

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

JUNE 30, 2004

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Ames Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Jane Acker	President	2004
Allison Tyler	Vice President	2003
Mark Snell	Board Member	2005
Gloria Symons	Board Member	2005
Pat Brown	Board Member	2004
Mary Ann Dilla	Board Member	2003
John Hascall	Board Member	2003
Board of Education (After September 2003 Election)		
Jane Acker	President	2004
Mark Snell	Vice President	2005
Pat Brown	Board Member	2004
Gloria Symons	Board Member	2005
Gail Johnston	Board Member	2006
Mary Ann Dilla	Board Member	2006
Roy Cakerice	Board Member	2006
School Officials		
W. Ray Richardson	Superintendent	2004
Kurt Subra	District Secretary/Treasurer and Chief Financial Officer	2004
Ahlers & Cooney, P.C.	Attorney	2004

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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
Ames 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 Ames 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 Ames 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.

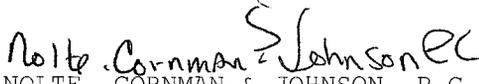
In accordance with Government Auditing Standards, we have also issued our reports dated August 11, 2004 on our consideration of the Ames Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 39 through 41 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

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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 Ames 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 9, 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.

August 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Ames Community School District provides the 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

- Fiscal 2004 General Fund revenues exceeded expenses by \$2.4 million despite a mid-year cut in state funding of nearly \$400,000. The excess of revenues over expenses resulted in an increase in the fund balance from \$2.4 million to \$4.8 million. Revenues were \$38.6 million vs. \$37.0 million in fiscal 2003, and expenditures were \$36.2 million vs. \$35.0 million in fiscal 2003. Revenues continued to benefit from the general cash reserve levy, at nearly \$2.0 million for fiscal 2004, and a transfer of nearly \$1.0 million in trust funds.
- In the spring of 2004 construction began on two major capital projects: a new \$28 million middle school for sixth through eighth grade students and renovations/additions at the high school. The new middle school is funded by a ten-year 1% local option sales tax passed by Story County voters in October 2002. The high school project is funded primarily by a \$10 million general obligation bond passed by voters in April 2003.
- The District's September 2003 enrollment declined for the sixth consecutive year. The certified enrollment was 4,517, a decrease of 453 over the past six years.
- The state granted a 2% increase in "allowable growth" for fiscal 2004. This was one of the lowest increases in the 30-year history of the school foundation aid formula, and compares to the 1% increase provided in fiscal year 2003.
- Continued declining interest rates resulted in a decrease in interest income from \$84,000 in fiscal year 2003 to \$54,000 in fiscal year 2004.
- The District's School Nutrition Fund incurred a loss of \$67,000 in fiscal 2004 vs. \$270,000 in fiscal 2003. In August 2003 the District outsourced the remaining food service employees to get our costs more in line with revenues.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

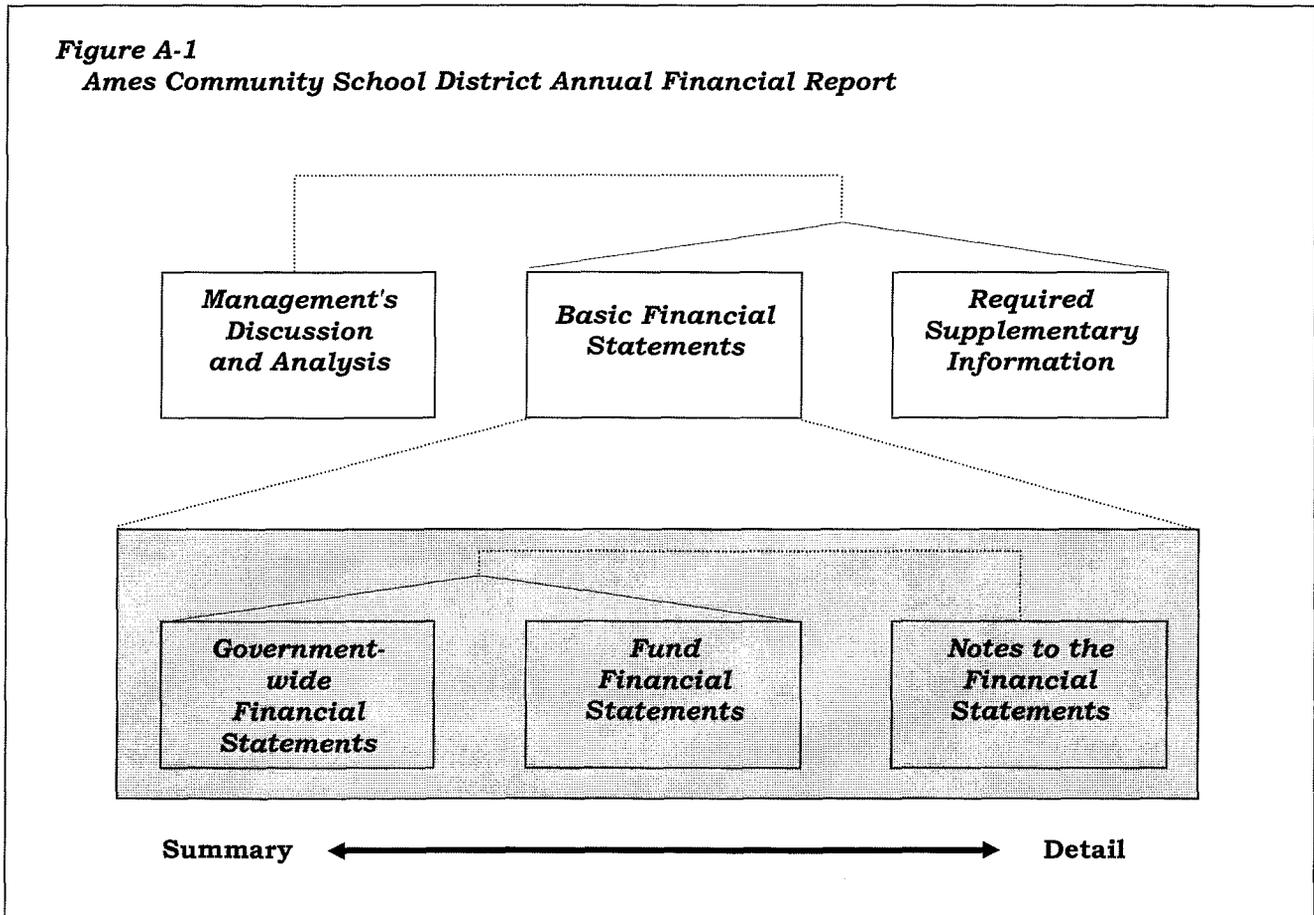


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, e.g., food service	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, Debt Service Fund and Capital Projects 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 District's internal service funds, one type of proprietary fund, are the same as the governmental activities, but provide more detail and additional information, such as cash flows. The District currently has two internal service funds, the Health Insurance Fund and the Print Shop Fund.

