

ALBURNETT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Alburnett Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Duane Bolton	President	2004
Kevin Loux	Vice President	2003
Shelly Baier	Board Member	2003
Gregg Smith	Board Member	2004
Robert Walters	Board Member	2005
Board of Education (After September 2003 Election)		
Duane Bolton	President	2004
Gregg Smith	Vice President	2004
Dee Lillie Luedtke	Board Member	2006
Barry Woodson	Board Member	2006
Robert Walters	Board Member	2005
School Officials		
Angel-Dianne Melendez	Superintendent	2004
Rhonda Lange	District Secretary/Treasurer and Business Manager	2004
Hines, Pence, Jackson, Day and Powers	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Alburnett 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 the Alburnett Community School District 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 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 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 the Alburnett Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Alburnett Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2004 on our consideration of the Alburnett Community School District's internal control over financial

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reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 34 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Alburnett Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Alburnett 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.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$4,411,113 in fiscal 2003 to \$4,320,989 in fiscal 2004, while General Fund expenditures increased from \$4,535,695 in fiscal 2003 to \$4,838,458 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$997,425 in fiscal 2003 to a balance of \$482,346 in fiscal 2004, a 51.6% decrease from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2004.
- The increase in expenditures was due primarily to the following:
 - The addition of a 7-12 at-risk teacher and a talented and gifted teacher to the instructional staff in order to be in compliance with all programs as mandated by Iowa Code.
 - Large expenditures such as the replacement of two roofs, the purchase of two school buses, a tractor, a used pickup and a wrestling mat hoist.
 - The continuing increase in costs of new textbooks, which increased \$64,829 during the year.
 - The General fund now supports all the purchasing of hardware and software due to the elimination of technology funding by the legislature. During the year, the District had to replace its computer server and the entire student computer lab in the Business Education Department.
 - The copy machine was replaced at a lower cost per copy agreement for five years, which will generate significant savings for the District.
 - General maintenance and upkeep of the buildings included the addition of windows to the Science classrooms, the unexpected replacement of a main sewer line from the 1917 building, and the renovation cost of the portable buildings, which was mostly covered by the \$50,000 Fire and Safety Grant.
- One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was more than the District's General Funds increase in revenues for fiscal 2004.

-
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$15,334 in fiscal year 2003 to \$8,241 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Alburnett Community School District Annual Financial Report

