

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
ADEL, IOWA

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

JUNE 30, 2004

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ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Education</u>		
(Before September 2003 Election)		
Darrell Weems	President	2003
Dick Bruce	Vice President	2004
Tom Hopewell	Board Member	2004
Paula James	Board Member	2003
Pat Steele	Board Member	2005
<u>Board of Education</u>		
(After September 2003 Election)		
Darrell Weems	President	2006
Dick Bruce	Vice President	2004
Tom Hopewell	Board Member	2004
Paula James	Board Member	2006
Pat Steele	Board Member	2005
<u>School Officials</u>		
Tim Hoffman	Superintendent	2004
Shirley McAdon	District Secretary/Treasurer	2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Adel-DeSoto-Minburn Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Adel-DeSoto-Minburn Community School District, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Adel-DeSoto-Minburn Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2004 on our consideration of Adel-DeSoto-Minburn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 6 through 15 and 48 through 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Adel-DeSoto-Minburn Community School District's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were previously audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Oskaloosa, Iowa
October 12, 2004

MANAGEMENT S DISCUSSION AND ANALYSIS

Adel-DeSoto-Minburn 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, 2004. We encourage readers to consider this information in conjunction with the District s financial statements, which follow.

Financial Highlights

- General Fund revenues increased from \$9,820,690 in fiscal 2003 to \$10,085,857 in fiscal 2004, while General Fund expenditures increased from \$9,833,728 in fiscal 2003 to \$10,226,522 in fiscal 2004. The District s General Fund balance decreased from \$740,458 in fiscal 2003 to \$614,973 in fiscal 2004, a 17.0% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salaries and benefits. A mid-year reduction in state aid in fiscal 2004 required funding a portion of General Fund salaries and benefits from the carryover fund balance, resulting in a decrease of \$125,485.
- The District s General Fund balance has been sufficient to allow for limited use to offset state aid cuts in tandem with selected budget cuts in areas that have not significantly affected programs. An enrollment decrease of 12.4 students for FY04 put more pressure on the budget. To help alleviate that situation the school board raised the instructional support levy from 5% to 7%.
- District voters passed a bond issue by 73% on October 21, 2003, for \$12,500,000 to construct an 8-9 Building on the high school site, add an Early Childhood Center and all-purpose room at the Adel Elementary School site, and renovate all district buildings to include air-conditioning. Construction will continue through fiscal 2006.
- The State of Iowa dictated a statewide revaluation of agricultural land and a corresponding rollback in residential property values. The District s total taxable valuation significantly decreased for fiscal 2004. The decrease affected the regular Physical Plant and Equipment Levy because it is at its maximum levy. A drop in valuation also affected the amount of bonds that could be sold up to the \$4.05 levy of assessed property valuation for construction, a loss of approximately \$1 million in bonding capacity for the 8-9 grades building and remodeling projects.
- Dallas County passed a Local Option Sales and Services Tax of 1¢ on March 25, 2003, by 65% that is projected to provide \$13.4 million to Adel-DeSoto-Minburn over ten years. That will allow the District to abate property taxes for new construction with sales tax proceeds and would allow the District to drop the Physical Plant and Equipment Levy for 2005-06.

Overview of the Financial Statements

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

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District s operations in more detail than the District-wide statements.

- The statements for *government funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

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

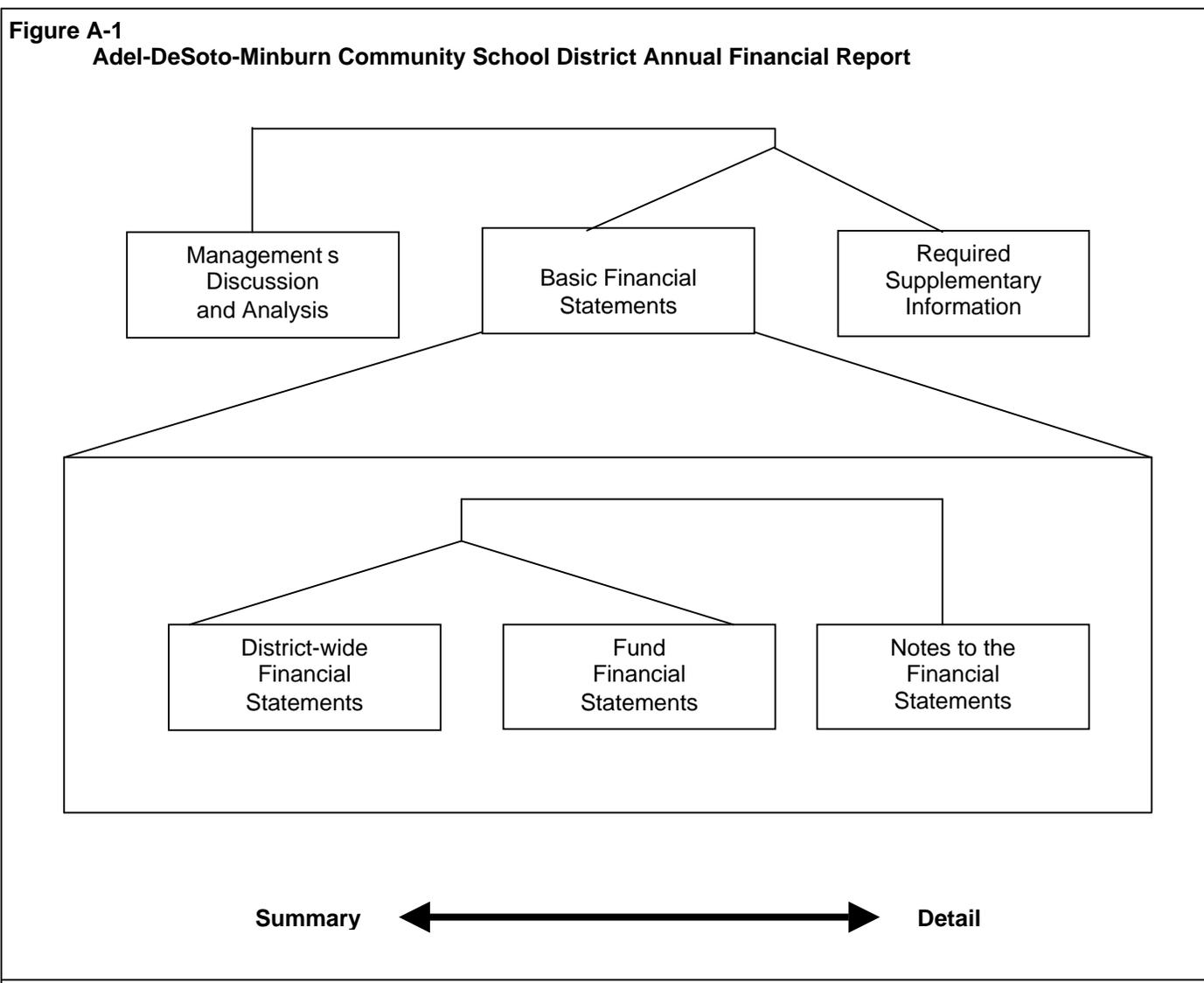


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents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

**Figure A-2
Major Features of the District-Wide and Fund Financial Statements**

	District-Wide Statements	Fund Statements		
		Government 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	<input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of activities	<input type="checkbox"/> Balance sheet <input type="checkbox"/> Statement of revenues, expenditures, and changes in fund balances	<input type="checkbox"/> Statement of net assets <input type="checkbox"/> Statement of revenues, expenses and changes in net assets <input type="checkbox"/> Statement of cash flows	<input type="checkbox"/> Statement of fiduciary net assets <input type="checkbox"/> Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.
 - The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Day Care Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for custodial purposes and related expenditures.

