

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

JUNE 30, 2004

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-13
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Notes to Financial Statements		24-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		34-35
Budgetary Comparison Schedule- Budget to GAAP Reconciliation		36
Notes to Required Supplementary Information - Budgetary Reporting		37
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	39
Schedule of Changes in Student Activity Accounts	3	40-41
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	42
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	43
Schedule of Expenditures of Federal Awards	6	44-45
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		46-47
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance		48-49
Schedule of Findings and Questioned Costs		50-54

Algona Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Pam Wymore	President	2005
Carl Westling	Vice President	2003
Floyd Lavrenz	Board Member	2004
Dale Person	Board Member	2005
Marc Singer	Board Member	2005
David Fenchel	Board Member	2004
Reuben Skow	Board Member	2003
Board of Education (After September 2003 Election)		
Pam Wymore	President	2005
Carl Westling	Vice President	2006
Floyd Lavrenz	Board Member	2004
Dale Person	Board Member	2005
Marc Singer	Board Member	2005
David Fenchel	Board Member	2004
Keith Kuecker	Board Member	2006
School Officials		
Harold D. Prior	Superintendent	2004
Gail I. Carroll	District Secretary	2004
Carol Kenyon	District Treasurer	2004
Stephen F. Avery	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Algona 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 Algona 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 Algona 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.

In accordance with Government Auditing Standards, we have also issued our reports dated April 6, 2005 on our consideration of the Algona Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are 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 Algona 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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.

April 6, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Algona 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.

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,191,901 in fiscal 2003 to \$11,403,841 in fiscal 2004, while General Fund expenditures increased from \$10,897,534 in fiscal 2003 to \$11,472,688 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$1,077,189 in fiscal 2003 to a balance of \$1,008,342 in fiscal 2004.
- The increase in General Fund revenues was attributable to an increase in local tax, tuition and federal revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in spending in instruction and support services. One reason the General Fund balance decreased slightly is because the increase in revenues was offset by the increase in expenditures during the year.
- Overall the District experienced an increase in net assets in the governmental-type activities of \$487,457 and a decrease in the business-type activities of \$1,290, respectively.
- Continued enrollment declines increased the budget guarantee, which is funded 100% by local property tax. The budget guarantee increased from \$310,299 in fiscal year 2003 to \$420,633 in fiscal year 2004.
- The \$1.67 Physical Plant & Equipment Levy generated \$663,372 for school infrastructure repairs. The \$1.34 voter approved portion of the levy was approved by voters on September 11, 2001 for a five-year period starting with fiscal year 2003.
- During the year, the District started to receive Local Option Sales and Service Tax from Kossuth County. This resulted in an increase in revenue in the Capital Projects Fund of \$267,144.

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 Algona 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 Algona 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 Algona Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