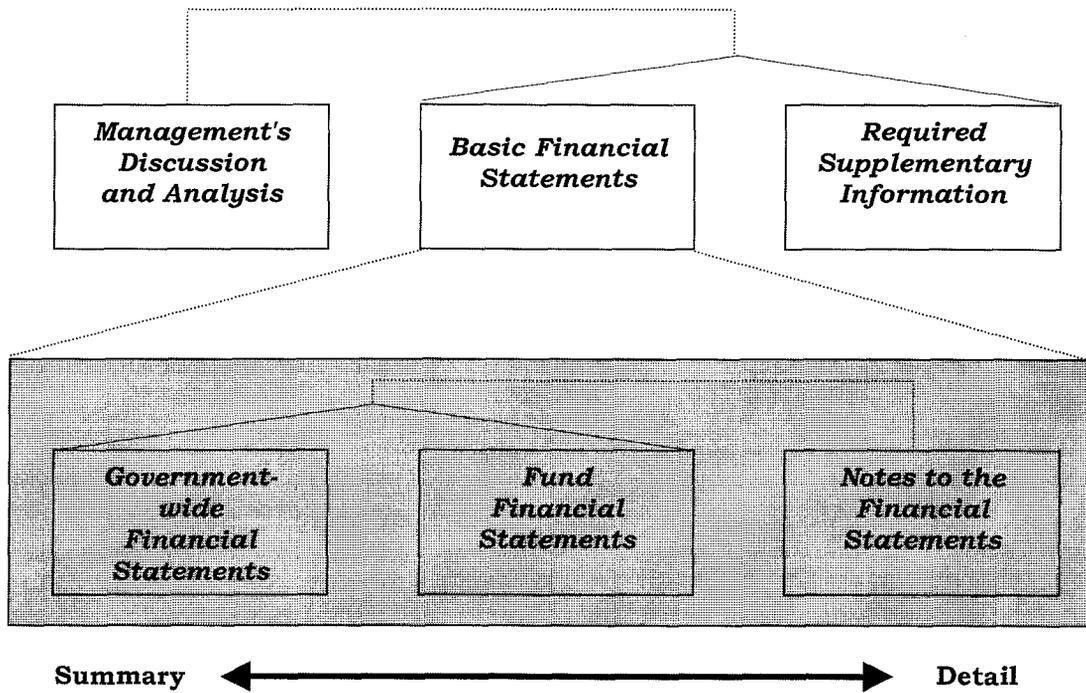


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the

same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,820,430	15,383	2,835,813
Capital assets	1,321,070	16,450	1,337,520
Total assets	<u>4,141,500</u>	<u>31,833</u>	<u>4,173,333</u>
Long-term obligations	8,000	0	8,000
Other liabilities	2,323,896	18,448	2,342,344
Total liabilities	<u>2,331,896</u>	<u>18,448</u>	<u>2,350,344</u>
Net assets:			
Invested in capital assets, net of related debt	1,321,070	16,450	1,337,520
Restricted	305,734	0	305,734
Unrestricted	182,800	(3,065)	179,735
Total net assets	<u>\$ 1,809,604</u>	<u>13,385</u>	<u>1,822,989</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 781,448	127,551	908,999
Operating grants and contributions and restricted interest	391,574	61,535	453,109
Capital grants, contributions and restricted interest restricted interest	50,000	0	50,000
General revenues:			
Local tax	1,474,010	0	1,474,010
Unrestricted state grants	2,102,458	0	2,102,458
Other	12,643	58	12,701
Total revenues	4,812,133	189,144	5,001,277
Program expenses:			
Governmental activities:			
Instructional	3,402,255	0	3,402,255
Support services	1,502,241	0	1,502,241
Non-instructional programs	0	214,778	214,778
Other expenses	201,903	0	201,903
Total expenses	5,106,399	214,778	5,321,177
Changes in net assets	\$ (294,266)	(25,634)	(319,900)

Property tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 96% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,812,133 and expenses were \$5,106,399.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,402,255	2,362,491
Support services	1,502,241	1,491,923
Other expenses	201,903	28,963
Totals	\$ 5,106,399	3,883,377

- The cost financed by users of the District's programs was \$781,448.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$441,574.
- The net cost of governmental activities was financed with \$1,474,010 in local tax, \$2,102,458 in unrestricted state grants, and \$10,253 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$189,144 and expenses were \$214,778. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$496,534, below last year's ending fund balances of a \$926,297. However, the primary reason for the decrease was the increased expenses in the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Reduction in tax levy during the year in tax and grants resulted in a decrease in revenues. The District's increase in General Fund expenditures ensured a decrease in the District's financial position.
- The Activity Fund balance increased from \$137,697 in 2003, to \$150,958 in 2004, due to the decrease in expenditures.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from a deficit \$234,115 to a deficit \$123,364, due to an increase in federal revenues for the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$39,019 at June 30, 2003 to \$13,385 at June 30, 2004, representing a decrease of approximately 66%. For fiscal 2004, the District's salaries increased, resulting in increased expenditures.

BUDGETARY HIGHLIGHTS

The District's revenues were \$71,009 less than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional areas due to the timing of disbursements paid 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 \$1.3 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 10.6% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$131,063.