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

Financial Analysis of the District as a Whole

Net assets Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$16,727	6,041	\$ 151	\$ 156	\$ 16,878	\$ 6,197	172.4%
Capital assets	6,861	6,168	36	40	6,897	6,208	11.1%
Total assets	23,588	12,209	187	196	23,775	12,405	91.7%
Long-term obligations	13,673	2,419	-0-	-0-	13,673	2,419	465.2%
Other liabilities	4,942	4,960	45	45	4,987	5,005	-0.4%
Total liabilities	18,615	7,379	45	45	18,660	7,424	151.3%
Net assets:							
Invested in capital assets, net of related debt	3,978	3,788	35	40	4,013	3,828	4.8%
Restricted	380	351	-0-	-0-	380	351	8.3%
Unrestricted	615	691	107	111	722	802	-10.0%
Total net assets	\$ 4,973	4,830	\$ 142	151	\$ 5,115	4,981	2.69%

The District's slightly improved financial position is the product of many factors. A major contributor was the receipts in capital projects of bond sale proceeds and SILO receipts. PPEL assets improved, too, with the final pay-back on a loan from General Fund and with the use of SILO assets that allowed the preservation of PPEL assets. Capital assets increased due to construction-in-progress.

Long-term obligations increased due to bonds payable for the construction projects for new construction, renovation and air-conditioning.

The restricted net assets increase can be attributed to reservation of the PPEL Fund balance.

Unrestricted net assets decreased due to expenditures for salaries and benefits that decreased General Fund balance because of a reduction in state aid that reduced revenues.

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

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Revenues:							
Program revenues:							
Charges for service and sales	\$1,105	\$1,101	\$ 430	\$ 418	\$ 1,535	\$ 1,519	1.1%
Operating grants, contributions and restricted interest	959	1,054	169	158	1,128	1,212	-6.9%
Capital grants, contributions and restricted interest	-0-	-0-	-0-	-0-	-0-	-0-	-0-
General revenues:							
Property Tax	3,843	3,688	-0-	-0-	3,843	3,688	4.2%
SILO and mobile home taxes	274	-0-	-0-	-0-	274	-0-	-0-
Unrestricted state grants	5,172	4,967	-0-	-0-	5,172	4,967	4.1%
Unrestricted investment earnings	29	21	1	1	30	22	36.4%
Other	103	78	-0-	-0-	103	78	32.1%
Total revenues	<u>11,485</u>	<u>10,909</u>	<u>600</u>	<u>577</u>	<u>12,085</u>	<u>11,486</u>	<u>5.2%</u>
Program expenses:							
Governmental activities:							
Instruction	7,284	6,881	-0-	-0-	7,284	6,881	5.9%
Support services	2,984	2,905	-0-	-0-	2,984	2,905	2.7%
Non-instructional programs	5	5	609	574	614	579	6.0%
Other expenses	1,069	828	-0-	-0-	1,069	828	29.1%
Total expenses	<u>11,342</u>	<u>10,619</u>	<u>609</u>	<u>574</u>	<u>11,951</u>	<u>11,193</u>	<u>6.8%</u>
Change in net assets	<u>\$ 143</u>	<u>\$ 290</u>	<u>\$ -9</u>	<u>\$ 3</u>	<u>\$ 134</u>	<u>\$ 293</u>	<u>-54.3%</u>

Property tax and unrestricted state grants account for 75% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of total expenses. The decrease in net assets is tied to long-term debt interest and fiscal charges and to facilities acquisition.

Governmental Activities

Revenues for governmental activities were \$11,484,698 and expenses were \$11,342,344. Following a year of enrollment growth, the District believed that growth would continue. However, enrollment declined a few students, putting pressure on the budget again. A reduction in state aid narrowed the change in net assets.

Figure A-5 shows each activity's net cost, (total costs less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-5
Total and Net Cost of Governmental Activities
(expressed in thousands)

	Total Cost Of Services	Net Cost Of Services
Instruction	\$ 7,284	5,805
Support Services	2,984	2,791
Non Instruction programs	5	5
Other expenses	1,069	677
Totals	\$ 11,342	9,278

- The cost financed by users of the District's programs was \$1,104,958.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$959,481.
- The net cost of governmental activities was financed with \$3,842,608 in property tax, \$274,009 in SILO and mobile home taxes, \$5,171,646 in state foundation aid, \$28,917 in interest income, and \$103,079 in other income.

Business Type Activities

Revenues of the District's business-type activities were \$600,134 and expenses were \$608,920. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

During the year ended June 30, 2004, no increases in meal prices were made, the third year of no increases. The School Nutrition Fund lost ground to increases in expenditures in all areas, resulting in a decrease in net assets. An increase in lunch prices will be instituted for FY05. The Day Care Fund was able to meet expenses with charges for services and slightly increase net assets.

Financial Analysis of the District's Funds

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$11,916,185, a significant increase compared to last year's ending fund balances of \$1,091,962.

Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors. A reduction in state aid resulted in a decrease in revenues that were expected and budgeted after the budget year began. Cash reserves were used to allow maintenance of programming. Unexpected was the growth in the number of teacher associates required by special education IEPs, which caused further pressure on the budget.
- The General Fund balance decreased from \$740,458 to \$614,973 because the District was unable to trim expenditures as the negotiated salary and benefit settlements increased more than 4% for all groups and more employees were added.
- The Management Fund balance decreased from \$132,437 to \$124,990 because property and casualty insurance premiums increased more than expected. A levy increase will again need to be considered.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit of \$49,036 in fiscal 2003 to a balance of \$153,346 in fiscal 2004. Inter-fund borrowing from the General Fund allowed the District to repair a roof at Minburn Elementary under emergency conditions in fiscal 2001; expenditures in fiscal 2004

were reduced to complete payment on the loan from General Fund. SILO receipts allowed preservation of some of the PPEL fund balance.

- The Capital Projects Fund balance increased from zero to \$10,717,032 because of the issuance of general obligation bonds and the collection of SILO receipts.

Proprietary Fund Highlights

- The School Nutrition Fund net assets decreased from \$126,532 at June 30, 2003, to \$116,607 at June 30, 2004, representing a decrease of approximately 8 percent. As previously noted, the District has not increased meal prices for three years. While participation is constant, enrollment has declined; revenues are not increasing as fast as increases for expenditures.
- The Day Care Fund net assets increased from \$24,160 at June 30, 2003, to \$25,299 at June 30, 2004, representing an increase of approximately 5%. Overstaffing has been trimmed to allow charges for services to meet expenditures.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. Over the course of the year, the District amended its annual operating budget one time to reflect additional revenue and expenditures associated with noninstructional programs and a bond issue. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on page 47.