The required financial statements for the proprietary funds include a statement of net assets, 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. These funds include Private-Purpose Trust and Agency funds.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 47,288,894	33,363,731	22,671	48,791	47,311,565	33,412,522	41.60%
Capital assets	24,640,929	18,482,311	110,027	101,177	24,750,956	18,583,488	33.19%
Total assets	71,929,823	51,846,042	132,698	149,968	72,062,521	51,996,010	38.59%
Long-term obligations	14,475,754	4,380,395	0	13,850	14,475,754	18,856,149	-23.23%
Other liabilities	31,811,329	28,087,004	1,036,629	973,078	32,847,958	60,934,962	-46.09%
Total liabilities	46,287,083	32,467,399	1,036,629	986,928	47,323,712	79,791,111	-40.69%
Net assets:							
Invested in capital assets, net of related debt	12,157,196	16,597,311	110,027	87,327	12,267,223	16,684,638	-26.48%
Restricted	8,414,559	1,253,729	0	0	8,414,559	1,253,729	571.16%
Unrestricted	5,070,985	1,527,603	(1,013,958)	(924,287)	4,057,027	603,316	572.45%
Total net assets	\$ 25,642,740	19,378,643	(903,931)	(836,960)	24,738,809	18,541,683	33.42%

The District's combined net assets increased by 33.42%, or \$6,197,126, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's

restricted net assets increased \$7,160,830, or 571.16% over the prior year. The increase was primarily a result of the District issuing general obligation bonds of \$10,000,000.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$3,453,711, or 572.45%. This increase in unrestricted net assets was a result of the District receiving a transfer of \$981,339 from the Private Purpose Trust – Scholarship Fund and the District’s use of the cash reserve levy of approximately \$2 million.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-4
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 3,495,584	3,353,675	784,432	765,800	4,280,016	4,119,475	3.90%
Operating grants and contributions and restricted interest	3,506,677	3,527,649	335,233	287,687	3,841,910	3,815,336	0.70%
General revenues:							
Property tax	24,892,087	26,029,796	0	0	24,892,087	26,029,796	-4.37%
Local option sales and services tax	3,161,672	0	0	0	3,161,672	0	100.00%
Unrestricted state grants	11,397,158	11,681,551	0	0	11,397,158	11,681,551	-2.43%
Other	1,111,279	175,093	0	32,835	1,111,279	207,928	434.45%
Total revenues	47,564,457	44,767,764	1,119,665	1,086,322	48,684,122	45,854,086	6.17%
Program expenses:							
Governmental activities:							
Instructional	27,009,285	27,184,892	0	0	27,009,285	27,184,892	-0.65%
Support services	9,765,358	9,716,915	0	0	9,765,358	9,716,915	0.50%
Non-instructional programs	2,400	22,513	1,208,834	1,356,206	1,211,234	1,378,719	-12.15%
Other expenses	4,523,317	3,802,452	0	0	4,523,317	3,802,452	18.96%
Total expenses	41,300,360	40,726,772	1,208,834	1,356,206	42,509,194	42,082,978	1.01%
Excess(deficiency) of revenues over(under) expenses before capital contributions	6,264,097	4,040,992	(89,169)	(269,884)	6,174,928	3,771,108	63.74%
Capital contributions	0	0	22,198	0	22,198	0	100.00%
Changes in net assets	6,264,097	4,040,992	(66,971)	(269,884)	6,197,126	3,771,108	64.33%
Beginning Net Assets	19,378,643	15,337,651	(836,960)	(567,076)	18,541,683	14,770,575	25.53%
Ending Net Assets	\$ 25,642,740	19,378,643	(903,931)	(836,960)	24,738,809	18,541,683	33.42%

Property tax, local option sales and services tax and unrestricted state grants account for 83% of the total revenue. The District’s expenses primarily relate to instruction and support services which account for 89% of the total expenses.

The District began receiving local option sales and services tax (LOSST) July 1, 2003.

Included in the other revenues is a transfer of \$981,339 from the Private-purpose Trust to the General Fund. This was included in the trust for 25 years and then reverted to the General Fund.

The other expenses increased approximately \$700,000 as a result of computer technology acquisitions. These purchases were not capitalized as they do not meet our capitalization threshold.

Governmental Activities

Revenue for governmental activities were \$47,564,457 and expenses were 41,300,360.

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	\$ 27,009,285	21,449,228
Support services	9,765,358	9,558,936
Non-instructional programs	2,400	2,400
Other expenses	4,523,317	3,287,535
Totals	<u>\$ 41,300,360</u>	<u>34,298,099</u>

- The cost financed by users of the District’s programs was \$3,495,584.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,506,677.
- The net cost of governmental activities was financed with \$28,053,759 in local tax, \$11,397,158 in state foundation aid, \$129,940 in interest income and \$981,339 in transfer in income from the Private-Purpose Trust Fund.

Business-Type Activities

Revenues of the District’s business-type activity were \$1,141,863 and expenses were \$1,208,834. The District’s business-type activity is the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and a transfer of \$22,198 from the PPEL Fund for equipment purchases.

During the year ended June 30, 2004, the District increased revenues and reduced expenditures, but still incurred a loss in the School Nutrition Fund.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$13,477,260, well above last year’s ending fund balances of \$3,784,073. However, the primary reason for the increase is the issuance of \$10,000,000 in General Obligation Bonds to be used for capital improvements.

Governmental Fund Highlights

- The District’s General Fund financial position is the product of many factors. Growth during the year in tax and tuition resulted in an increase in revenues. The increase in revenues was

partially offset by the District's increase in General Fund expenditures, resulting in a fund balance increase from \$2,417,992 to \$4,828,743.

- The Capital Projects Fund balance increased from \$130,136 to \$7,210,178, due in part to the issuance of general obligation bonds of \$10,000,000 and the start of the District receiving local option sales and services tax. These factors were partially offset by construction expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from a deficit \$836,960 at June 30, 2003 to a deficit \$903,931 at June 30, 2004, representing a decrease of 8%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Ames Community School District amended its annual budget one time to reflect additional expenditures associated with all functional areas except for the non-instructional programs.