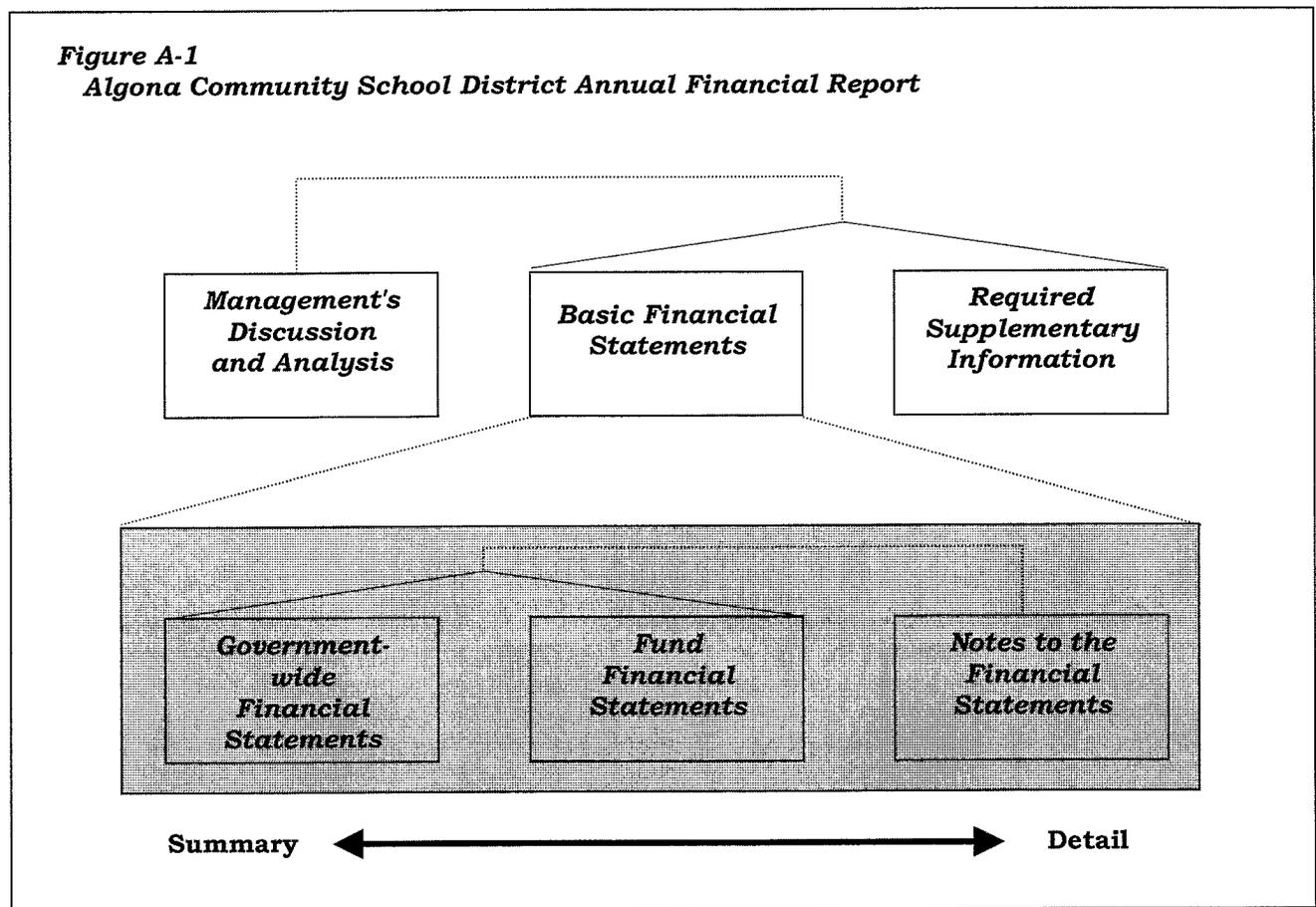


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs 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 three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Agency Funds – These are funds through which the District administers and accounts for certain revenue collected from District employee's for insurance

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 Government-wide financial statements because it cannot use these assets to finance its operations.

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

Reconciliation 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		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 6,852,736	9,267,317	20,352	30,218	6,873,088	9,297,535	-26.08%
Capital assets	3,542,248	3,516,500	19,602	20,375	3,561,850	3,536,875	0.71%
Total assets	10,394,984	12,783,817	39,954	50,593	10,434,938	12,834,410	-18.70%
Long-term obligations	4,670,556	585,556	0	0	4,670,556	585,556	697.63%
Other liabilities	5,526	6,966,816	518	9,867	6,044	6,976,683	-99.91%
Total liabilities	4,676,082	7,552,372	518	9,867	4,676,600	7,562,239	-38.16%
Net assets:							
Invested in capital assets, net of related debt	3,542,248	2,933,462	19,602	20,375	3,561,850	2,953,837	20.58%
Restricted	581,287	866,468	0	0	581,287	866,468	-32.91%
Unrestricted	1,595,367	1,431,515	19,834	20,351	1,615,201	1,451,866	11.25%
Total net assets	\$ 5,718,902	5,231,445	39,436	40,726	5,758,338	5,272,171	9.22%

The District's combined net assets increased by 9% or \$486,167 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$285,181 or 33% over the prior year. The decrease was primarily a result of increased expenditures in the Physical Plant and Equipment Levy Fund.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$163,335 or nearly 11%. This increase in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,532,684	1,333,177	284,083	271,042	1,816,767	1,604,219	13.25%
Operating grants and contributions and restricted interest	1,393,681	1,317,196	185,707	180,742	1,579,388	1,497,938	5.44%
General revenues:							
Property tax	5,415,420	5,567,251	0	0	5,415,420	5,567,251	-2.73%
Local option sales and service tax	267,144	0	0	0	267,144	0	100.00%
Unrestricted state grants	4,368,880	4,519,918	0	0	4,368,880	4,519,918	-3.34%
Other	44,811	73,844	0	0	44,811	73,844	-39.32%
Total revenues	13,022,620	12,811,386	469,790	451,784	13,492,410	13,263,170	1.73%
Program expenses:							
Governmental activities:							
Instructional	8,843,133	8,540,117	0	0	8,843,133	8,540,117	3.55%
Support services	2,849,528	2,727,348	0	0	2,849,528	2,727,348	4.48%
Non-instructional programs	17,800	8,432	471,080	462,966	488,880	471,398	3.71%
Other expenses	824,702	1,171,367	0	0	824,702	1,171,367	-29.59%
Total expenses	12,535,163	12,447,264	471,080	462,966	13,006,243	12,910,230	0.74%
Changes in net assets	487,457	364,122	(1,290)	(11,182)	486,167	352,940	37.75%
Net assets beginning of year	5,231,445	4,867,323	40,726	51,908	5,272,171	4,919,231	7.17%
Net assets end of year	5,718,902	5,231,445	39,436	40,726	5,758,338	5,272,171	9.22%

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$13,022,620 and expenses were \$12,535,163.

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	\$ 8,843,133	6,526,674
Support services	2,849,528	2,680,340
Non- instructional	17,800	17,800
Other expenses	824,702	383,984
Totals	<u>\$ 12,535,163</u>	<u>9,608,798</u>

- The cost financed by users of the District's programs was \$1,532,684.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,393,681.
- The net cost of governmental activities was financed with \$5,682,564 in local tax, \$4,368,880 in unrestricted state grants, and \$44,011 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$469,790 and expenses were \$471,080. 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 Algona 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 \$1,553,377, compared to last year's ending fund balances of \$1,911,882. However, the primary reason for the decrease was the increased expenditures in the Physical Plant and Equipment Levy Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Increase in tax and federal grants resulted in an increase in revenues. The increase in revenues was less than the increase in General Fund expenditures ensuring the decrease in the financial position of the District.
- The Management, and Activity Fund combined balance decreased from \$373,882 in 2003, to \$329,996 in 2004, due to the increase in revenues in both funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$460,811 to \$20,149, due to the final payment of the capital loan notes.
- The District started to receive local option sales and service tax during the year, which resulted in an increase in the Capital Projects fund balance.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$40,726 at June 30, 2003 to \$39,436 at June 30, 2004, representing a decrease of approximately 3%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Algona Community School District amended its budget one time to reflect additional disbursements. The amendment increased disbursements in all functional program areas.