The original cost of the District's capital assets was \$2.8 million. Governmental funds account for \$2.7 million with the remainder of \$0.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the machinery and equipment category. The District's machinery and equipment totaled \$375,549 at June 30, 2004, compared to \$272,786 reported at June 30, 2003. This increase resulted from purchases of new assets during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 1,000	0	1,000
Buildings	944,521	0	944,521
Machinery and equipment	375,549	16,450	391,999
Total	\$ 1,321,070	16,450	1,337,520

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$8,000 in early retirement. This represents a decrease of approximately 50% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Early retirement	\$ 8,000	16,000	-50.0%
Total	\$ 8,000	16,000	-50.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Although the District has experienced declining enrollment for a few years, the District expects a slight increase in enrollment.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten-year period beginning in fiscal year 2005.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rhonda Lange, District Board Secretary, Alburnett Community School District, P.O. Box 189, Alburnett, Iowa, 52202.

FINANCIAL STATEMENTS

ALBURNETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 969,846	2,101	971,947
Receivables:			
Property tax:			
Delinquent	22,834	0	22,834
Succeeding year	1,518,781	0	1,518,781
Interfund	248,307	0	248,307
Accounts	0	196	196
Due from other governments	60,662	0	60,662
Inventories	0	13,086	13,086
Capital assets, net of accumulated depreciation (Note 4)	1,321,070	16,450	1,337,520
TOTAL ASSETS	4,141,500	31,833	4,173,333
LIABILITIES			
Interfund payable	238,207	10,100	248,307
Accounts payable	8,746	0	8,746
Salaries and benefits payable	558,162	5,391	563,553
Deferred revenue:			
Succeeding year property tax	1,518,781	0	1,518,781
Other	0	2,957	2,957
Long-term liabilities (Note 5):			
Portion due within one year:			
Early retirement payable	8,000	0	8,000
TOTAL LIABILITIES	2,331,896	18,448	2,350,344
NET ASSETS			
Investment in capital assets, net of related debt	1,321,070	16,450	1,337,520
Restricted for:			
Early intervention	60,014	0	60,014
Talented and gifted	62,897	0	62,897
State Technology	21,601	0	21,601
Phase III	3,775	0	3,775
Other special revenue purposes	157,447	0	157,447
Unrestricted	182,800	(3,065)	179,735
TOTAL NET ASSETS	\$ 1,809,604	13,385	1,822,989

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 2,247,626	407,073	218,634	50,000
Special instruction	572,935	61,801	0	0
Other instruction	581,694	302,256	0	0
	<u>3,402,255</u>	<u>771,130</u>	<u>218,634</u>	<u>50,000</u>
Support services:				
Student services	171,613	0	0	0
Instructional staff services	162,363	0	0	0
Administration services	459,217	0	0	0
Operation and maintenance of plant services	467,071	0	0	0
Transportation services	241,977	10,318	0	0
	<u>1,502,241</u>	<u>10,318</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	0	0	0	0
AEA flowthrough	172,940	0	172,940	0
Depreciation (unallocated) *	28,963	0	0	0
	<u>201,903</u>	<u>0</u>	<u>172,940</u>	<u>0</u>
Total governmental activities	<u>5,106,399</u>	<u>781,448</u>	<u>391,574</u>	<u>50,000</u>
Business-Type activities:				
Non-instructional programs:				
Nutrition services	214,778	127,551	61,535	0
Total business-type activities	<u>214,778</u>	<u>127,551</u>	<u>61,535</u>	<u>0</u>
Total	<u>\$ 5,321,177</u>	<u>908,999</u>	<u>453,109</u>	<u>50,000</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlays
Unrestricted state grants
Unrestricted investment earnings
Sale of equipment and materials

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,571,919)	0	(1,571,919)
(511,134)	0	(511,134)
(279,438)	0	(279,438)
(2,362,491)	0	(2,362,491)
(171,613)	0	(171,613)
(162,363)	0	(162,363)
(459,217)	0	(459,217)
(467,071)	0	(467,071)
(231,659)	0	(231,659)
(1,491,923)	0	(1,491,923)
0	0	0
0	0	0
(28,963)	0	(28,963)
(28,963)	0	(28,963)
(3,883,377)	0	(3,883,377)
0	(25,692)	(25,692)
0	(25,692)	(25,692)
(3,883,377)	(25,692)	(3,909,069)
\$ 1,358,563	0	1,358,563
115,447	0	115,447
2,102,458	0	2,102,458
10,253	58	10,311
2,390	0	2,390
3,589,111	58	3,589,169
(294,266)	(25,634)	(319,900)
2,103,870	39,019	2,142,889
\$ 1,809,604	13,385	1,822,989