The District's revenues were \$538,831 less than budgeted revenues, a variance of 1.13%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$24.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities and transportation equipment. (See Figure A-6) This amount represents a net increase of 33.19% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$784,086.

The original cost of the District's capital assets was \$41.4 million. Governmental funds account for \$41.0 million with the remainder of \$0.4 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$6,420,833 at June 30, 2004, compared to \$369,428 reported at June 30, 2003. This increase resulted from the issuance of general obligation bonds for capital improvements.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 4,981,652	4,957,787	0	0	4,981,652	4,957,787	0.48%
Construction in progress	6,420,833	369,428	0	0	6,420,833	369,428	1638.05%
Buildings	11,671,031	11,849,567	0	0	11,671,031	11,849,567	-1.51%
Land improvements	652,354	608,862	0	0	652,354	608,862	7.14%
Machinery and equipment	915,059	696,667	110,027	101,177	1,025,086	797,844	28.48%
Total	\$ 24,640,929	18,482,311	110,027	101,177	24,750,956	18,583,488	33.19%

Long-Term Debt

At June 30, 2004, the District had \$14,475,754 in general obligation and other long-term debt outstanding. This represents an increase of 230.5% from last year. (See Figure A-7) More detailed information about the District’s long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding General Obligation Bonds payable of \$9,340,000 at June 30, 2004.

The District had outstanding Capital Loan Notes payable from the Special Revenue, Physical Plant and Equipment Levy Fund of \$2,085,000 at June 30, 2004.

The District also had outstanding Bond Anticipatory Note indebtedness at June 30, 2004 of \$450,000.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2004	2003	2003-04
General obligation bonds	\$ 9,340,000	0	100.0%
Capital loan notes	2,085,000	1,885,000	10.6%
Bond anticipatory notes	450,000	450,000	0.0%
Early retirement	2,278,613	1,837,127	24.0%
Compensated absences	322,141	208,268	54.7%
Totals	<u>\$ 14,475,754</u>	<u>4,380,395</u>	<u>230.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT’S FUTURE

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

- The District has experienced declining enrollment for the past six years. Despite growth in the city of Ames, there is little residential growth within the school district’s boundaries.
- The state’s economy is showing limited signs of economic recovery. A weaker economy adversely impacts the amount of new general fund money available to the District.
- Historically, the District has entered into annual contracts with its two collective bargaining units. The District will negotiate new agreements during fiscal 2005. Settlements in excess of “new money” or allowable growth in state funding will have an adverse effect on the District’s General Fund budget and related fund balance. Corresponding cost reductions will be made to offset the cost of negotiated settlements and other cost increases.

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 Kurt Subra, District Secretary/Treasurer and Chief Financial Officer, Ames Community School District, 415 Stanton Avenue, Ames, Iowa, 50014-7331.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 19,509,719	196	19,509,915
Receivables:			
Property tax:			
Delinquent	248,973	0	248,973
Succeeding year	23,715,115	0	23,715,115
Income surtax	1,452,000	0	1,452,000
Interfund	456,436	0	456,436
Accounts	549,585	25	549,610
Due from other governments	1,319,303	0	1,319,303
Prepaid expenses	10,843	0	10,843
Inventories	26,920	22,450	49,370
Capital assets, net of accumulated depreciation (note 5)	24,640,929	110,027	24,750,956
TOTAL ASSETS	71,929,823	132,698	72,062,521
LIABILITIES			
Excess of warrants issued over bank balance	0	599,558	599,558
Interfund payable	82,984	373,452	456,436
Accounts payable	2,223,626	57,567	2,281,193
Salaries and benefits payable	3,638,058	387	3,638,445
Incurred but not reported claims	1,500,000	0	1,500,000
Accrued interest payable	35,985	0	35,985
Deferred revenue:			
Succeeding year property tax	23,715,115	0	23,715,115
Other	615,561	5,665	621,226
Long-term liabilities (note 6):			
Portion due within one year:			
Capital loan notes payable	530,000	0	530,000
General obligation bonds payable	335,000	0	335,000
Early retirement payable	608,733	0	608,733
Compensated absences payable	322,141	0	322,141
Portion due after one year:			
Capital loan notes payable	1,555,000	0	1,555,000
General obligation bonds payable	9,005,000	0	9,005,000
Bond anticipatory notes payable	450,000	0	450,000
Early retirement payable	1,669,880	0	1,669,880
TOTAL LIABILITIES	46,287,083	1,036,629	47,323,712
NET ASSETS			
Investment in capital assets, net of related debt	12,157,196	110,027	12,267,223
Restricted for:			
Phase III	15,488	0	15,488
State technology	1,156	0	1,156
Teacher compensation	2,386	0	2,386
Debt service	21,074	0	21,074
Capital projects	7,210,178	0	7,210,178
Other special revenue purposes	335,167	0	335,167
Physical plant and equipment levy	829,110	0	829,110
Unrestricted	5,070,985	(1,013,958)	4,057,027
TOTAL NET ASSETS	\$ 25,642,740	(903,931)	24,738,809

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 17,626,395	1,315,719	2,062,184
Special instruction	7,158,286	769,108	165,023
Other instruction	2,224,604	1,248,023	0
	<u>27,009,285</u>	<u>3,332,850</u>	<u>2,227,207</u>
Support services:			
Student services	1,765,107	0	0
Instructional staff services	1,378,702	0	0
Administration services	2,540,226	0	0
Operation and maintenance of plant services	2,999,880	162,734	43,688
Transportation services	795,050	0	0
Other support services	286,393	0	0
	<u>9,765,358</u>	<u>162,734</u>	<u>43,688</u>
Non-instructional programs:			
Community service and education operations	2,400	0	0
Other expenditures:			
Facilities acquisitions	2,450,584	0	0
Long-term debt interest	244,958	0	0
AEA flowthrough	1,235,782	0	1,235,782
Depreciation (unallocated)*	591,993	0	0
	<u>4,523,317</u>	<u>0</u>	<u>1,235,782</u>
Total governmental activities	41,300,360	3,495,584	3,506,677
Business-Type activities:			
Non-instructional programs:			
Nutrition services	1,208,834	784,432	335,233
Total	<u>\$ 42,509,194</u>	<u>4,280,016</u>	<u>3,841,910</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Transfer in