The District's revenues were \$644,085 more than budgeted revenues, a variance of 5%. The most significant variance resulted from the District receiving more in local taxes 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3.6 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 less than 1% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$445,339.

The original cost of the District's capital assets was \$11,416,332. Governmental funds account for \$11,310,860 with the remainder of \$105,472 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$370,112 at June 30, 2004. This increase resulted from the construction of a wrestling room during the current year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 37,674	37,674	0	0	37,674	37,674	0.00%
Construction in progress	370,112	0	0	0	370,112	0	100.00%
Buildings	2,462,299	2,614,429	0	0	2,462,299	2,614,429	-5.82%
Improvements other than buildings	110,403	125,743	0	0	110,403	125,743	-12.20%
Machinery and equipment	561,760	738,654	19,602	20,375	581,362	759,029	-23.41%
Total	\$ 3,542,248	3,516,500	19,602	20,375	3,561,850	3,536,875	0.71%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$5,526 in early retirement. This represents a decrease of approximately 98.7% from last year. (See Figure A-7) More detailed

information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District also had total outstanding early retirement payable of \$5,526 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Capital loan notes	0	565,767	-100.0%
Early retirement	5,526	19,789	-72.1%
Total	<u>\$ 7,530</u>	<u>587,559</u>	<u>-98.7%</u>

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:

- A pattern of declining enrollment persists in the District. Enrollment has declined for the past 4 years, and projections of enrollment and the birth rate indicate several more years of decline. This will reduce the amount of revenue available to fund educational programs and service in the future.
- 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.
- The District terminated their relationship with ISEBA at the end of fiscal year 2004. As a result of the termination ISEBA is asking for payment of \$150,000 for claims paid. The District is seeking legal counsel to find out what the liability is going to be for the District.
- The elimination of the "budget guarantee" at 10% each year is reducing revenues to the District each year.
- The District will negotiate a new agreement during fiscal 2005 with the Algona Association of Educators (AAE). Settlement costs must be offset by reductions of expenditures, using existing cash balances and/or minimal increases in miscellaneous income. Settlements significantly higher than anticipated reductions in expenses will have an adverse effect on the District's General Fund budget and related fund balance.
- Rapid and persistent increases in insurance costs and energy costs will create more financial hardships for the District in the future.

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 Harold D. Prior, Ph. D, Superintendent of Schools, Algona Community School District, Box 717, 200 North Phillips, Algona, Iowa, 50511.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,497,121	5,255	1,502,376
Receivables:			
Property tax:			
Delinquent	196,553	0	196,553
Succeeding year	4,611,951	0	4,611,951
Income surtax	362,464	0	362,464
Accounts	12,464	0	12,464
Accrued interest	2,676	0	2,676
Due from other governments	169,507	0	169,507
Inventories	0	15,097	15,097
Capital assets, net of accumulated depreciation(Note 4)	3,542,248	19,602	3,561,850
TOTAL ASSETS	10,394,984	39,954	10,434,938
LIABILITIES			
Accounts payable	9,433	0	9,433
Salaries and benefits payable	49,172	0	49,172
Deferred revenue:			
Succeeding year property tax	4,611,951	0	4,611,951
Other	0	518	518
Long-term liabilities(Note 5):			
Portion due within one year:			
Early retirement	5,526	0	5,526
TOTAL LIABILITIES	4,676,082	518	4,676,600
NET ASSETS			
Investment in capital assets, net of related debt	3,542,248	19,602	3,561,850
Restricted for:			
Talented and gifted	27,092	0	27,092
Early intervention	13,759	0	13,759
Teacher quality	800	0	800
Phase III	127	0	127
Capital projects	194,890	0	194,890
Physical plant & equipment levy	20,149	0	20,149
Management levy	177,039	0	177,039
Other special revenue purposes	147,431	0	147,431
Unrestricted	1,595,367	19,834	1,615,201
TOTAL NET ASSETS	\$ 5,718,902	39,436	5,758,338

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA 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
Governmental activities:			
Instruction:			
Regular instruction	\$ 5,021,586	433,342	798,644
Special instruction	2,478,194	453,476	0
Other instruction	1,343,353	630,997	0
	<u>8,843,133</u>	<u>1,517,815</u>	<u>798,644</u>
Support services:			
Student services	296,019	0	0
Instructional staff services	254,089	0	0
Administration services	1,011,076	0	0
Operation and maintenance of plant services	947,012	0	0
Transportation services	341,332	14,869	154,319
	<u>2,849,528</u>	<u>14,869</u>	<u>154,319</u>
Non-instructional:			
Food service operations	17,800	0	0
Other expenditures:			
Facility acquisitions	190,437	0	0
Long-term debt interest	17,469	0	0
AEA flowthrough	440,718	0	440,718
Depreciation(unallocated)*	176,078	0	0
	<u>824,702</u>	<u>0</u>	<u>440,718</u>
Total governmental activities	12,535,163	1,532,684	1,393,681
Business-Type activities:			
Non-instructional programs:			
Nutrition services	471,080	284,083	185,707
Total business-type activities	<u>471,080</u>	<u>284,083</u>	<u>185,707</u>
Total	\$ 13,006,243	1,816,767	1,579,388