School Districts have two levels of budgetary control, the certified budget explained above for all District funds and the unspent (maximum) authorized budget that pertains only to the General Fund of the District. The maximum authorized budget is the total spending authority in the General Fund of the District. The unspent balance is a budgetary concept and does not mean the actual General Fund cash. It is imperative for users of District financial information to make this important distinction. The unspent balance is the amount of spending authority that is carried over into the next fiscal year. The unspent balance is a budgetary carryover and does not represent actual dollars (General Fund cash) or actual financial position (unreserved, undesignated General Fund balance) of the District.

Legal Budgetary Highlights

The District's total actual receipts were approximately \$147,222 more than the total budgeted receipts, a variance of 1%. The most significant change resulted in the District receiving more in various local sources of funds and less state aid than originally anticipated.

Total expenditures were less than budgeted due to excess budget for anticipated expenditures that were subsequently delayed. It is the District's practice to budget expenditures to present a balanced budget, showing revenues as expected and maintaining the beginning cash balance at the end of the year, except for capital projects funds and PPEL funds. The District then manages or controls each fund's spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs area due to the inclusion of commodities in expenditures at year-end without sufficient time to amend the certified budget.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the District had invested \$6.9 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computer, audio-visual equipment, and transportation equipment. (see Figure A-6) This amount represents a net increase of 11.1 percent from last year. More detailed information is available in Note 3 to the financial statements. Depreciation expense for the year was almost \$340,000.

The original cost of the District's capital assets was \$12.86 million. Governmental funds account for \$12.69 million with the remainder of \$0.17 million in the Proprietary, School Nutrition Fund and Day Care Fund.

The largest change in capital asset activity during the year occurred in the construction-in-progress category.

Figure A-6
Capital Assets, net of Depreciation
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Land	\$ 70	70	-0-	-0-	70	70	0.0%
Construction in progress	938	-0-	-0-	-0-	938	-0-	100%
Buildings	5,232	5,440	-0-	-0-	5,232	5,440	-3.8%
Improvements other than buildings	384	431	-0-	-0-	384	431	-10.9%
Furniture and equipment	237	227	35	40	272	267	1.9%
Totals	\$ 6,861	6,168	\$ 35	40	\$ 6,896	6,208	11.1%

Long-Term Debt

At June 20, 2004, the District had \$13,673,513 in outstanding general obligation bond debt and other long-term debt. This represents an increase of approximately 465 percent from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

Bond sales in December 2003 and May 2004 increased general obligation bond debt by \$11,615,000.

In March 2003, the voters of Dallas County approved a Local Option Sales and Services Tax of 1¢ to begin collection January 1, 2004. A bond issue for \$12,500,000 was approved October 21, 2003. Site preparation for new construction for an 8-9 grades building on the campus of the current high school began in June, 2004. Remodeling of other District buildings and air conditioning all District elementary school buildings is planned.

Figure A-7
Outstanding Long-Term Obligations
(expressed in thousands)

	Total School District		Total Change
	2004	2003	2003-2004
General obligation bonds	\$ 13,600	2,380	471.4%
Notes payable	-0-	-0-	-0-
Early retirement	66	39	69.2%
Compensated absences	8	-0-	-0-
Totals	\$ 13,674	2,419	465.3%

Factors Bearing on the District's Future

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

- The State of Iowa dictated a statewide revaluation of agricultural land and the corresponding rollback in residential property values resulted in a loss of approximately \$1 million in bonding capacity for the 8-9 grades building and remodeling projects. The district may need to explore using revenue bonds based on Local Option Sales and Services Taxes to fund those projects, funds that were intended to replace the Physical Plant and Equipment Levy that will expire at the end of fiscal 2005 and intended to be used as a cushion for other infrastructure needs.
- The District experienced declining enrollment for five years before an increase of twenty students in fiscal 2003 that was followed by a loss of students in fiscal 2004. With the completion of converting U.S. Highway 6 from two lanes to four lanes and new housing projects begun in DeSoto and several rural areas, the District expects to increase enrollment steadily. Over the last twenty years, the District has experienced an average increase of just under 2% annually.
- The District will negotiate a new agreement during fiscal 2005 with the Adel-DeSoto-Minburn Education Association. 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 unless expenditures are reduced or property taxes are increased; the instructional support levy could also be increased from 7% to a maximum of 10%.
- In 2001, two important legislative acts were passed into law which affect public school education. The federal government passed No Child Left Behind and Iowa passed the Student Achievement and Teacher Quality Act. The District is continuing to work through the various requirements of these laws. While the intent of this legislation is sound, additional costs and unfunded mandates may develop.

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 Shirley McAdon, District Secretary/Treasurer and Business Manager, Adel-DeSoto-Minburn Community School District, 801 Nile Kinnick Drive South, Adel, Iowa, 50003.

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Basic Financial Statements

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 12,981,655	\$ 143,661	\$ 13,125,316
Receivables:			
Property tax:			
Current year	26,923	-	26,923
Succeeding year	3,509,121	-	3,509,121
Accounts	13,006	-	13,006
Due from other governments	196,722	-	196,722
Inventories	-	7,397	7,397
Capital assets, net of accumulated depreciation (note 3)	6,860,620	35,432	6,896,052
	<hr/>	<hr/>	<hr/>
Total assets	23,588,047	186,490	23,774,537
Liabilities			
Accounts payable	161,792	-	161,792
Salaries and benefits payable	1,123,942	38,134	1,162,076
Due to other governments	8,508	-	8,508
Accrued interest payable	138,423	-	138,423
Deferred revenue:			
Succeeding year property tax	3,509,121	-	3,509,121
Other	-	6,450	6,450
Long-term liabilities (note 4):			
Portion due within one year:			
Bonds payable	400,000	-	400,000
Compensated absences	7,879	-	7,879
Early retirement	65,634	-	65,634
Portion due after one year:			
Bonds payable	13,200,000	-	13,200,000
	<hr/>	<hr/>	<hr/>
Total liabilities	18,615,299	44,584	18,659,883

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 3,977,652	\$ 35,432	\$ 4,013,084
Restricted for:			
Management levy	59,356	-	59,356
Physical plant and equipment levy	153,346	-	153,346
Other special revenue purposes	104,375	-	104,375
Debt service	63,046	-	63,046
Unrestricted	<u>614,973</u>	<u>106,474</u>	<u>721,447</u>
Total net assets	<u>\$ 4,972,748</u>	<u>\$ 141,906</u>	<u>\$ 5,114,654</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