Total general revenues

Excess(deficiency) of revenues over(under) expenses before capital contributions

Capital contributions

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.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(14,248,492)	0	(14,248,492)
(6,224,155)	0	(6,224,155)
(976,581)	0	(976,581)
(21,449,228)	0	(21,449,228)
(1,765,107)	0	(1,765,107)
(1,378,702)	0	(1,378,702)
(2,540,226)	0	(2,540,226)
(2,793,458)	0	(2,793,458)
(795,050)	0	(795,050)
(286,393)	0	(286,393)
(9,558,936)	0	(9,558,936)
(2,400)	0	(2,400)
(2,450,584)	0	(2,450,584)
(244,958)	0	(244,958)
0	0	0
(591,993)	0	(591,993)
(3,287,535)	0	(3,287,535)
(34,298,099)	0	(34,298,099)
0	(89,169)	(89,169)
(34,298,099)	(89,169)	(34,387,268)
\$ 22,030,976	0	22,030,976
2,861,111	0	2,861,111
3,161,672	0	3,161,672
11,397,158	0	11,397,158
129,940	0	129,940
981,339	0	981,339
40,562,196	0	40,562,196
6,264,097	(89,169)	6,174,928
0	22,198	22,198
6,264,097	(66,971)	6,197,126
19,378,643	(836,960)	18,541,683
\$ 25,642,740	(903,931)	24,738,809

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	\$ 7,410,577	7,979,500	1,932,187	17,322,264
Receivables:				
Property tax				
Delinquent	187,623	0	61,350	248,973
Succeeding year	18,697,629	0	5,017,486	23,715,115
Income surtax	1,452,000	0	0	1,452,000
Interfund	456,436	0	0	456,436
Accounts	151,329	0	0	151,329
Due from other governments	786,261	533,042	0	1,319,303
Prepaid expenses	10,843	0	0	10,843
Inventories	26,920	0	0	26,920
TOTAL ASSETS	\$ 29,179,618	8,512,542	7,011,023	44,703,183
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	\$ 0	7,678	75,306	82,984
Accounts payable	488,255	1,294,686	337,520	2,120,461
Salaries and benefits payable	3,638,058	0	0	3,638,058
Deferred revenue:				
Succeeding year property tax	18,697,629	0	5,017,486	23,715,115
Income surtax	1,452,000	0	0	1,452,000
Other	74,933	0	142,372	217,305
Total liabilities	24,350,875	1,302,364	5,572,684	31,225,923
Fund balances:				
Reserved for:				
Phase III	15,488	0	0	15,488
State technology	1,156	0	0	1,156
Teacher compensation	2,386	0	0	2,386
Debt service	0	0	21,074	21,074
Unreserved:				
Designated for special purposes	1,352,870	0	0	1,352,870
Designated for cash flow	3,000,000	0	0	3,000,000
Undesignated:				
General	456,843	0	0	456,843
Capital projects	0	7,210,178	0	7,210,178
Management levy	0	0	252,988	252,988
Other special revenue purposes	0	0	335,167	335,167
Physical plant and equipment levy	0	0	829,110	829,110
Total fund balances	4,828,743	7,210,178	1,438,339	13,477,260
TOTAL LIABILITIES AND FUND BALANCES	\$ 29,179,618	8,512,542	7,011,023	44,703,183

SEE NOTES TO FINANCIAL STATEMENTS.

AMES 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)	\$	13,477,260
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		24,640,929
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		1,452,000
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		584,290
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(35,985)
Long-term liabilities, including bonds payable, capital loan notes payable, early retirement payable, and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(14,475,754)</u>
Net assets of governmental activities (page 14)	\$	<u>25,642,740</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 20,003,769	3,161,672	4,980,946	28,146,387
Tuition	2,084,827	0	0	2,084,827
Other	679,202	46,378	815,117	1,540,697
State sources	13,935,192	0	1,918	13,937,110
Federal sources	966,725	0	0	966,725
Total revenues	37,669,715	3,208,050	5,797,981	46,675,746
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	16,759,483	0	848,435	17,607,918
Special instruction	7,348,660	0	0	7,348,660
Other instruction	1,395,916	0	838,366	2,234,282
	25,504,059	0	1,686,801	27,190,860
Support services:				
Student services	1,745,654	0	0	1,745,654
Instructional staff services	1,398,942	0	0	1,398,942
Administration services	2,480,937	0	5,870	2,486,807
Operation and maintenance of plant services	2,793,420	0	320,097	3,113,517
Transportation services	795,050	0	0	795,050
Central support services	284,059	0	5,572	289,631
	9,498,062	0	331,539	9,829,601
Non-instructional programs:				
Community service and education operations	2,400	0	0	2,400
Other expenditures:				
Facilities acquisitions	0	6,128,008	2,894,451	9,022,459
Long-term debt:				
Principal	0	0	1,170,000	1,170,000
Interest and fiscal charges	0	0	222,796	222,796
AEA flowthrough	1,235,782	0	0	1,235,782
	1,235,782	6,128,008	4,287,247	11,651,037
Total expenditures	36,240,303	6,128,008	6,305,587	48,673,898
Excess(deficiency) of revenues over(under) expenditures	1,429,412	(2,919,958)	(507,606)	(1,998,152)
Other financing sources(uses):				
Transfer in	981,339	0	625,375	1,606,714
Transfer out	0	0	(625,375)	(625,375)
Proceeds from General Obligation Bonds	0	10,000,000	0	10,000,000
Proceeds from Capital Loan Notes	0	0	710,000	710,000
Total other financing sources(uses)	981,339	10,000,000	710,000	11,691,339
Net change in fund balances	2,410,751	7,080,042	202,394	9,693,187
Fund balance beginning of year, as restated(Note 11)	2,417,992	130,136	1,235,945	3,784,073
Fund balance end of year	\$ 4,828,743	7,210,178	1,438,339	13,477,260

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 JUNE 30, 2004

Net change in fund balances - total governmental funds (page 19) \$ 9,693,187

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

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 6,963,141	
Depreciation expense	(784,086)	
Loss on disposal of capital assets	<u>(20,437)</u>	6,158,618

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(10,710,000)	
Repaid	<u>1,170,000</u>	(9,540,000)

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

(22,162)

Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.