ALBURNETT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Special Revenue - Activity Fund	Special Revenue - PEEL Fund	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 716,711	154,096	113,059	(14,020)	969,846
Receivables:					
Property tax					
Delinquent	20,436	0	1,784	614	22,834
Succeeding year	1,325,127	0	113,654	80,000	1,518,781
Interfund	248,307	0	0	0	248,307
Due from other governments	60,662	0	0	0	60,662
TOTAL ASSETS	\$ 2,371,243	154,096	228,497	66,594	2,820,430
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 0	0	238,207	0	238,207
Accounts payable	5,608	3,138	0	0	8,746
Salaries and benefits payable	558,162	0	0	0	558,162
Deferred revenue:					
Succeeding year property tax	1,325,127	0	113,654	80,000	1,518,781
Total liabilities	1,888,897	3,138	351,861	80,000	2,323,896
Fund balances:					
Reserved for:					
Early Intervention	60,014	0	0	0	60,014
Talented and gifted	62,897	0	0	0	62,897
State Technology	21,601	0	0	0	21,601
Phase III	3,775	0	0	0	3,775
Unreserved:					
Undesignated	334,059	150,958	(123,364)	(13,406)	348,247
Total fund balances	482,346	150,958	(123,364)	(13,406)	496,534
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,371,243	154,096	228,497	66,594	2,820,430

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT 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 (page 17) \$ 496,534

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

Capital assets used in governmental activities are not
financial resources and, therefore, are not report as
assets in in the governmental funds. 1,321,070

Long-term liabilities, including early retirement payable,
are not due and payable in the current period and,
therefore, are not reported as liabilities in the
governmental funds. (8,000)

Net assets of governmental activites (page 14) \$ 1,809,604

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Special Revenue - Activity Fund	Special Revenue - PPEL Fund	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,318,961	0	115,447	39,602	1,474,010
Tuition	469,653	0	0	0	469,653
Other	27,725	281,203	1,723	779	311,430
Intermediate sources	300	0	0	0	300
State sources	2,436,976	0	0	0	2,436,976
Federal sources	67,374	0	50,000	0	117,374
Total revenues	4,320,989	281,203	167,170	40,381	4,809,743
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,251,022	0	0	24,150	2,275,172
Special instruction	570,669	0	0	0	570,669
Other instruction	337,180	267,942	0	9,100	614,222
	3,158,871	267,942	0	33,250	3,460,063
Support services:					
Student services	172,100	0	0	0	172,100
Instructional staff services	159,331	0	0	0	159,331
Administration services	453,151	0	2,722	0	455,873
Operation and maintenance of plant services	466,964	0	0	9,947	476,911
Transportation services	255,101	0	0	35,880	290,981
	1,506,647	0	2,722	45,827	1,555,196
Other expenditures:					
Facilities acquisitions	0	0	53,697	0	53,697
AEA flowthrough	172,940	0	0	0	172,940
	172,940	0	53,697	0	226,637
Total expenditures	4,838,458	267,942	56,419	79,077	5,241,896
Excess (deficiency) of revenues over (under) expenditures	(517,469)	13,261	110,751	(38,696)	(432,153)
Other financing sources:					
Sales of equipment and materials	2,390	0	0	0	2,390
Total other financing sources	2,390	0	0	0	2,390
Net change in fund balances	(515,079)	13,261	110,751	(38,696)	(429,763)
Fund balance beginning of year	997,425	137,697	(234,115)	25,290	926,297
Fund balance end of year	\$ 482,346	150,958	(123,364)	(13,406)	496,534