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and service tax
Unrestricted state grants
Unrestricted investment earnings
Sale of real property

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
(3,789,600)	0	(3,789,600)
(2,024,718)	0	(2,024,718)
(712,356)	0	(712,356)
(6,526,674)	0	(6,526,674)
(296,019)	0	(296,019)
(254,089)	0	(254,089)
(1,011,076)	0	(1,011,076)
(947,012)	0	(947,012)
(172,144)	0	(172,144)
(2,680,340)	0	(2,680,340)
(17,800)	0	(17,800)
(190,437)	0	(190,437)
(17,469)	0	(17,469)
0	0	0
(176,078)	0	(176,078)
(383,984)	0	(383,984)
(9,608,798)	0	(9,608,798)
0	(1,290)	(1,290)
0	(1,290)	(1,290)
(9,608,798)	(1,290)	(9,610,088)
\$ 4,752,048	0	4,752,048
663,372	0	663,372
267,144	0	267,144
4,368,880	0	4,368,880
44,011	0	44,011
800	0	800
10,096,255	0	10,096,255
487,457	(1,290)	486,167
5,231,445	40,726	5,272,171
\$ 5,718,902	39,436	5,758,338

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

	General	Capital Projects	Manage- ment	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 801,369	95,638	178,965	154,810	1,230,782
Receivables:					
Property tax					
Delinquent	81,280	99,129	3,374	12,770	196,553
Succeeding year	4,326,092	0	200,000	85,859	4,611,951
Income surtax	362,464	0	0	0	362,464
Accounts	12,464	0	0	0	12,464
Accrued interest	2,327	123	226	0	2,676
Due from other governments	169,507	0	0	0	169,507
TOTAL ASSETS	\$ 5,755,503	194,890	382,565	253,439	6,586,397
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 9,433	0	0	0	9,433
Salaries and benefits payable	49,172	0	0	0	49,172
Deferred revenue:					
Succeeding year property tax	4,326,092	0	200,000	85,859	4,611,951
Income surtax	362,464	0	0	0	362,464
Total liabilities	4,747,161	0	200,000	85,859	5,033,020
Fund balances:					
Reserved for:					
Talented and gifted	27,092	0	0	0	27,092
Early intervention	13,759	0	0	0	13,759
Teacher quality	800	0	0	0	800
Phase III	127	0	0	0	127
Unreserved:					
Undesignated	966,564	194,890	182,565	167,580	1,511,599
Total fund balances	1,008,342	194,890	182,565	167,580	1,553,377
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,755,503	194,890	382,565	253,439	6,586,397

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA 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)	\$ 1,553,377
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	3,542,248
Blending of the Internal Service Funds to be reflected on an entity-wide basis.	266,339
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	362,464
Early retirement is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(5,526)
Net assets of governmental activites(page 14)	<u>\$ 5,718,902</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Manage- ment	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 4,619,999	0	175,475	663,372	5,458,846
LOGST	0	267,144	0	0	267,144
Tuition	886,818	0	0	0	886,818
Other	135,715	391	4,744	549,027	689,877
State sources	5,333,854	0	262	990	5,335,106
Federal sources	427,455	0	0	0	427,455
Total revenues	11,403,841	267,535	180,481	1,213,389	13,065,246
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	4,999,499	0	124,036	0	5,123,535
Special instruction	2,538,533	0	0	0	2,538,533
Other instruction	851,652	0	0	493,335	1,344,987
	8,389,684	0	124,036	493,335	9,007,055
Support services:					
Student services	302,558	0	0	0	302,558
Instructional staff services	241,426	0	0	42,200	283,626
Administration services	935,202	0	0	0	935,202
Operation and maintenance of plant services	898,927	0	42,807	0	941,734
Transportation services	253,784	0	20,910	44,000	318,694
	2,631,897	0	63,717	86,200	2,781,814
Non-instructional:					
Food service operations	10,389	0	7,411	0	17,800
Other expenditures:					
Facilities acquisitions	0	106,878	0	469,779	576,657
Long-term debt:					
Principal	0	0	0	600,000	600,000
Interest and fiscal charges	0	0	0	34,740	34,740
AEA flowthrough	440,718	0	0	0	440,718
	440,718	106,878	0	1,104,519	1,652,115
Total expenditures	11,472,688	106,878	195,164	1,684,054	13,458,784
Excess (deficiency) of revenues over (under) expenditures	(68,847)	160,657	(14,683)	(470,665)	(393,538)
Other financing sources (uses):					
Sale of capital loan notes	0	0	0	34,233	34,233
Sale of real property	0	0	0	800	800
Transfers in	0	34,233	0	634,740	668,973
Transfers out	0	0	0	(668,973)	(668,973)
Total other financing sources	0	34,233	0	800	35,033
Net change in fund balances	(68,847)	194,890	(14,683)	(469,865)	(358,505)
Fund balance beginning of year	1,077,189	0	197,248	637,445	1,911,882
Fund balance end of year	\$ 1,008,342	194,890	182,565	167,580	1,553,377

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA 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) \$ (358,505)

*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 are not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 465,519	
Depreciation expense	(439,771)	25,748

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 565,767

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 17,271

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds. (43,426)

Net change in Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. 266,339

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 fund.