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	\$ 4,763,207	\$ 649,344	\$ 258,057	\$ -
Special instruction	1,759,480	232,422	115,361	-
Other instruction	761,755	214,639	9,998	-
	<u>7,284,442</u>	<u>1,096,405</u>	<u>383,416</u>	<u>-</u>
Support services:				
Student services	276,733	-	8,981	-
Instructional staff services	361,792	-	-	-
Administration services	948,156	-	-	-
Operation and maintenance of plant services	955,755	-	174,971	-
Transportation services	441,075	8,553	-	-
	<u>2,983,511</u>	<u>8,553</u>	<u>183,952</u>	<u>-</u>
Non-instructional programs	<u>5,125</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	70,783	-	-	-
Long-term debt interest and fiscal charges	351,223	-	-	-
AEA flowthrough	392,113	-	392,113	-
Depreciation (unallocated) *	255,147	-	-	-
	<u>1,069,266</u>	<u>-</u>	<u>392,113</u>	<u>-</u>
Total governmental activities	<u>11,342,344</u>	<u>1,104,958</u>	<u>959,481</u>	<u>-</u>
Business-Type Activities:				
Non-instructional programs:				
Food service operations	556,756	376,873	169,561	-
Daycare	52,164	53,184	-	-
	<u>608,920</u>	<u>430,057</u>	<u>169,561</u>	<u>-</u>
Total	<u>\$ 11,951,264</u>	<u>\$ 1,535,015</u>	<u>\$ 1,129,042</u>	<u>\$ -</u>

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ (3,855,806)	\$ -	\$ (3,855,806)
(1,411,697)	-	(1,411,697)
(537,118)	-	(537,118)
<u>(5,804,621)</u>	<u>-</u>	<u>(5,804,621)</u>
(267,752)	-	(267,752)
(361,792)	-	(361,792)
(948,156)	-	(948,156)
(780,784)	-	(780,784)
(432,522)	-	(432,522)
<u>(2,791,006)</u>	<u>-</u>	<u>(2,791,006)</u>
<u>(5,125)</u>	<u>-</u>	<u>(5,125)</u>
(70,783)	-	(70,783)
(351,223)	-	(351,223)
-	-	-
(255,147)	-	(255,147)
<u>(677,153)</u>	<u>-</u>	<u>(677,153)</u>
<u>(9,277,905)</u>	<u>-</u>	<u>(9,277,905)</u>
-	(10,322)	(10,322)
-	1,020	1,020
<u>-</u>	<u>(9,302)</u>	<u>(9,302)</u>
<u>(9,277,905)</u>	<u>(9,302)</u>	<u>(9,287,207)</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Functions/Programs

General Revenues:

Property tax levied for:

General purposes

Debt service

Capital outlay

Local option sales and services tax and mobile home taxes

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 expense of the various programs.

See notes to financial statements.

Net (Expense) Revenue
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
\$ 2,980,578	\$ -	\$ 2,980,578
457,665	-	457,665
404,365	-	404,365
274,009	-	274,009
5,171,646	-	5,171,646
28,917	516	29,433
103,079	-	103,079
<hr/>		
9,420,259	516	9,420,775
<hr/>		
142,354	(8,786)	133,568
4,830,394	150,692	4,981,086
<hr/>		
<u>\$ 4,972,748</u>	<u>\$ 141,906</u>	<u>\$ 5,114,654</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and pooled investments	\$ 1,649,484	\$ 10,751,603	\$ 580,568	\$ 12,981,655
Receivables:				
Property tax:				
Current year	20,835	-	6,088	26,923
Succeeding year	2,709,987	-	799,134	3,509,121
Accounts	12,986	-	20	13,006
Due from other governments	106,158	88,999	1,565	196,722
	<hr/>			
Total assets	<u>\$ 4,499,450</u>	<u>\$ 10,840,602</u>	<u>\$ 1,387,375</u>	<u>\$ 16,727,427</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 35,484	\$ 123,570	\$ 2,738	\$ 161,792
Salaries and benefits payable	1,122,619	-	1,323	1,123,942
Due to other governments	8,508	-	-	8,508
Deferred revenue:				
Succeeding year property tax	2,709,987	-	799,134	3,509,121
Compensated absences	7,879	-	-	7,879
Total liabilities	<u>3,884,477</u>	<u>123,570</u>	<u>803,195</u>	<u>4,811,242</u>
Fund balance:				
Reserved for:				
State grants	646	-	-	646
Debt service	-	-	201,469	201,469
Unreserved:				
Designated	66,527	-	-	66,527
Undesignated	547,800	10,717,032	382,711	11,647,543
Total fund balances	<u>614,973</u>	<u>10,717,032</u>	<u>584,180</u>	<u>11,916,185</u>
	<hr/>			
Total liabilities and fund balances	<u>\$ 4,499,450</u>	<u>\$ 10,840,602</u>	<u>\$ 1,387,375</u>	<u>\$ 16,727,427</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 June 30, 2004

Total fund balances of governmental funds	\$ 11,916,185
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	6,860,620
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.	(138,423)
Long-term liabilities, including bonds payable and early retirement, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(13,665,634)</u>
Net assets of governmental activities	<u>\$ 4,972,748</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	General	Capital Projects	Nonmajor Governmental Funds	Total
Revenues:				
Local sources:				
Local tax	\$ 2,987,783	\$ 261,959	\$ 864,070	\$ 4,113,812
Tuition	804,321	-	-	804,321
Other	168,159	6,537	225,970	400,666
State sources	5,952,997	-	624	5,953,621
Federal sources	172,597	-	-	172,597
Total revenues	<u>10,085,857</u>	<u>268,496</u>	<u>1,090,664</u>	<u>11,445,017</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	4,669,213	-	57,971	4,727,184
Special instruction	1,755,910	-	-	1,755,910
Other instruction	572,401	-	186,380	758,781
	<u>6,997,524</u>	<u>-</u>	<u>244,351</u>	<u>7,241,875</u>
Support services:				
Student services	276,146	-	587	276,733
Instructional staff services	361,130	-	662	361,792
Administration services	944,760	158,209	2,065	1,105,034
Operation and maintenance of plant services	883,637	-	89,129	972,766
Transportation services	371,212	-	80,277	451,489
	<u>2,836,885</u>	<u>158,209</u>	<u>172,720</u>	<u>3,167,814</u>
Non-instructional programs	-	-	5,125	5,125
Other expenditures:				
Facilities acquisition	-	1,008,255	159	1,008,414
Long term debt:				
Principal	-	-	395,000	395,000
Interest and fiscal charges	-	-	65,134	65,134
AEA flowthrough	392,113	-	-	392,113
	<u>392,113</u>	<u>1,008,255</u>	<u>460,293</u>	<u>1,860,661</u>
Total expenditures	<u>10,226,522</u>	<u>1,166,464</u>	<u>882,489</u>	<u>12,275,475</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(140,665)</u>	<u>(897,968)</u>	<u>208,175</u>	<u>(830,458)</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Other financing sources (uses):				
Sale of equipment	\$ 2,000	\$ -	\$ -	\$ 2,000
Compensation for loss of fixed assets	13,180	-	24,501	37,681
General obligation bonds issued	-	11,615,000	-	11,615,000
Total other financing sources (uses)	<u>15,180</u>	<u>11,615,000</u>	<u>24,501</u>	<u>11,654,681</u>
Net change in fund balances	(125,485)	10,717,032	232,676	10,824,223
Fund balances beginning of year	<u>740,458</u>	-	351,504	<u>1,091,962</u>
Fund balances end of year	<u>\$ 614,973</u>	<u>\$ 10,717,032</u>	<u>\$ 584,180</u>	<u>\$ 11,916,185</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN 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, 2004