(92,628)

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

Early Retirement	\$ (441,486)	
Compensated Absences	<u>(113,873)</u>	(555,359)

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

622,441

Changes in net assets of governmental activities (page 16)

\$ 6,264,097

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
ASSETS		
Cash and pooled investments	\$ 196	2,187,455
Receivables:		
Accounts	25	398,256
Inventories	22,450	0
Capital assets, net of accumulated depreciation (note 5)	110,027	0
TOTAL ASSETS	132,698	2,585,711
LIABILITIES		
Excess of warrants issued over bank balance	599,558	0
Interfund payable	373,452	0
Accounts payable	57,567	103,165
Salaries and benefits payable	387	0
Incurred but not reported claims	0	1,500,000
Deferred revenue:		
Other	5,665	398,256
TOTAL LIABILITIES	1,036,629	2,001,421
NET ASSETS		
Investment in capital assets, net of related debt	110,027	0
Unrestricted:		
Designated for Health Insurance	0	678,228
Undesignated	(1,013,958)	(93,938)
TOTAL NET ASSETS	\$ (903,931)	584,290

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 784,432	4,884,184
TOTAL OPERATING REVENUES	<u>784,432</u>	<u>4,884,184</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Salaries	65,989	0
Benefits	30,634	4,189,238
Services	470,225	32,743
Supplies	601,395	31,325
Other	2,590	8,437
Depreciation	38,001	0
TOTAL OPERATING EXPENSES	<u>1,208,834</u>	<u>4,261,743</u>
OPERATING INCOME (LOSS)	<u>(424,402)</u>	<u>622,441</u>
NON-OPERATING REVENUES:		
State sources	11,042	0
Federal sources	324,191	0
TOTAL NON-OPERATING REVENUES	<u>335,233</u>	<u>0</u>
Net income(loss) before capital contributions	(89,169)	622,441
Capital contributions	<u>22,198</u>	<u>0</u>
Change in net assets	(66,971)	622,441
Net assets beginning of year	<u>(836,960)</u>	<u>(38,151)</u>
Net assets end of year	<u>\$ (903,931)</u>	<u>584,290</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2004

	Business- type Activities - Enterprise - Fund School Nutrition	Governmental Activities - Internal Service Funds
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 795,773	0
Cash received from miscellaneous operating activities	945	4,962,697
Cash payments to employees for services	(166,601)	0
Cash payments to suppliers for goods or services	(968,376)	(2,786,942)
Net cash provided by(used in) operating activities	<u>(338,259)</u>	<u>2,175,755</u>
Cash flows from non-capital financing activities:		
State grants received	11,042	0
Federal grants received	274,137	0
Net cash provided by non-capital financing activities	<u>285,179</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(24,653)	0
Payments on GMAC truck lease	(13,850)	0
Net cash used in capital and related financing activities	<u>(38,503)</u>	<u>0</u>
Cash flows from investing activities:		
Loan repayment to General Fund	(20,034)	0
Net cash provided by investing activities	<u>(20,034)</u>	<u>0</u>
Net increase(decrease) in cash and cash equivalents	(111,617)	2,175,755
Cash and cash equivalents at beginning of year	<u>(487,745)</u>	<u>11,700</u>
Cash and cash equivalents at end of year	<u>\$ (599,362)</u>	<u>2,187,455</u>

AMES COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 YEAR ENDED JUNE 30, 2004

	Business- type Activities - Enterprise Fund School Nutrition	Governmental Activities - Internal Service Funds
Reconciliation of operating income(loss) to net cash provided by(used in) operating activities:		
Operating income(loss)	\$ (424,402)	622,441
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:		
Commodities consumed	50,054	0
Depreciation	38,001	0
Increase in inventories	(1,787)	0
Decrease in accounts receivable	9,436	78,513
Increase in accounts payable	57,567	103,165
Increase in incurred but not reported claims	0	973,380
Decrease in salary and benefits payable	(69,978)	0
Increase in deferred revenue	2,850	398,256
Net cash provided by(used in) operating activities	<u>\$ (338,259)</u>	<u>2,175,755</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
 END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
 SHEET:

Current assets:		
Cash and pooled investments	\$ (599,362)	2,187,455

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$50,054.

During the year ended June 30, 2004, the District paid interest on the GMAC truck lease of \$929.

During the year ended June 30, 2004, the Physical Plant and Equipment Levy (PPEL) Fund contributed capital of \$22,198.

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 87,639	15,531
Accounts receivable	0	206,775
TOTAL ASSETS	<u>87,639</u>	<u>222,306</u>
LIABILITIES		
Excess of warrants issued over bank balance	0	194,088
Accounts payable	0	3,427
Due to other groups	0	24,791
TOTAL LIABILITIES	<u>0</u>	<u>222,306</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 87,639</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 YEAR ENDED JUNE 30, 2004

	Private Purpose Trust <u>Scholarship</u>
Additions:	
Local sources:	
Interest and dividends	\$ 47,373
Total additions	<u>47,373</u>
Deductions:	
Non-instructional programs:	
Fees and Scholarships awarded	22,739
Total deductions	<u>22,739</u>
Income before change in market value and transfer	24,634
Transfer out	(981,339)
Change in market value	(1,581)
	<u>(982,920)</u>
Change in net assets	(958,286)
Net assets beginning of year	<u>1,045,925</u>
Net assets end of year	<u>\$ 87,639</u>

SEE NOTES TO FINANCIAL STATEMENTS.

AMES COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Ames Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served primarily includes the City of Ames, Iowa. 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, Ames 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 Ames 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 Story 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 service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net 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 utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Funds, Print Shop Fund and Health Insurance Fund. The Nutrition Fund is used to account for the food service operations of the District. The Print Shop Fund is used to account for the printing operations of the District. The Health Insurance Fund is used to account for the self-funded health insurance operations of the District.

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

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

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and 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	\$ 5,000
Buildings	5,000
Land improvements	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	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, 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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term liabilities - In the 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.

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$5,830 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District had investments in government and agency securities which are stated at a fair value of \$55,192 and are classified as risk category 1, which are investments that are insured and registered and held by the District or its agent in the District's name.

The District had investments in common stock that are stated at a fair value of \$21,516 and is classified as risk category 2, which are investments that are uninsured and unregistered and held by the District or its agent in the District's name.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ 625,375
General Fund	Private Purpose Trust - Scholarships	<u>981,339</u>
Total		<u>\$ 1,606,714</u>

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

The Korf Trust was endowed for 25 years and then reverted to the District for allowable expenses with the exception of salaries and benefits.