Early retirement		14,263
------------------	--	--------

Changes in net assets of governmental activities (page 16) \$ 487,457

SEE NOTES TO FINANCIAL STATEMENTS.

ALGONA COMMUNITY SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 JUNE 30, 2004

	Business-Type	
	Enterprise	Governmental
	Fund	Activities:
	School	Internal
	Nutrition	Service Fund
ASSETS		
Cash and cash equivalents	\$ 5,255	266,339
Receivables:		
Inventories	15,097	0
Capital assets, net of accumulated depreciation	19,602	0
TOTAL ASSETS	39,954	266,339
LIABILITIES		
Deferred revenues	518	0
NET ASSETS		
Invested in capital assets, net of related debt	19,602	0
Unrestricted	19,834	266,339
TOTAL NET ASSETS	\$ 39,436	266,339

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities:	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
OPERATING REVENUE:		
Local sources:		
Other local sources:		
Sale of lunches and breakfasts:		
Students	\$ 263,134	0
A la carte	12,304	0
Miscellaneous	8,645	266,339
TOTAL OPERATING REVENUES	284,083	266,339
OPERATING EXPENSES:		
Salaries	151,618	0
Benefits	72,361	0
Services	2,774	0
Supplies	238,638	0
Depreciation	5,568	0
Other	121	0
TOTAL OPERATING EXPENSES	471,080	0
OPERATING INCOME (LOSS)	(186,997)	266,339
NON-OPERATING REVENUES:		
State sources	6,739	0
Federal sources	178,968	0
TOTAL NON-OPERATING REVENUES	185,707	0
Change in net assets	(1,290)	266,339
Net assets at beginning of year	40,726	0
Net assets end of year	\$ 39,436	266,339

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 266,089	0
Cash received from miscellaneous operating activities	8,645	266,339
Cash payments to employees for services	(223,979)	0
Cash payments to suppliers for goods or services	(208,202)	0
Net cash provided by(used in) operating activities	(157,447)	266,339
Cash flows from non-capital financing activities:		
State grants received	6,739	0
Federal grants received	152,720	0
Net cash provided by non-capital financing activities	159,459	0
Cash flows from capital financing activities:		
Purchase of assets	(4,795)	0
Net cash used in financing activities	(4,795)	0
Net increase(decrease) in cash and cash equivalents	(2,783)	266,339
Cash and cash equivalents at beginning of year	8,038	0
Cash and cash equivalents at end of year	\$ 5,255	266,339
Reconciliation of operating loss to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (186,997)	266,339
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	26,248	0
Depreciation	5,568	0
Decrease in inventories	7,083	0
Decrease in deferred revenue	(9,349)	0
Net cash provided by(used in) operating activities	\$ (157,447)	266,339
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:		
Current assets:		
Cash and pooled investments	\$ 5,255	266,339
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
During the year ended June 30, 2004, the District received Federal commodities valued at \$26,248.		

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

The Algona Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the Cities of Algona and Burt, Iowa, and the predominate agricultural territory in Kossuth 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, Algona 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 Algona 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 Kossuth 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 Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Special Revenue - Management Fund is utilized to account for the payment of property insurance and early retirement benefits.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the District's self funded health insurance plan.

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

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

C. Measurement Focus and Basis of Accounting

The Government-wide 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.

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

Asset Class	Amount
Land	\$ 3,500
Buildings	3,500
Improvements other than buildings	3,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 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, no disbursements exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits 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.

The District had no investments at June 30, 2004.

(3) **Transfers**

The detail of transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Debt Service	PPEL	\$ 634,740
Capital Projects	PPEL	34,233
Total		\$ 668,973

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 37,674	0	0	37,674
Construction in progress	0	370,112	0	370,112
Total capital assets not being depreciated	37,674	370,112	0	407,786
Capital assets being depreciated:				
Buildings	7,135,252	8,608	0	7,143,860
Land improvements	537,285	0	0	537,285
Machinery and equipment	3,149,771	86,799	14,641	3,221,929
Total capital assets being depreciated	10,822,308	95,407	14,641	10,903,074
Less accumulated depreciation for:				
Buildings	4,520,823	160,738	0	4,681,561
Land improvements	411,542	15,340	0	426,882
Machinery and equipment	2,411,117	263,693	14,641	2,660,169
Total accumulated depreciation	7,343,482	439,771	14,641	7,768,612
Total capital assets being depreciated, net	3,478,826	(344,364)	0	3,134,462
Governmental activities capital assets, net \$	3,516,500	25,748	0	3,542,248
Business-type activities:				
Machinery and equipment	\$ 100,677	4,795	0	105,472
Less accumulated depreciation	80,302	5,568	0	85,870
Business-type activities capital assets, net \$	20,375	(773)	0	19,602

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 78,111
Other		5,224
Support services:		
Administration services		87,370
Operation and maintenance of plant services		10,350
Transportation		82,638
		<u>263,693</u>
Unallocated depreciation		176,078
		<u>\$ 439,771</u>
Business-type activities:		
Food services		\$ 5,568

(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
Capital loan notes	\$ 565,767	34,233	600,000	0	0
Early retirement	19,789	0	14,263	5,526	5,526
Total	\$ 585,556	34,233	614,263	5,526	5,526

Capital Loan Notes

The District approved capital loan notes in the amounts of \$462,268 in 2002 and \$332,899 in 2003 to fund the high school roof replacement, middle school chimney removal, fire alarms, and security systems projects. During the year ended June 30, 2004 the District had paid off all of their Capital Loan Notes.