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT 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 (page 19) \$ (429,763)

*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	\$ 256,274	
Depreciation expense	(128,777)	127,497

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early Retirement	\$ 8,000	8,000
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Changes in net assets of governmental activities (page 16) \$ (294,266)

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 2,101
Accounts receivable	196
Inventories	13,086
Capital assets, net of accumulated depreciation	16,450
TOTAL ASSETS	<u>31,833</u>
LIABILITIES	
Interfund payable	10,100
Salaries and benefits payable	5,391
Deferred revenues	2,957
TOTAL LIABILITIES	<u>18,448</u>
NET ASSETS	
Invested in capital assets, net of related debt	16,450
Unrestricted	(3,065)
TOTAL NET ASSETS	<u>\$ 13,385</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 127,551
TOTAL OPERATING REVENUES	127,551
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries and benefits	96,405
Services	8,465
Supplies	107,622
Depreciation	2,286
TOTAL OPERATING EXPENSES	214,778
OPERATING LOSS	(87,227)
NON-OPERATING REVENUES:	
State sources	3,139
Federal sources	58,396
Interest on investments	58
TOTAL NON-OPERATING REVENUES	61,593
Change in net assets	(25,634)
Net assets beginning of year	39,019
Net assets end of year	\$ 13,385

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 129,869
Cash received from miscellaneous operating activities	443
Cash payments to employees for services	(91,014)
Cash payments to suppliers for goods or services	(82,573)
Net cash used in operating activities	(43,275)
Cash flows from non-capital financing activities:	
State grants received	3,139
Federal grants received	36,022
Net cash provided by non-capital financing activities	39,161
Cash flows from investing activities:	
Interest on investments	58
Net cash provided by investing activities	58
Net decrease in cash and cash equivalents	(4,056)
Cash and cash equivalents at beginning of year	6,157
Cash and cash equivalents at end of year	\$ 2,101
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (87,227)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	22,374
Depreciation	2,286
Decrease in inventories	1,040
Increase in accounts receivable	(196)
Increase in interfund payable	10,100
Increase in salaries and benefits payable	5,391
Increase in deferred revenue	2,957
Net cash used in operating activities	\$ (43,275)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 2,101

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$22,374.

SEE NOTES TO FINANCIAL STATEMENTS.

ALBURNETT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

(1) **Summary of Significant Accounting Policies**

The Alburnett Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Alburnett, Iowa, and the predominate agricultural territory in Linn County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

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

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

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Activity Fund is utilized to account for the resources used in student driven accounts.

The Special Revenue - Physical Plant and Equipment Levy(PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to

customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 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 government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

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

Asset Class	Amount
Land	\$ 500
Buildings	500
Improvements other than buildings	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-15 years

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

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

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

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

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

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

E. Budgeting and Budgetary Control

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

(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 Funds 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Interfund Receivable/Payable**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenues - Physical Plant and Equipment Levy	\$ 238,207
General	Nutrition	10,100
		<u>\$ 248,307</u>

(4) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,000	0	0	1,000
Construction in progress	71,430	53,697	125,127	0
Total capital assets not being depreciated	72,430	53,697	125,127	1,000
Capital assets being depreciated:				
Buildings	969,684	125,127	0	1,094,811
Improvements other than buildings	154,867	0	0	154,867
Machinery and equipment	1,213,991	202,577	0	1,416,568
Total capital assets being depreciated	2,338,542	327,704	0	2,666,246
Less accumulated depreciation for:				
Buildings	121,327	28,963	0	150,290
Improvements other than buildings	154,867	0	0	154,867
Machinery and equipment	941,205	99,814	0	1,041,019
Total accumulated depreciation	1,217,399	128,777	0	1,346,176
Total capital assets being depreciated, net	1,121,143	198,927	0	1,320,070
Governmental activities capital assets, net \$	1,193,573	252,624	125,127	1,321,070