(4) Interfund Receivables and Payables

At June 30, 2004 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
General Fund	Enterprise Fund - School Nutrition	\$ 373,452
General Fund	Management Fund	75,306
General Fund	Capital Projects Fund	7,678
Total		<u>\$ 456,436</u>

(5) Capital Assets

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

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,957,787	23,865	0	4,981,652
Construction in progress	369,428	6,345,471	294,066	6,420,833
Total capital assets not being depreciated	<u>5,327,215</u>	<u>6,369,336</u>	<u>294,066</u>	<u>11,402,485</u>
Capital assets being depreciated:				
Buildings	25,323,690	314,018	0	25,637,708
Land improvements	1,702,797	105,600	0	1,808,397
Machinery and equipment	1,949,794	468,253	338,768	2,079,279
Total capital assets being depreciated	<u>28,976,281</u>	<u>887,871</u>	<u>338,768</u>	<u>29,525,384</u>
Less accumulated depreciation for:				
Buildings	13,474,123	492,554	0	13,966,677
Land improvements	1,093,935	62,108	0	1,156,043
Machinery and equipment	1,253,127	229,424	318,331	1,164,220
Total accumulated depreciation	<u>15,821,185</u>	<u>784,086</u>	<u>318,331</u>	<u>16,286,940</u>
Total capital assets being depreciated, net	<u>13,155,096</u>	<u>103,785</u>	<u>20,437</u>	<u>13,238,444</u>
Governmental activities capital assets, net	<u>\$ 18,482,311</u>	<u>6,473,121</u>	<u>314,503</u>	<u>24,640,929</u>
Business-type activities:				
Machinery and equipment	\$ 377,781	46,851	0	424,632
Less accumulated depreciation	276,604	38,001	0	314,605
Business-type activities capital assets, net	<u>\$ 101,177</u>	<u>8,850</u>	<u>0</u>	<u>110,027</u>

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 4,263
Support services:	
Administration	2,373
Operation and maintenance	185,457
	<u>192,093</u>
Unallocated depreciation	591,993
	<u>591,993</u>
Total governmental activities depreciation expense	<u>\$ 784,086</u>
Business-type activities:	
Food services	\$ 38,001
	<u>\$ 38,001</u>

(6) 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
General Obligation Bonds	\$ 0	10,000,000	660,000	9,340,000	335,000
Capital Loan Notes	1,885,000	710,000	510,000	2,085,000	530,000
Bond Anticipatory Notes	450,000	0	0	450,000	0
Early Retirement	1,837,127	1,067,400	625,914	2,278,613	608,733
Compensated Absences	208,268	322,141	208,268	322,141	322,141
	<u>\$ 4,380,395</u>	<u>12,099,541</u>	<u>2,004,182</u>	<u>14,475,754</u>	<u>1,795,874</u>
Total					

Capital Loan Notes

During the year ended June 30, 2001 the District issued \$2,800,000 in capital loan notes to purchase 122.75 acres of land. During the year ended June 30, 2004, the District issued \$710,000 in capital loan notes to purchase technology equipment. Details of the capital loan notes indebtedness at June 30, 2004 are as follows:

Year Ending June 30,	June 30, 2001		June 30, 2004		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 355,000	76,635	175,000	18,902	530,000	95,537
2006	375,000	57,110	180,000	13,127	555,000	70,237
2007	395,000	38,923	185,000	6,845	580,000	45,768
2008	420,000	20,160	0	0	420,000	20,160
	<u>\$ 1,545,000</u>	<u>192,828</u>	<u>540,000</u>	<u>38,874</u>	<u>2,085,000</u>	<u>231,702</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified and support staff employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement benefits paid during the year ended June 30, 2004, totaled \$625,914. A liability has been

recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of March 1, 2004			
	Interest Rates	Principal	Interest	Total
2005	2.25 %	\$ 335,000	336,285	671,285
2006	2.25	350,000	328,747	678,747
2007	3.00	365,000	320,872	685,872
2008	3.50	380,000	309,923	689,923
2009	3.50	395,000	296,623	691,623
2010	3.50	415,000	282,797	697,797
2011	3.50	430,000	268,272	698,272
2012	3.05	450,000	253,223	703,223
2013	3.25	465,000	239,498	704,498
2014	3.45	480,000	224,385	704,385
2015	3.55	500,000	207,825	707,825
2016	3.65	515,000	190,075	705,075
2017	3.75	535,000	171,277	706,277
2018	3.85	560,000	151,215	711,215
2019	3.95	580,000	129,655	709,655
2020	4.00	605,000	106,745	711,745
2021	4.10	630,000	82,545	712,545
2022	4.15	660,000	56,715	716,715
2023	4.25	690,000	29,325	719,325
Total		\$ 9,340,000	3,986,002	13,326,002

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$1,309,325, \$1,322,474 and \$1,277,092 respectively, equal to the required contributions for each year.

(8) Risk Management

The District has a self-funded health and dental insurance plan. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated

claims for the plan year and specific stop-loss reinsurance coverage for the excess \$75,000 in insured claims for any one covered individual. Settled aggregate stop-loss claims have not exceeded the commercial coverage in any of the past two years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That balance was \$2,379,990 at April 30, 2004, the last date for which information is available. The incurred but not recorded and unpaid claims liability of \$1,500,000 reported in the plan at April 30, 2004, is based on the requirements of GASB Statement Number 10, is included as a liability on the Statement of Net Assets.

In addition, the District is exposed to various risks to 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. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past four fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$1,235,782 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.

(10) Deficit Net Assets

The Enterprise Fund, Nutrition Fund had deficit net assets of \$903,931 at June 30, 2004. The Internal Service Fund, Print Shop Fund had deficit net assets of \$93,938 at June 30, 2004.

(11) Restatement Due to Fund Accounting Purposes

In converting the District to comply with GASB 34, the Internal Service Funds were combined with the General Fund on the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances. The Internal Service Funds should have been reported as Proprietary Funds - Governmental Activities. The government-wide net asset balance was not affected; however the General Fund was understated on the financial statements. The following details the adjustment of the General Fund to the actual beginning balance, removing the Internal Service Funds:

	Fund			Total
	General	Capital Projects	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 2,379,841	130,136	1,235,945	3,745,922
Removal of Internal Service Funds for fund accounting purposes	38,151	0	0	38,151
Net assets, July 1, 2003, as restated for governmental funds	\$ 2,417,992	130,136	1,235,945	3,784,073

The following details the adjustment of the Proprietary Funds to the actual beginning balance, adding the Internal Service Funds:

	Fund			Total Internal Service Funds
	Enterprise	Internal Service Funds		
	School	Health	Print	
	Nutrition	Insurance	Shop	
Net assets, June 30, 2003, as previously reported	\$ (836,960)	0	0	
Addition of Internal Service Funds for fund accounting purposes	0	93,333	(131,484)	(38,151)
Net assets, July 1, 2003, as restated for proprietary funds	\$ (836,960)	93,333	(131,484)	(38,151)

