open enrollment in students, reported to the Iowa Department of Education on Line 8 of the Certified Enrollment Certification Form for September 2004, was overstated by 1 student.

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

District Response: We will contact these departments.

Conclusion: Response accepted.

05-II-I Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-II-J Certified Annual Report (CAR): We reviewed a draft copy of the CAR and we noted no significant deficiencies in the amounts reported.

05-II-K Financial Condition: The General Fund has a deficit unreserved, undesignated fund balance of \$88,290 at June 30, 2005. The Student Activity Fund also has a few accounts with deficit balances at June 30, 2005.

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

District Response: We have a \$100,000 cash reserve levy for the General Fund in place for fiscal year 2006. This levy will help improve the General Fund financial position. We are making progress on improving accounts with deficit balances in the Student Activity Fund.

Conclusion: Response accepted.

05-II-L Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra curricular activities, such as athletics and student clubs. We noted transactions for industrial arts resale, reading fundraisers, and field trips that should be accounted for in the General Fund.

Recommendation: We recommend these accounts be reviewed and transferred to the proper fund.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.