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 90,005	0	0	90,005
Less accumulated depreciation	71,269	0	(2,286)	73,555
Business-type activities capital assets, net \$	18,736	0	2,286	16,450

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 29,199
Special	2,266
Other	10,899
Support services:	
Student services	373
Instructional staff	4,232
Administration	3,344
Operation and maintenance	3,360
Transportation	46,141
	99,814
Unallocated depreciation	28,963
Total governmental activities depreciation expense	\$ 128,777
Business-type activities:	
Food services	\$ 2,286

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 16,000	8,000	16,000	8,000	8,000
Total	\$ 16,000	8,000	16,000	8,000	8,000

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine. 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 50% of the employees base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$8,000 per individual. Early retirement benefits paid during the year ended June 30, 2004, totaled \$16,000. A liability has been recorded in the General Long-Term Debt representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$150,121, \$146,137, \$136,527 respectively, equal to the required contributions for each year.

(7) Risk Management

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

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$412,091.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Alburnett 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.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$172,940 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.

(9) Accounting Change & Restatements

Governmental Accounting Standards Board Interpretation No.6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$3,632,968 were restated to \$2,338,542. The restatement primarily removed assets below the District's capitalization threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund				Total
	General	Special Revenue - Management	Special Revenue - PEEL	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	997,425	137,697	(234,115)	25,290	926,297
Adjustments	0	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 997,425	137,697	(234,115)	25,290	926,297
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$1,217,399					1,193,573
Long-term liabilities:					
Early retirement payable					(16,000)
Net assets, July 1, 2003, as restated					\$ 2,103,870

(10) Deficit Fund Balance

The Special Revenue - Physical Plant and Equipment Levy (PEEL) fund had a deficit undesignated fund balance of \$123,364 at June 30, 2004. The Management fund also had a deficit undesignated fund balance of \$19,895 at June 30, 2004.

(11) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

ALBURNETT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,158,480	97,896
Intermediate sources	300	0
State sources	2,436,976	3,139
Federal sources	118,629	58,396
Total receipts	<u>4,714,385</u>	<u>159,431</u>
Disbursements:		
Instruction	3,450,796	0
Support services	1,601,270	0
Non-instructional programs	0	183,687
Other expenditures	224,897	0
Total disbursements	<u>5,276,963</u>	<u>183,687</u>
Deficiency of receipts under disbursements	(562,578)	(24,256)
Other financing sources (uses), net	(7,710)	10,100
Deficiency of receipts and other financing sources under disbursements and other financing uses.	(570,288)	(14,156)
Balance beginning of year	<u>1,550,234</u>	<u>6,157</u>
Balance end of year	<u>\$ 979,946</u>	<u>(7,999)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,256,376	2,308,850	2,308,850	(52,474)
300	24,000	24,000	(23,700)
2,440,115	2,525,975	2,525,975	(85,860)
177,025	86,000	86,000	91,025
4,873,816	4,944,825	4,944,825	(71,009)
3,450,796	3,492,774	3,492,774	41,978
1,601,270	1,802,965	1,802,965	201,695
183,687	227,000	227,000	43,313
224,897	185,366	185,366	(39,531)
5,460,650	5,708,105	5,708,105	247,455
(586,834)	(763,280)	(763,280)	176,446
2,390	116,604	116,604	(114,214)
(584,444)	(646,676)	(646,676)	62,232
1,556,391	1,190,286	1,190,286	366,105
971,947	543,610	543,610	428,337

ALBURNETT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types		
	Cash	Accrual	
		Basis	Adjust- ments
Revenues	\$ 4,714,385	95,358	4,809,743
Expenses	5,276,963	(45,167)	5,231,796
Net	(562,578)	140,525	(422,053)
Other financing sources, net	(7,710)	0	(7,710)
Beginning fund balances	1,550,234	(623,937)	926,297
Ending fund balances	\$ 979,946	(483,412)	496,534