Net change in fund balances - total governmental funds \$ 10,824,223

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the statement of net assets and are allocated over their estimated useful lives as depreciation expense in the statement of activities. The amounts of capital outlays and depreciation expense in the year are as follows:

	Capital outlays	\$ 1,024,024	
	Depreciation expense	<u>(331,659)</u>	692,365

Repayment of long-term liabilities is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets. 395,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. (127,880)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (26,354)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds but increase long-term liabilities in the statement of net assets and do not affect the statement of activities. (11,615,000)

Change in net assets of governmental activities \$ 142,354

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2004

	<u>School Nutrition</u>	<u>Non-Major Daycare</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 122,363	\$ 21,298	\$ 143,661
Inventories	7,397	-	7,397
Capital assets, net of accumulated depreciation	27,372	8,060	35,432
Total assets	<u>157,132</u>	<u>29,358</u>	<u>186,490</u>
Liabilities			
Salaries and benefits payable	34,075	4,059	38,134
Deferred revenue	6,450	-	6,450
Total liabilities	<u>40,525</u>	<u>4,059</u>	<u>44,584</u>
Net Assets			
Invested in capital assets, net of related debt	27,372	8,060	35,432
Unrestricted	89,235	17,239	106,474
Total net assets	<u>\$ 116,607</u>	<u>\$ 25,299</u>	<u>\$ 141,906</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	<u>School Nutrition</u>	<u>Non-Major Daycare</u>	<u>Total</u>
Operating revenues:			
Local sources:			
Charges for services	\$ 376,873	\$ 53,184	\$ 430,057
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	206,451	37,672	244,123
Benefits	46,561	7,339	53,900
Purchased services	14,465	3,750	18,215
Supplies	282,370	2,174	284,544
Depreciation	6,909	1,229	8,138
	<u>556,756</u>	<u>52,164</u>	<u>608,920</u>
Operating income (loss)	<u>(179,883)</u>	<u>1,020</u>	<u>(178,863)</u>
Non-operating revenues:			
Interest on investments	397	119	516
State sources	6,942	-	6,942
Federal sources	162,619	-	162,619
Total non-operating revenues	<u>169,958</u>	<u>119</u>	<u>170,077</u>
Change in net assets	(9,925)	1,139	(8,786)
Net assets beginning of year	<u>126,532</u>	<u>24,160</u>	<u>150,692</u>
Net assets end of year	<u>\$ 116,607</u>	<u>\$ 25,299</u>	<u>\$ 141,906</u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	<u>School Nutrition</u>	<u>Non-Major Daycare</u>	<u>Total</u>
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 376,873	\$ -	\$ 376,873
Cash received from daycare services	-	53,184	53,184
Cash payments to employees for services	(250,749)	(47,615)	(298,364)
Cash payments to suppliers for goods or services	(264,193)	(5,924)	(270,117)
Net cash used in operating activities	<u>(138,069)</u>	<u>(355)</u>	<u>(138,424)</u>
Cash flows from non-capital financing activities:			
State grants received	6,942	-	6,942
Federal grants received	131,120	-	131,120
Net cash provided by non-capital financing activities	<u>138,062</u>	<u>-</u>	<u>138,062</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(3,512)</u>	<u>-</u>	<u>(3,512)</u>
Cash flows from investing activities:			
Interest on investments	<u>397</u>	<u>119</u>	<u>516</u>
Net decrease in cash and cash equivalents	(3,122)	(236)	(3,358)
Cash and cash equivalents beginning of year	<u>125,485</u>	<u>21,534</u>	<u>147,019</u>
Cash and cash equivalents end of year	<u>\$ 122,363</u>	<u>\$ 21,298</u>	<u>\$ 143,661</u>
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	\$ (179,883)	\$ 1,020	\$ (178,863)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	6,909	1,229	8,138
Commodities used	31,499	-	31,499
Decrease in inventories	1,319	-	1,319
Increase (decrease) in salaries and benefits payable	2,263	(2,604)	(341)
(Decrease) in deferred revenue	(176)	-	(176)
Net cash used in operating activities	<u>\$ (138,069)</u>	<u>\$ (355)</u>	<u>\$ (138,424)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$31,499 of federal commodities.

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 June 30, 2004

	Private Purpose Trust	
	<u>Scholarship</u>	<u>Agency</u>
Assets:		
Cash and pooled investments	\$ <u>160</u>	\$ <u>425</u>
Liabilities:		
Accounts payable	\$ <u>-</u>	\$ <u>425</u>
Net assets:		
Reserved for scholarships	\$ <u><u>160</u></u>	\$ <u><u>-</u></u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 Year Ended June 30, 2004

	<u>Private Purpose Trust</u> <u>Scholarship</u>
Additions:	
Local sources:	
Gifts and contributions	\$ <u>3,150</u>
Deductions:	
Support services:	
Scholarships awarded	<u>3,250</u>
Change in net assets	(100)
Net assets beginning of year	<u>260</u>
Net assets end of year	\$ <u><u>160</u></u>

See notes to financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

Adel-DeSoto-Minburn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Adel, DeSoto and Minburn, Iowa, and the predominate agricultural territory in portions of Dallas and Madison 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, Adel-DeSoto-Minburn 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. Adel-DeSoto-Minburn Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Dallas County Assessor's Conference Board.

B. Basis of Presentation

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

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

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

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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

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

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

The District reports the following major governmental funds:

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

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary fund:

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

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

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

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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Current year property tax receivable represents unpaid taxes from the current year. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

The property tax revenue recognized in these funds becomes due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

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

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

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

Asset Class	Amount
Land	\$ -
Buildings	50,000
Improvements other than buildings	30,000
Furniture and equipment:	
School Nutrition Fund Equipment	500
Vehicles	5,000
Other furniture and equipment	3,500

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

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

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

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

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

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Fund Equity (continued)

Compensated Absences – District employees accumulate a limited amount of earned but unused vacation and sick leave for subsequent use. Employees are not paid for unused sick leave benefits upon termination, death or retirement. Classified employees who have worked twelve months qualify for paid vacation. A liability is recorded when incurred in the District-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

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

E. Budgets and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

Note 2. Cash and Pooled Investments

The District's deposits in banks at June 30, 2004 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.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 2. Cash and Pooled Investments (continued)