Early Retirement

The District had previously offered a voluntary early retirement plan to its certified employees, however benefits are still payable on this plan. Early retirement benefits paid during the year ended June 30, 2004 totaled \$14,263. A liability has been recorded in the Statement of Net Assets 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 \$384,964, \$375,684, and \$377,337, respectively, equal to the required contributions for each year.

(7) Risk Management

Algona Community School District is a member in the Iowa School Employees Benefits Association, an 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 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental, vision, life, long-term disability and prescription drugs.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash 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 \$1,414,803.

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.

Algona 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 \$440,718 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) Construction Commitments

The District entered into a contract totaling \$324,873 for a new wrestling room addition. At June 30, 2004, \$308,629 of the contract was completed. The remaining amount of the contract will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

ALGONA 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	\$ 7,697,518	274,734
State sources	4,801,869	6,739
Federal sources	392,532	178,968
Total receipts	12,891,919	460,441
Disbursements:		
Instruction	8,831,718	0
Support services	2,966,838	0
Non-instructional programs	17,798	463,224
Other expenditures	1,670,769	0
Total disbursements	13,487,123	463,224
Deficiency of receipts under disbursements	(595,204)	(2,783)
Other financing sources, net	35,033	0
Deficiency of receipts and other financing sources under disbursements	(560,171)	(2,783)
Balance beginning of year	1,790,953	8,038
Balance end of year	\$ 1,230,782	5,255

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
7,972,252	6,936,822	6,936,822	1,035,430
4,808,608	5,333,626	5,333,626	(525,018)
571,500	437,827	437,827	133,673
13,352,360	12,708,275	12,708,275	644,085
8,831,718	8,515,025	9,000,000	168,282
2,966,838	2,854,005	3,000,000	33,162
481,022	475,525	600,000	118,978
1,670,769	1,177,383	2,500,000	829,231
13,950,347	13,021,938	15,100,000	1,149,653
(597,987)	(313,663)	(2,391,725)	1,793,738
35,033	0	0	35,033
(562,954)	(313,663)	(2,391,725)	1,828,771
1,798,991	1,165,000	1,165,000	633,991
1,236,037	851,337	(1,226,725)	2,462,762

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 12,891,919	173,327	13,065,246
Expenses	13,487,123	(28,339)	13,458,784
Net	(595,204)	201,666	(393,538)
Other financing sources, net	35,033	0	35,033
Beginning fund balances	1,790,953	120,929	1,911,882
Ending fund balances	\$ 1,230,782	322,595	1,553,377

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 460,441	9,349	469,790
Expenses	463,224	7,856	471,080
Net	(2,783)	1,493	(1,290)
Beginning retained earnings	8,038	32,688	40,726
Ending retained earnings	\$ 5,255	34,181	39,436

ALGONA 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, 2004, the District adopted one budget amendment increasing budgeted disbursements by \$2,078,062.

OTHER SUPPLEMENTAL INFORMATION

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

	Physical Plant and Equipment Levy	Student Activity	Total Nonmajor Governmental Funds
ASSETS			
Cash and pooled investments	\$ 7,379	147,431	154,810
Receivables:			
Property tax:			
Current year delinquent	12,770	0	12,770
Succeeding year	85,859	0	85,859
TOTAL ASSETS	\$ 106,008	147,431	253,439
LIABILITIES AND FUND EQUITY			
Liabilities:			
Deferred revenue:			
Succeeding year property tax	\$ 85,859	0	85,859
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	20,149	147,431	167,580
Total fund balances	20,149	147,431	167,580
TOTAL LIABILITIES AND FUND EQUITY	\$ 106,008	147,431	253,439

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Physical Plant and Equipment Levy	Student Activity	Special Revenue- Total	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 663,372	0	663,372	0	663,372
Other	112,423	436,604	549,027	0	549,027
State sources	990	0	990	0	990
TOTAL REVENUES	776,785	436,604	1,213,389	0	1,213,389
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	27,528	465,807	493,335	0	493,335
Support services:					
Instructional staff services	42,200	0	42,200	0	42,200
Transportation services	44,000	0	44,000	0	44,000
	86,200	0	86,200	0	86,200
Other expenditures:					
Facilities acquisition	469,779	0	469,779	0	469,779
Long-term debt:					
Principle	0	0	0	600,000	600,000
Interest and fiscal charges	0	0	0	34,740	34,740
	469,779	0	0	634,740	634,740
TOTAL EXPENDITURES	583,507	465,807	579,535	634,740	1,214,275
Excess(deficiency) of revenues over (under) expenditures	193,278	(29,203)	164,075	(634,740)	(470,665)
Other financing sources(uses):					
Sale of capital loan notes	34,233	0	34,233	0	34,233
Sale of real property	800	0	800	0	800
Transfers in	0	0	0	634,740	634,740
Transfers out	(668,973)	0	(668,973)	0	(668,973)
Total other financing sources(uses)	(633,940)	0	(633,940)	634,740	800
Deficiency of revenues and other financing sources under expenditures and other financing uses	(440,662)	(29,203)	(469,865)	0	(469,865)
Fund balance beginning of year	460,811	176,634	637,445	0	637,445
Fund balance end of year	\$ 20,149	147,431	167,580	0	167,580