	Proprietary Fund Type		
	Cash	Enterprise	
		Basis	Adjust- ments
Revenues	\$ 159,431	19,613	179,044
Expenses	183,687	31,091	214,778
Net	(24,256)	(11,478)	(35,734)
Other financing sources, net	10,100	0	10,100
Beginning retained earnings	6,157	32,862	39,019
Ending retained earnings	\$ (7,999)	21,384	13,385

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALBURNETT COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED 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 functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the other expenditures function exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

ALBURNETT COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Manage- ment	Trust	Total
ASSETS			
Cash and pooled investments	\$ (20,509)	6,489	(14,020)
Receivables:			
Property tax:			
Current year delinquent	614	0	614
Succeeding year	80,000	0	80,000
TOTAL ASSETS	\$ 60,105	6,489	66,594
LIABILITIES AND FUND EQUITY			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	80,000	0	80,000
	80,000	0	80,000
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	(19,895)	6,489	(13,406)
Total fund balances	(19,895)	6,489	(13,406)
TOTAL LIABILITIES AND FUND EQUITY	\$ 60,105	6,489	66,594

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALBURNETT COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Manage- ment	Trust	Total
REVENUES:			
Local sources:			
Local tax	\$ 39,602	0	39,602
Other	0	779	779
TOTAL REVENUES	39,602	779	40,381
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	24,150	0	24,150
Other instruction	0	9,100	9,100
	24,150	9,100	33,250
Support services:			
Operation and maintenance of plant services	9,947	0	9,947
Transportation services	35,880	0	35,880
	45,827	0	45,827
TOTAL EXPENDITURES	69,977	9,100	79,077
Deficiency of revenues under expenditures	(30,375)	(8,321)	(38,696)
Fund balance beginning of year	10,480	14,810	25,290
Fund balance end of year	\$ (19,895)	6,489	(13,406)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALBURNETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2004

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 0	24	24	0
Athletics	0	53,038	53,374	(336)
Class Funds	935	2,175	2,000	1,110
Student Project-Ven	63	7,978	4,262	3,779
Class of 02	123	0	123	0
Class of 03	998	34	0	1,032
Class of 04	1,392	1,593	2,160	825
Class of 05	2,301	4,632	4,807	2,126
Class of 06	2,425	1,070	1,392	2,103
Class of 07	1,900	1,081	542	2,439
Class of 08	955	1,172	743	1,384
Class of 09	0	1,014	578	436
FFA	7,941	15,046	13,782	9,205
Project oxygen- FFA	418	8,210	8,615	13
National honor society	267	513	559	221
Booster club	42,640	69,758	61,224	51,174
Math counts	220	8	0	228
Pom pons	1,218	9,761	7,868	3,111
Color guard	1,462	3,100	4,490	72
Football squad	946	4,030	3,476	1,500
Science club	1,115	263	0	1,378
Wrestling club	1,403	22	757	668
FBLA	0	8,409	8,265	144
Renaissance	3,728	11,129	10,560	4,297
Spanish club	945	140	117	968
Volleyball squad	1,048	2,214	2,873	389
Baseball	646	22	0	668
Sunshine club	328	2,480	2,193	615
Interest & misc.	14,519	1,701	6,220	10,000
Book fines	6,016	6,134	12,150	0
Marketing	0	3,251	3,251	0
Book fair	1,369	6,852	6,637	1,584
Economics	0	2,746	2,746	0
Annual	766	904	785	885
Student council	4,869	1,358	3,610	2,617
Art	7,396	1,751	70	9,077
Music parents	3,955	14,191	10,669	7,477
Band boosters	1,486	8,762	4,141	6,107
Elementary club	8,156	3,207	1,978	9,385
Cheerleaders	802	4,899	4,179	1,522
Peer group	443	357	512	288
Wrestling cheerleading	0	4,432	2,004	2,428
School cents	10,639	7,599	10,066	8,172
Soda program	395	2,154	2,202	347
Shop	0	1,938	1,938	0
Paper & pencils	1,368	47	0	1,415
Health careers	25	1	0	26
Tattler	76	3	0	79
Total	\$ 137,697	281,203	267,942	150,958