(12) Construction Commitment

The District has entered into contracts totally \$23,666,705 for the construction of a new middle school. As of June 30, 2004, costs of \$3,424,740 had been incurred against the contract. The balance of \$20,241,965 remaining at June 30, 2004 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

AMES COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	\$ 31,771,911	784,432
State sources	13,937,110	11,042
Federal sources	966,725	324,191
Total revenues	<u>46,675,746</u>	<u>1,119,665</u>
Expenditures:		
Instruction	27,190,860	0
Support services	9,829,601	0
Non-instructional programs	2,400	1,208,834
Other expenditures	11,651,037	0
Total expenditures	<u>48,673,898</u>	<u>1,208,834</u>
Excess(deficiency) of revenues over(under) expenditures	(1,998,152)	(89,169)
Other financing sources, net	<u>11,691,339</u>	<u>22,198</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	9,693,187	(66,971)
Balance beginning of year, as restated(Note 11)	<u>3,784,073</u>	<u>(836,960)</u>
Balance end of year	<u>\$ 13,477,260</u>	<u>(903,931)</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
32,556,343	32,657,143	32,657,143	(100,800)
13,948,152	14,427,099	14,427,099	(478,947)
1,290,916	1,250,000	1,250,000	40,916
<u>47,795,411</u>	<u>48,334,242</u>	<u>48,334,242</u>	<u>(538,831)</u>
27,190,860	26,725,000	27,275,000	84,140
9,829,601	10,506,000	11,200,000	1,370,399
1,211,234	1,275,000	1,275,000	63,766
11,651,037	19,239,572	12,350,000	698,963
<u>49,882,732</u>	<u>57,745,572</u>	<u>52,100,000</u>	<u>2,217,268</u>
(2,087,321)	(9,411,330)	(3,765,758)	1,678,437
<u>11,713,537</u>	<u>12,000,000</u>	<u>12,000,000</u>	<u>(286,463)</u>
9,626,216	2,588,670	8,234,242	1,391,974
2,947,113	5,718,764	5,718,764	2,771,651
<u>12,573,329</u>	<u>8,307,434</u>	<u>13,953,006</u>	<u>4,163,625</u>

AMES 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 GAAP basis. Encumbrances are not recognized on the GAAP 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, the District adopted one budget amendment reducing budgeted expenditures by \$5,645,572.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 314,479	492,515	1,111,915	1,918,909	13,278	1,932,187
Receivables:						
Property tax						
Current year delinquent	13,865	0	39,689	53,554	7,796	61,350
Succeeding year	1,460,000	0	2,885,901	4,345,901	671,585	5,017,486
TOTAL ASSETS	\$ 1,788,344	492,515	4,037,505	6,318,364	692,659	7,011,023
LIABILITIES AND FUND EQUITY						
Liabilities:						
Interfund payable	\$ 75,306	0	0	75,306	0	75,306
Accounts payable	50	14,976	322,494	337,520	0	337,520
Deferred revenue:						
Succeeding year property tax	1,460,000	0	2,885,901	4,345,901	671,585	5,017,486
Other	0	142,372	0	142,372	0	142,372
	1,535,356	157,348	3,208,395	4,901,099	671,585	5,572,684
Fund equity:						
Fund balances:						
Reserved for debt service	0	0	0	0	21,074	21,074
Unreserved, undesignated	252,988	335,167	829,110	1,417,265	0	1,417,265
	252,988	335,167	829,110	1,417,265	21,074	1,438,339
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,788,344	492,515	4,037,505	6,318,364	692,659	7,011,023

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
REVENUES:						
Local sources:						
Local tax	\$ 1,353,093	0	2,861,111	4,214,204	766,742	4,980,946
Other	0	778,036	15,623	793,659	21,458	815,117
State sources	524	0	1,099	1,623	295	1,918
TOTAL REVENUES	<u>1,353,617</u>	<u>778,036</u>	<u>2,877,833</u>	<u>5,009,486</u>	<u>788,495</u>	<u>5,797,981</u>
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	848,435	0	0	848,435	0	848,435
Other instruction	0	838,366	0	838,366	0	838,366
Support services:						
Administration services	5,870	0	0	5,870	0	5,870
Operation and maintenance of plant services	320,097	0	0	320,097	0	320,097
Central support services	5,572	0	0	5,572	0	5,572
Other expenditures:						
Facilities acquisition	0	0	2,894,451	2,894,451	0	2,894,451
Long-term debt:						
Principal	0	0	0	0	1,170,000	1,170,000
Interest and fiscal charges	0	0	0	0	222,796	222,796
TOTAL EXPENDITURES	<u>1,179,974</u>	<u>838,366</u>	<u>2,894,451</u>	<u>4,912,791</u>	<u>1,392,796</u>	<u>6,305,587</u>
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	173,643	(60,330)	(16,618)	96,695	(604,301)	(507,606)
OTHER FINANCING SOURCES(USES):						
Transfers in	0	0	0	0	625,375	625,375
Transfers out	0	0	(625,375)	(625,375)	0	(625,375)
Proceeds from Capital Loan Notes	0	0	710,000	710,000	0	710,000
	<u>0</u>	<u>0</u>	<u>84,625</u>	<u>84,625</u>	<u>625,375</u>	<u>710,000</u>
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	173,643	(60,330)	68,007	181,320	21,074	202,394
FUND BALANCE BEGINNING OF YEAR	<u>79,345</u>	<u>395,497</u>	<u>761,103</u>	<u>1,235,945</u>	<u>0</u>	<u>1,235,945</u>
FUND BALANCE END OF YEAR	<u>\$ 252,988</u>	<u>335,167</u>	<u>829,110</u>	<u>1,417,265</u>	<u>21,074</u>	<u>1,438,339</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES 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
Crawford	\$ 808	125	115	818
Edwards	170	1,475	1,404	241
Fellows	2,922	494	1,192	2,224
Meeker	2,017	1,888	2,302	1,603
Mitchell	3,035	2,978	4,313	1,700
Northwood	3,476	3,621	3,122	3,975
Roosevelt	4,730	648	2,294	3,084
Sawyer	9,912	18,146	15,599	12,459
Wilson-Beardshear	1,475	947	956	1,466
Middle School	117,093	153,523	135,977	134,639
High School	249,859	594,191	671,092	172,958
Total	<u>\$ 395,497</u>	<u>778,036</u>	<u>838,366</u>	<u>335,167</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<u>AMES EDUCATION FOUNDATION</u>				
ASSETS				
Accounts receivable	\$ 23,899	86,443	23,899	86,443
Due from other groups	42,859	0	42,859	0
	<u>66,758</u>	<u>86,443</u>	<u>66,758</u>	<u>86,443</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 64,054	83,198	64,054	83,198
Interfund payable	1,204	0	1,204	0
Accounts payable	1,500	1,964	1,500	1,964
Due to other groups	0	1,281	0	1,281
	<u>66,758</u>	<u>86,443</u>	<u>66,758</u>	<u>86,443</u>
<u>VOCATIONAL CONSORTIUM</u>				
Accounts receivable	\$ 129,791	120,332	129,791	120,332
Due from other groups	54,428	0	54,428	0
	<u>184,219</u>	<u>120,332</u>	<u>184,219</u>	<u>120,332</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 184,219	110,890	184,219	110,890
Accounts payable	0	571	0	571
Due to other groups	0	8,871	0	8,871
	<u>184,219</u>	<u>120,332</u>	<u>184,219</u>	<u>120,332</u>
<u>HS/MS/ELEMENTARY AGENCY</u>				
ASSETS				
Cash and pooled investments	\$ 12,687	15,531	12,687	15,531
LIABILITIES				
Accounts payable	\$ 0	892	0	892
Due to other groups	12,687	14,639	12,687	14,639
	<u>\$ 12,687</u>	<u>15,531</u>	<u>12,687</u>	<u>15,531</u>
<u>TOTALS - ALL AGENCY FUNDS</u>				
ASSETS				
Cash and pooled investments	\$ 12,687	15,531	12,687	15,531
Accounts receivable	153,690	206,775	153,690	206,775
Due from other groups	97,287	0	97,287	0
	<u>\$ 263,664</u>	<u>222,306</u>	<u>263,664</u>	<u>222,306</u>
LIABILITIES				
Excess of warrants issued over bank balance	\$ 248,273	194,088	248,273	194,088
Interfund payable	1,204	0	1,204	0
Accounts payable	1,500	3,427	1,500	3,427
Due to other groups	12,687	24,791	12,687	24,791
	<u>\$ 263,664</u>	<u>222,306</u>	<u>263,664</u>	<u>222,306</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2004