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA 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
Concession	\$ (2,637)	27,960	28,765	(3,442)
Concession equipment	2,716	694	310	3,100
Interest	0	1,533	1,533	0
Public broadcasting	110	180	0	290
Special advertising	33,627	15,235	28,955	19,907
Special tournament	0	351	351	0
Book fair-Bertha Godfrey	3,338	4,331	3,583	4,086
Leadership-Bertha Godfrey	4,730	28,025	26,600	6,155
Book fair-Bryant	68	4,203	3,423	848
Leadership-Bryant	2,293	4,231	3,919	2,605
Book fair-Lucia Wallace	1,227	3,921	3,636	1,512
Leadership-Lucia Wallace	7,942	24,275	20,729	11,488
MS-vocal music	372	234	305	301
MS-instrumental music	(974)	595	681	(1,060)
MS-vocal/band uniforms	0	414	5	409
MS-book fair	876	884	1,009	751
MS-cheerleaders	902	0	0	902
MS-leadership	4,566	522	107	4,981
MS-quiz bowl	289	440	292	437
MS-science fair	893	1,981	2,143	731
MS-student senate	2,063	5,264	4,341	2,986
MS-student travel	142	28,554	28,028	668
MS-teams	648	27,849	27,266	1,231
MS-teams 6th grade	2,746	2,805	2,700	2,851
MS-teams 7th grade	1,473	2,806	2,178	2,101
MS-teams 8th grade	565	3,357	2,589	1,333
HS drama/speech	3,840	7,038	9,361	1,517
HS-vocal music	1,904	3,419	6,528	(1,205)
HS-instrumental music	(2,514)	1,363	1,847	(2,998)
HS-vocal/band uniforms	1,952	1,421	1,270	2,103
HS swing choir & band	1,696	868	1,140	1,424
HS band tour	15,571	33,475	34,585	14,461
HS vocal tour	4,725	14,608	15,205	4,128
HS athletics general	23,199	14,095	25,404	11,890
HS cross country	0	1,622	1,622	0
HS boys basketball	0	3,830	3,830	0
HS boys football	0	8,475	8,475	0
HS baseball	0	5,016	5,016	0
HS boys track	0	4,299	4,299	0
HS boys golf	0	602	602	0
HS wrestling	0	3,741	3,741	0
HS girls basketball	0	3,111	3,111	0
HS volleyball	0	3,945	3,945	0
HS softball	0	4,842	4,842	0
HS girls track	0	2,504	2,504	0
HS girls golf	0	358	358	0

ALGONA 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
HS academics	3,447	7,973	7,048	4,372
HS-ACT-ELC	2,510	232	215	2,527
HS AFS	6,233	106	15	6,324
HS book fair	132	15	0	147
HS cheerleaders	1,938	2,352	3,840	450
Class of 2004	(154)	556	402	0
Class of 2005	3,336	0	2,798	538
Class of 2006	1,616	4,824	2,957	3,483
Class of 2007	0	4,032	2,311	1,721
HS drill team	586	10,914	9,430	2,070
FFA	11,994	30,815	38,080	4,729
HS leadership	467	1,220	1,587	100
MMH	1,329	1,745	1,142	1,932
HS mock trial/ACAD	138	3,237	3,275	100
Model UN	316	1,686	1,693	309
National honor society	0	231	131	100
Outdoor club	842	647	581	908
P.E. club	4,048	13,065	6,118	10,995
Peer helpers	733	334	419	648
Pep council	58	140	197	1
Prom improvement	25	361	349	37
HS quiz bowl	622	1,323	1,152	793
HS spanish club	3,384	122	438	3,068
HS student senate	1,275	1,339	1,835	779
T.V. productions	2,498	1,940	3,327	1,111
Weight lifting club	264	0	260	4
HS yearbook	3,113	14,704	17,475	342
HS special math	64	0	0	64
HS special bowling	112	959	839	232
HS special cross country	(178)	377	521	(322)
HS special swim team	933	1,670	1,973	630
HS special boys basketball	744	2,935	2,068	1,611
HS special football	1,324	1,345	2,029	640
HS special baseball	868	2,628	4,184	(688)
HS special boys track	240	284	331	193
HS special boys golf	593	1,318	1,694	217
HS special wrestling	63	1,276	1,415	(76)
HS special girls basketball	261	3,255	2,779	737
HS special volleyball	1,232	551	793	990
HS special softball	1,489	4,023	6,529	(1,017)
HS special girls track	(421)	1,566	254	891
HS special girls golf	212	1,228	2,190	(750)
Total	\$ 176,634	436,604	465,807	147,431

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 0	74,879	74,879	0
LIABILITIES				
Due to other governments	\$ 0	74,879	74,879	0