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$8,136,000 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 70,050	\$ -	\$ -	\$ 70,050
Construction in progress	-	937,631	-	937,631
Total capital assets not being depreciated	<u>70,050</u>	<u>937,631</u>	<u>-</u>	<u>1,007,681</u>
Capital assets being depreciated:				
Buildings	9,486,021	-	-	9,486,021
Improvements other than buildings	930,542	-	-	930,542
Furniture and equipment	1,306,892	86,393	130,420	1,262,865
Total capital assets being depreciated	<u>11,723,455</u>	<u>86,393</u>	<u>130,420</u>	<u>11,679,428</u>
Less accumulated depreciation for:				
Buildings	4,045,767	208,620	-	4,254,387
Improvements other than buildings	499,561	46,527	-	546,088
Furniture and equipment	1,079,922	76,512	130,420	1,026,014
Total accumulated depreciation	<u>5,625,250</u>	<u>331,659</u>	<u>130,420</u>	<u>5,826,489</u>
Total capital assets being depreciated, net	<u>6,098,205</u>	<u>(245,266)</u>	<u>-</u>	<u>5,852,939</u>
Governmental activities capital assets, net	<u>\$ 6,168,255</u>	<u>\$ 692,365</u>	<u>\$ -</u>	<u>\$ 6,860,620</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 3. Capital Assets (continued)

	<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>
Business-type activities:				
Furniture and equipment	\$ 166,937	\$ 3,512	\$ -	\$ 170,449
Less accumulated depreciation	<u>126,879</u>	<u>8,138</u>	<u>-</u>	<u>135,017</u>
Business-type activities capital assets, net	<u><u>\$ 40,058</u></u>	<u><u>\$ (4,626)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 35,432</u></u>

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

Governmental activities:

Instruction:

Regular	\$ 9,669
Special	3,570
Other	2,974

Support services:

Administration	1,331
Operation and maintenance of plant services	6,763
Transportation	<u>52,205</u>
	76,512

Unallocated depreciation 255,147

Total governmental activities depreciation expense \$ 331,659

Business-type activities:

Food service operations	\$ 6,909
Daycare	<u>1,229</u>

Total business-type activities \$ 8,138

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	General Obligation Bonds	Compensated Absences	Early Retirement	Total
Balance beginning of year	\$ 2,380,000	\$ -	\$ 39,280	\$ 2,419,280
Additions	11,615,000	7,879	65,634	11,688,513
Reductions	395,000	-	39,280	434,280
Balance end of year	\$ 13,600,000	\$ 7,879	\$ 65,634	\$ 13,673,513
Due within one year	\$ 400,000	\$ 7,879	\$ 65,634	\$ 473,513

Early Retirement

The District offers a voluntary early retirement plan to its certified and classified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to 44% of the employee's year of application salary. Early retirement benefits paid during the year ended June 30, 2004, totaled \$39,280. The cost of early retirement payments is recorded as a liability of the Special Revenue, Management Fund in the fund financial statements and as a liability of the Governmental Activities in the District-wide financial statements.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Long-Term Liabilities (continued)

Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of January 1990			Bond Issue of October 2002		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2005	6.80 %	\$ 25,000	\$ 9,860	1.875 %	\$ 375,000	\$ 45,884
2006	6.80	25,000	8,160	2.250	385,000	38,852
2007	6.80	30,000	6,460	2.550	390,000	30,190
2008	6.80	35,000	4,420	2.850	400,000	20,245
2009	6.80	30,000	2,040	3.050	290,000	8,845
2010	-	-	-	-	-	-
2011	-	-	-	-	-	-
2012	-	-	-	-	-	-
2013	-	-	-	-	-	-
2014	-	-	-	-	-	-
2015	-	-	-	-	-	-
2016	-	-	-	-	-	-
2017	-	-	-	-	-	-
2018	-	-	-	-	-	-
2019	-	-	-	-	-	-
2020	-	-	-	-	-	-
2021	-	-	-	-	-	-
2022	-	-	-	-	-	-
2023	-	-	-	-	-	-
2024	-	-	-	-	-	-
		\$ 145,000	\$ 30,940		\$ 1,840,000	\$ 144,016

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	Bond Issue of December 2003			Bond Issue of May 2004		
	Interest Rate	Principal	Interest	Interest Rate	Principal	Interest
2005	- %	\$ -	\$ 187,018	- %	\$ -	\$ 312,758
2006	2.40	65,000	132,012	-	-	312,758
2007	2.50	70,000	130,452	-	-	312,758
2008	2.75	75,000	128,703	-	-	312,758
2009	3.00	160,000	126,640	-	-	312,757
2010	3.25	170,000	121,840	3.00	410,000	312,757
2011	3.50	170,000	116,315	3.00	430,000	300,457
2012	4.00	180,000	110,365	3.25	435,000	287,557
2013	4.00	185,000	103,165	3.30	450,000	273,420
2014	3.65	190,000	95,765	3.40	470,000	258,570
2015	3.80	200,000	88,830	3.55	480,000	242,590
2016	3.90	205,000	81,230	3.65	500,000	225,550
2017	4.00	215,000	73,235	3.80	520,000	207,300
2018	4.10	225,000	64,635	3.90	535,000	187,540
2019	4.15	235,000	55,410	4.00	560,000	166,675
2020	4.25	250,000	45,658	4.10	575,000	144,275
2021	4.30	255,000	35,032	4.15	600,000	120,700
2022	4.35	265,000	24,068	4.20	625,000	95,800
2023	4.40	285,000	12,540	4.25	650,000	69,550
2024	-	-	-	4.30	975,000	41,925
		<u>\$ 3,400,000</u>	<u>\$ 1,732,913</u>		<u>\$ 8,215,000</u>	<u>\$ 4,498,455</u>

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 4. Long-Term Liabilities (continued)

Bonds Payable (continued)

Year Ending June 30,	Total	
	Principal	Interest
2005	\$ 400,000	\$ 555,520
2006	475,000	491,782
2007	490,000	479,860
2008	510,000	466,126
2009	480,000	450,282
2010	580,000	434,597
2011	600,000	416,772
2012	615,000	397,922
2013	635,000	376,585
2014	660,000	354,335
2015	680,000	331,420
2016	705,000	306,780
2017	735,000	280,535
2018	760,000	252,175
2019	795,000	222,085
2020	825,000	189,933
2021	855,000	155,732
2022	890,000	119,868
2023	935,000	82,090
2024	975,000	41,925
	<u>\$ 13,600,000</u>	<u>\$ 6,406,324</u>

Note 5. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The District's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$400,772, \$382,700, and \$372,955 respectively, equal to the required contributions for each year.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 6. Risk Management

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

Note 7. 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 \$392,113 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 8. Construction Commitments

The District entered into a contract totaling \$806,600 for site preparation work. At June 30, 2004 no payments had been made on the contract. The amount of the contract will be paid as work on the project progresses.

Note 9. Contingencies

There are currently two personal inquiry lawsuits pending against the District. The outcome of the suits cannot be determined at this time. However, it is believed that insurance coverage will be adequate to cover damage, if any, that may be awarded.