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALBURNETT COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,474,010	1,459,639	1,429,900	1,363,821
Tuition	470,432	438,291	408,669	301,042
Other	310,651	342,156	302,856	336,193
Intermediate sources	300	2,075	2,375	2,500
State sources	2,436,976	2,520,123	2,423,130	2,372,892
Federal sources	117,374	118,838	63,012	50,216
Total	\$ 4,809,743	4,881,122	4,629,942	4,426,664
Expenditures:				
Instruction:				
Regular instruction	\$ 2,265,072	2,043,082	2,081,251	2,111,223
Special instruction	570,669	567,495	391,380	413,191
Other instruction	614,222	572,396	576,023	311,868
Support services:				
Student services	172,100	128,642	122,730	139,704
Instructional staff services	159,331	280,299	230,673	156,081
Administration services	455,873	436,401	414,904	391,314
Operation and maintenance of plant services	476,911	352,635	320,893	417,498
Transportation services	290,981	307,218	277,839	303,127
Central support services	0	544	0	410
Other expenditures:				
Facilities acquisitions	53,697	8,188	676,780	42,591
AEA flow-through	172,940	185,287	183,275	181,754
Total	\$ 5,231,796	4,882,187	5,275,748	4,468,761

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Telephone (641) 792-1910

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

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

We have audited the financial statements of Alburnett Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 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 Alburnett Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the 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 all been resolved except for II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alburnett Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 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 item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for items I-A-04.

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 4, 2004

ALBURNETT 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 - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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 - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Gate Admissions – The gate admissions were not reconciled to pre-numbered tickets sold.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response – We will review our procedures for collecting gate admissions.

Conclusion - Response accepted.

I-C-04 Student Activity Fund - We noted during our audit that the Student Activity fund Included an interest account.

Recommendation – The interest earned each year should be allocated at least on an annual basis to the individual activity accounts.

Response – In the future interest will be allocated annually. The current balance will be allocated to negative accounts over a period of years to reduce the balance.

Conclusion - Response accepted.

I-D-04 Federal Reports - Reports for Drug Free and Title I were not filed timely. As a result, subsequent funding was not received.

Recommendation - The district should file the reports by the due date. The district should monitor timelines for grants to ensure that quarterly reports are filed timely and therefore grant revenues are received for the programs.

Response - We will comply.

Conclusion - Response accepted.

I-E-04 Teacher Quality – We noted during our audit that the District overpaid \$4,993 to individual teachers when calculating the payout of the state allocation of Teacher Quality money. Since the payments were more than the allocation, the excess would appear to be part of the general fund salary, resulting in these individuals being overpaid on their contracts. The District did not authorize these additional payments.

Recommendation - The district may consider discussing with the Department of Education to determine if special consideration could be made to allow the District to carryover a deficit balance in the Teacher Quality funding. If a negative balance may not be carried forward, the District should be reimbursed from each employee.

Response - We will comply.

Conclusion - Response accepted.

ALBURNETT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the other expenditures functional area.
- 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 the budget if necessary in the future.
- Conclusion- Response accepted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 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 - No business transactions between the District and District officials were noted.
- 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 - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 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.

II-K-04 Financial Condition - The District had a deficit undesignated fund balance of \$123,364 in the Special Revenue - Physical Plant Equipment Levy fund. The District also had a deficit undesignated fund balance of \$19,895 in the Management fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits. The District should consider a workout plan to bring the PPEL and Management funds to a solvent position.

Response - We are monitoring the expenditures in the Management and PPEL funds and are monitoring required repayment from the PPEL to the General fund for the interfund loan to keep our anticipated outlays within the remainder of Voted-PPEL which serves as our source for repayment.

Conclusion - Response accepted.