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA 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	\$ 5,725,990	5,161,361	5,047,733	3,940,247
Tuition	886,818	840,316	650,778	1,004,166
Other	689,877	560,056	747,444	529,047
State sources	5,335,106	5,512,326	5,730,077	5,237,643
Federal sources	427,455	323,790	307,432	259,418
Total	\$ 13,065,246	12,397,849	12,483,464	10,970,521
Expenditures:				
Instruction:				
Regular instruction	\$ 5,123,535	4,831,378	4,865,825	4,417,984
Special instruction	2,538,533	2,414,339	2,311,376	2,089,673
Other instruction	1,344,987	1,245,368	1,279,893	1,224,314
Support services:				
Student services	302,558	284,007	278,741	264,570
Instructional staff services	283,626	241,899	218,150	204,433
Administration services	935,202	886,629	836,813	798,110
Operation and maintenance of plant services	941,734	905,488	814,676	864,037
Transportation services	318,694	249,530	306,768	234,266
Non-instructional	17,800	8,432	7,375	5,953
Other expenditures:				
Facilities acquisitions	576,657	515,566	510,240	96,918
Long Term Debt:				
Principal	600,000	24,180	235,285	224,407
Interest	34,740	1,059	8,486	19,364
AEA flow-through	440,718	472,533	477,549	446,729
Total	\$ 13,458,784	12,080,408	12,151,177	10,890,758

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 26,248
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	24,718
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	128,002
			<u>152,720</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G-03	816
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-G	157,459
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0126-GC	23,521
			<u>181,796</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	9,484
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 03	1
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	3,282
			<u>3,283</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	8,164
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	61,561
			<u>69,725</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES	84.369	FY 04	7,962
VOCATIONAL REHABILITATION GRANTS TO STATE	84.126	FY 04	2,024
SCHOOL IMPROVEMENT STATE GRANTS	84.323	FY 03	117

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	3,099
TECH-PREP EDUCATION	84.243	FY 04	9,500
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	67,023
TOTAL			\$ 532,981

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

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

We have audited the financial statements of Algona Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated April 6, 2005. 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 Algona 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 and Questioned Costs.

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.

Internal Control Over Financial Reporting

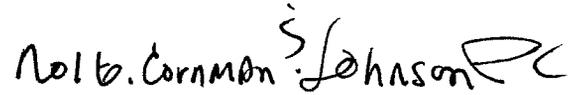
In planning and performing our audit, we considered Algona Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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 and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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 II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for items II-A-04 and II-B-04.

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

April 6, 2005

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Board of Education of
Algona Community School District

Compliance

We have audited the compliance of Algona Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Algona Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Algona Community School District's management. Our responsibility is to express an opinion on Algona Community School District's compliance based on our audit.

We conducted our audit of compliance 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Algona Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Algona Community School District's compliance with those requirements.

In our opinion, Algona Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Algona Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Algona Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance 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 compliance that, in our judgment, could adversely affect Algona Community School District's ability to administer a major federal

Members American Institute & Iowa Society of Certified Public Accountants

program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulation, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be a material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Algona Community School District and other parties to whom Algona Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

April 6, 2005

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - Individual Program:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
 - Clustered Programs:
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Algona Community School District did not qualify as a low-risk auditee.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

II-B-04 Authorized Check Signatures - Checks written from the Student Activity did not require the board president signature. In addition, no documentation was available to indicate that someone other than the Board President was designated to sign checks.

Recommendation - The Board President and Board Secretary are to sign all checks written by the District to be in compliance with Chapter 291.1 of the Code of Iowa. However, the Board President can designate an authorized signer only upon approval in the board minutes. This documentation should be done annually.

Response - We will seek approval with the Board to authorize the other signer of the checks written in the Student Activity and Nutrition Funds to be in compliance with the Code of Iowa.

Conclusion - Response accepted.

II-C-04 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these checks to the Treasurer of Iowa when completing the report for unclaimed property.

Response - We will comply.

Conclusion - Response accepted.

ALGONA COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

CFDA Number 10.553: School Breakfast and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2004
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Agency Numbers: 0126-G and 0126-GC
Federal Award Year: 2004
U.S. Department of Education
Passed through the Iowa Department of Education

III-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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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.

ALGONA COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-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.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

IV-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.

IV-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.

IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Rick Adams, Director of Buildings and Grounds Owner, with wife, of Adam's Rubber Stamps	Stamps	\$110
Mary Kae Hanson, Teacher Owner, with spouse, of Hanson Studio	Purchased services	\$329
Harvey Steven, Bus Driver Son owns North Iowa Tree Services	Purchased services	\$1,385
Richard Dewein, Choir Director Spouse helped with choir concert	Clerical services	\$60
Tracy Harmon, Kitchen Manager	Catering	\$1,105
Dale Person, Board Member	Official	\$390
Dale Person, Board Member Son	Official	\$350
Paul and Theresa DeLange, Sub Driver Owns Premier Choice	Fundraising items	\$30,559
Paul and Theresa DeLange, Sub Driver Owns Premier Pizza	Pizza/Concession	\$7,459

Name, Title and Business Connection	Transaction Description	Amount
Sande Rodemeyer, Teacher Spouse	Official	\$160
Sande Rodemeyer, Teacher Son	Official	\$350
Jan Struck, Building Secretary Spouse	Official	\$250
Pat Twait, Teacher Son	Services	\$210
Carl Westling, Board Member Spouse, employed at Solo Ensemble Acc.	Supplies	\$90

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Members do not appear to be a conflict of interest.

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the District's teachers, Director of Building & Grounds, Kitchen Manager and sub bus drivers do not appear to represent a conflict of interest.

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the District's employees and board members do not appear to represent a conflict of interest.

- IV-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.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- IV-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- IV-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.
- IV-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.
- IV-K-03 Financial Condition - We noted during our audit that there were negative individual account balances in the Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - We will comply.

Conclusion - Response accepted.