Required Supplementary Information

ADEL-DESOTO-MINBURN 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, 2004

	Governmental Funds - Actual	Proprietary Fund - Actual	Total Actual	Budgeted Amounts		Final to Actual Variance
				Original	Final	
RECEIPTS:						
Local sources	\$ 5,233,520	\$ 430,398	\$ 5,663,918	\$ 5,405,911	\$ 5,405,911	\$ 258,007
State sources	6,012,712	6,942	6,019,654	6,144,411	6,144,411	(124,757)
Federal sources	112,703	162,619	275,322	261,350	261,350	13,972
Total receipts	11,358,935	599,959	11,958,894	11,811,672	11,811,672	147,222
DISBURSEMENTS:						
Instruction	7,145,642	-	7,145,642	7,131,711	7,400,000	254,358
Support services	2,991,850	-	2,991,850	3,069,050	3,200,000	208,150
Non-instructional programs	5,125	603,317	608,442	563,090	600,000	(8,442)
Other expenditures	1,897,667	-	1,897,667	1,073,558	2,000,000	102,333
Total disbursements	12,040,284	603,317	12,643,601	11,837,409	13,200,000	556,399
Excess (deficiency) of receipts over (under) disbursements	(681,349)	(3,358)	(684,707)	(25,737)	(1,388,328)	703,621
Other financing sources, net	11,652,639	-	11,652,639	-	-	11,652,639
Excess (deficiency) of receipts and other financing sources over (under) disbursements	10,971,290	(3,358)	10,967,932	(25,737)	(1,388,328)	12,356,260
Balance beginning of year	2,010,365	147,019	2,157,384	2,198,811	2,198,811	(41,427)
Balance end of year	<u>\$ 12,981,655</u>	<u>\$ 143,661</u>	<u>\$ 13,125,316</u>	<u>\$ 2,173,074</u>	<u>\$ 810,483</u>	<u>\$ 12,314,833</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation
 Required Supplementary Information
 Year Ended June 30, 2004

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjust- ments	Accrual Basis
Revenues	\$ 11,358,935	\$ 86,082	\$ 11,445,017
Expenditures	12,040,284	235,191	12,275,475
Net	(681,349)	(149,109)	(830,458)
Other financing sources (uses)	11,652,639	2,042	11,654,681
Beginning fund balances	2,010,365	(918,403)	1,091,962
Ending fund balances	<u>\$ 12,981,655</u>	<u>\$ (1,065,470)</u>	<u>\$ 11,916,185</u>
	Proprietary Fund		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjust- ments	Basis
Revenues	\$ 599,959	\$ 175	\$ 600,134
Expenses	603,317	5,603	608,920
Net	(3,358)	(5,428)	(8,786)
Beginning net assets	147,019	3,673	150,692
Ending net assets	<u>\$ 143,661</u>	<u>\$ (1,755)</u>	<u>\$ 141,906</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2004

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$1,362,591.

During the year ended June 30, 2004, disbursements in the non-instructional programs functional area exceeded the amount budgeted.

Other Supplementary Information

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Special Revenue				
	Management Levy	Student Activity	Physical Plant and Equipment	Debt Service	Total
Assets					
Cash and pooled investments	\$ 123,978	\$ 106,851	\$ 151,467	\$ 198,272	\$ 580,568
Receivables:					
Property tax:					
Current year	1,012	-	1,879	3,197	6,088
Succeeding year	159,831	-	225,066	414,237	799,134
Accounts	-	20	-	-	20
Due from other governments	-	1,565	-	-	1,565
Total assets	<u>\$ 284,821</u>	<u>\$ 108,436</u>	<u>\$ 378,412</u>	<u>\$ 615,706</u>	<u>\$ 1,387,375</u>
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ -	\$ 2,738	\$ -	\$ -	\$ 2,738
Salaries and benefits payable	-	1,323	-	-	1,323
Deferred revenue:					
Succeeding year property tax	159,831	-	225,066	414,237	799,134
Total liabilities	<u>159,831</u>	<u>4,061</u>	<u>225,066</u>	<u>414,237</u>	<u>803,195</u>
Fund equity:					
Fund balances:					
Reserved for:					
Debt service	-	-	-	201,469	201,469
Unreserved:					
Undesignated	124,990	104,375	153,346	-	382,711
Total fund equity	<u>124,990</u>	<u>104,375</u>	<u>153,346</u>	<u>201,469</u>	<u>584,180</u>
Total liabilities and fund equity	<u>\$ 284,821</u>	<u>\$ 108,436</u>	<u>\$ 378,412</u>	<u>\$ 615,706</u>	<u>\$ 1,387,375</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	Special Revenue				Total
	Management Levy	Student Activity	Physical Plant and Equipment Levy	Debt Service	
Revenues:					
Local sources:					
Local tax	\$ 137,598	\$ -	\$ 267,694	\$ 458,778	\$ 864,070
Other	711	215,265	114	9,880	225,970
State sources	101	-	191	332	624
Total revenues	<u>138,410</u>	<u>215,265</u>	<u>267,999</u>	<u>468,990</u>	<u>1,090,664</u>
Expenditures:					
Current:					
Instruction:					
Regular instruction	57,971	-	-	-	57,971
Other instruction	-	186,380	-	-	186,380
Support services:					
Student services	587	-	-	-	587
Instructional staff services	662	-	-	-	662
Administration services	1,893	-	172	-	2,065
Operation and maintenance of plant services	61,802	-	27,327	-	89,129
Transportation services	17,658	-	62,619	-	80,277
Non instructional programs	5,125	-	-	-	5,125
Other expenditures:					
Facilities acquisition	159	-	-	-	159
Long term debt:					
Principal	-	-	-	395,000	395,000
Interest and fiscal charges	-	-	-	65,134	65,134
Total expenditures	<u>145,857</u>	<u>186,380</u>	<u>90,118</u>	<u>460,134</u>	<u>882,489</u>
Excess (deficiency) of revenues over (under) expenditures	(7,447)	28,885	177,881	8,856	208,175
Other financing sources (uses)					
Compensation for loss of fixed assets	-	-	24,501	-	24,501

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2004

	<u>Special Revenue</u>				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Debt Service</u>	
Excess (deficiency) of revenues over (under) expenditures and other financing uses	\$ (7,447)	\$ 28,885	\$ 202,382	\$ 8,856	\$ 232,676
Fund balances beginning of year	<u>132,437</u>	<u>75,490</u>	<u>(49,036)</u>	<u>192,613</u>	<u>351,504</u>
Fund balances end of year	<u>\$ 124,990</u>	<u>\$ 104,375</u>	<u>\$ 153,346</u>	<u>\$ 201,469</u>	<u>\$ 584,180</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Interest	\$ 9,422	\$ 625	\$ 1,000	\$ 9,047
High School Cross Country	17,611	1,948	19,559	-
High School Golf	1,652	11,173	7,741	5,084
High School Weight	-	252	252	-
High School Boys Basketball	3,702	8,217	9,464	2,455
High School Football	(9)	22,833	23,412	(588)
High School Boys Soccer	269	2,124	2,343	50
High School Baseball	(413)	7,165	7,769	(1,017)
High School Boys Track	181	12,205	12,027	359
High School Wrestling	1,599	6,243	4,882	2,960
High School Girls Basketball	99	6,151	6,057	193
High School Volleyball	123	6,317	6,425	15
High School Girls Soccer	1,515	11,533	11,269	1,779
High School Softball	2,094	10,652	11,210	1,536
High School Girls Track	1,054	6,696	6,415	1,335
High School Girls Swimming	-	38,619	-	38,619
High School Button Club	393	-	-	393
High School Class of 2003	975	-	-	975
High School Class of 2002	1,753	-	1,753	-
High School Class of 2004	352	-	105	247
High School Class of 2005	-	7,600	5,503	2,097
High School Special Events	1,525	36,923	34,872	3,576
High School Drama	11,570	1,987	6,312	7,245
High School Spring Play	1,226	3,096	3,140	1,182
High School French Club	966	-	-	966
High School National Honor Society	-	366	197	169
High School Danz Team	3,839	4,028	5,456	2,411
High School SADD	2,096	-	222	1,874
High School Thespian Club	811	547	822	536
High School Student Council	284	2,181	2,287	178
High School TSA	(57)	1,092	976	59
High School Yearbook	9,762	19,268	15,761	13,269
High School Hall of Fame	-	2,000	2,000	-
High School Athletic Resale	(8,381)	8,381	-	-
High School Cheerleading	3,903	6,463	8,565	1,801
Middle School Boys Basketball	-	1,669	1,669	-
Middle School Football	-	4,173	4,173	-
Middle School Baseball	-	4,170	4,530	(360)
Middle School Boys Track	(25)	1,207	1,142	40
Middle School Wrestling	-	1,101	1,101	-
Middle School Girls Basketball	-	1,647	1,647	-

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
Year Ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Middle School Volleyball	\$ -	\$ 1,181	\$ 1,181	\$ -
Middle School Softball	-	1,070	1,070	-
Middle School Girls Track	-	1,183	1,183	-
Middle School Student Council	5,230	2,091	2,197	5,124
DeSoto Student Council	369	397	-	766
Intrafund Transfers	-	(51,309)	(51,309)	-
 Total	 \$ 75,490	 \$ 215,265	 \$ 186,380	 \$ 104,375

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUND
 Year Ended June 30, 2004

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance End of Year</u>
Assets				
Cash	\$ <u>1,000</u>	\$ <u>35,748</u>	\$ <u>36,323</u>	\$ <u>425</u>
Liabilities				
Accounts payable	\$ <u>1,000</u>	\$ <u>35,748</u>	\$ <u>36,323</u>	\$ <u>425</u>

See accompanying independent auditor's report.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION

ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS

	Modified Accrual Basis Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 4,113,812	\$ 3,699,326	\$ 3,457,993	\$ 3,379,623
Tuition	804,321	774,936	646,584	650,745
Other	400,666	407,345	363,843	436,725
State sources	5,953,621	5,770,463	5,623,674	5,578,803
Federal sources	172,597	194,224	195,284	181,506
	<hr/>			
Total revenues	\$ <u>11,445,017</u>	\$ <u>10,846,294</u>	\$ <u>10,287,378</u>	\$ <u>10,227,402</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,727,184	\$ 4,581,224	\$ 4,426,599	\$ 4,275,993
Special instruction	1,755,910	1,579,670	1,382,340	1,229,799
Other instruction	758,781	743,090	740,232	722,676
Support services:				
Student services	276,733	287,439	306,017	254,163
Instructional staff services	361,792	336,600	330,395	350,904
Administration services	1,105,034	947,754	897,311	874,457
Operation and maintenance of plant services	972,766	931,055	813,178	866,817
Transportation services	451,489	424,600	394,505	412,500
Non-instructional programs	5,125	4,825	3,826	3,621
Other expenditures:				
Facilities acquisition	1,008,414	194,836	307,765	297,033
Long-term debt:				
Principal	395,000	355,000	325,000	365,000
Interest and fiscal charges	65,134	135,548	147,173	162,610
AEA flowthrough	392,113	402,374	399,709	404,143
	<hr/>			
Total expenditures	\$ <u>12,275,475</u>	\$ <u>10,924,015</u>	\$ <u>10,474,050</u>	\$ <u>10,219,716</u>

See accompanying independent auditor's report.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education of
Adel-DeSoto-Minburn Community School District:

We have audited the financial statements of Adel-DeSoto-Minburn Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about Adel-DeSoto-Minburn Community School District's operations for the year ended June 30, 2004 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. Prior year statutory comments have been resolved except for item II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Adel-DeSoto-Minburn 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 assurance 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 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 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 I-A-04 and I-B-04 are material weaknesses. Prior year reportable conditions have been resolved except for items I-A-04 and I-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Adel-DeSoto-Minburn Community School District and other parties to whom Adel-DeSoto-Minburn 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 Adel-DeSoto-Minburn Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Oskaloosa, Iowa
October 12, 2004

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

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

Instances of Non-Compliance:

No matters were reported.

Reportable Conditions:

I-A-04 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, 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 to obtain the maximum internal control possible under the circumstances.

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

Conclusion – Response accepted.

I-B-04 Signature Stamp – One stamp bearing the signatures of the Board President and Board Secretary is used to sign checks. Persons writing the checks also use the stamp to sign the checks. This procedure negates the internal control procedure established by requiring two signatures on a check.

Recommendation – Employees writing checks should not have access to the stamp used to sign checks. The Board could eliminate the use of the stamp by designating a person other than the Board President to cosign checks.

Response – The Board has reviewed the use of the signature stamp and believes its use allows the office to operate more efficiently.

Conclusion – Response accepted.

I-C-04 Athletic Gate Admissions – Athletic gate admissions and change box were not reconciled with prenumbered tickets.

Recommendation – The District should establish reconciliation procedures for athletic gate admissions. The reconciliation should include the issuance of prenumbered tickets and the reconciling of the change box and admissions to the number of tickets issued.

Response – Our facilities do not lend themselves to such a procedure. However, we will review our present procedures and consider the recommended reconciliation procedures.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements (continued):

Reportable Conditions (continued):

I-C-04 Athletic Gate Admissions (continued)

Conclusion – Response acknowledged. The District should establish procedures to permit the reconciliation of gate receipts to gate admission reports of tickets sold.

I-D-04 Support for Disbursements – Of the disbursements we tested, we found 3 disbursements that were made without the support of an invoice or other document.

Recommendation – All disbursements should be supported by an approved invoice or some other request for payment before the claim is presented to the Board for audit and approval.

Response – We will watch more closely in the future, to assure all claims are supported by an invoice or similar document.

Conclusion – Response accepted.

I-E-04 Authorized Check Signers – One bank reported that a former Board President rather than the current Board President was on record as an authorized check signer even though the District had previously supplied the bank with an updated signature card.

Recommendation – The District should have a new signature card signed and filed with the bank.

Response – We will have another signature card signed.

Conclusion – Response accepted.

ADEL-DESOTO-MINBURN COMMUNITY SCHOOL DISTRICT

SCHEDULE OF FINDINGS

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories – Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget – Disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the non-instructional programs function.
- Recommendation – The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – We will amend our budget before disbursements exceed the budget.
- Conclusion – Response accepted.
- II-C-04 Questionable Expenditures – No expenditures were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-D-04 Travel Expense – No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions – We noted no business transactions between the District and District officials or employees.
- II-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- II-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- II-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District’s investment policy were noted.
- II-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

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