	Governmental Activities -		
	Internal Service Funds		
	Health Insurance	Print Shop	Total
ASSETS			
Cash and pooled investments	\$ 2,260,321	(72,866)	2,187,455
Receivables:			
Accounts	398,256	0	398,256
TOTAL ASSETS	<u>2,658,577</u>	<u>(72,866)</u>	<u>2,585,711</u>
LIABILITIES			
Accounts payable	82,093	21,072	103,165
Incurred but not reported claims	1,500,000	0	1,500,000
Deferred revenue:			
Other	398,256	0	398,256
TOTAL LIABILITIES	<u>1,980,349</u>	<u>21,072</u>	<u>2,001,421</u>
NET ASSETS			
Unrestricted:			
Designated for Health Insurance	678,228	0	678,228
Undesignated	0	(93,938)	(93,938)
TOTAL NET ASSETS	<u>\$ 678,228</u>	<u>(93,938)</u>	<u>584,290</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN NET ASSETS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2004

	Governmental Activities - Internal Service Funds		
	Health Insurance	Print Shop	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 4,782,570	101,614	4,884,184
TOTAL OPERATING REVENUES	<u>4,782,570</u>	<u>101,614</u>	<u>4,884,184</u>
OPERATING EXPENSES:			
Non-instructional programs:			
Benefits	4,189,238	0	4,189,238
Services	0	32,743	32,743
Supplies	0	31,325	31,325
Other	8,437	0	8,437
TOTAL OPERATING EXPENSES	<u>4,197,675</u>	<u>64,068</u>	<u>4,261,743</u>
Change in net assets	584,895	37,546	622,441
Net assets beginning of year	93,333	(131,484)	(38,151)
Net assets end of year	<u>\$ 678,228</u>	<u>(93,938)</u>	<u>584,290</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES COMMUNITY SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 YEAR ENDED JUNE 30, 2004

	Governmental Activities -		
	Internal Service Funds		
	Health Insurance	Print Shop	Total
Cash flows from operating activities:			
Cash received from miscellaneous operating activities	\$ 4,861,071	101,626	4,962,697
Cash payments to suppliers for goods or services	(2,743,946)	(42,996)	(2,786,942)
Net cash provided by operating activities	<u>2,117,125</u>	<u>58,630</u>	<u>2,175,755</u>
Net increase in cash and cash equivalents	2,117,125	58,630	2,175,755
Cash and cash equivalents at beginning of year	143,196	(131,496)	11,700
Cash and cash equivalents at end of year	<u>\$ 2,260,321</u>	<u>(72,866)</u>	<u>2,187,455</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 584,895	37,546	622,441
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in accounts receivable	78,501	12	78,513
Increase in accounts payable	82,093	21,072	103,165
Increase in incurred but not reported claims	973,380	0	973,380
Increase in deferred revenue	398,256	0	398,256
Net cash provided by operating activities	<u>\$ 2,117,125</u>	<u>58,630</u>	<u>2,175,755</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	<u>\$ 2,260,321</u>	<u>(72,866)</u>	<u>2,187,455</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES 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	\$ 28,146,387	24,485,168	21,956,153	20,912,758
Tuition	2,084,827	1,888,407	1,957,873	2,024,685
Other	1,540,697	1,667,320	2,003,493	2,327,363
State sources	13,937,110	14,218,846	15,067,261	15,790,359
Federal sources	966,725	963,395	1,144,545	847,647
Total	<u>\$ 46,675,746</u>	<u>43,223,136</u>	<u>42,129,325</u>	<u>41,902,812</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 17,607,918	17,352,060	17,575,379	16,805,036
Special instruction	7,348,660	6,676,468	6,145,957	5,911,673
Other instruction	2,234,282	2,407,881	2,875,534	3,057,757
Support services:				
Student services	1,745,654	1,603,668	1,951,005	1,876,573
Instructional staff services	1,398,942	1,449,101	1,706,715	1,263,996
Administration services	2,486,807	2,402,344	2,493,396	2,377,041
Operation and maintenance of plant services	3,113,517	2,988,780	2,787,963	5,671,413
Transportation services	795,050	739,955	772,605	717,582
Central support services	289,631	264,321	316,337	799,853
Non-instructional programs	2,400	24,839	25,887	0
Other expenditures:				
Facilities acquisitions	9,000,261	2,469,179	2,009,980	1,896,486
Long-term debt:				
Principal	1,170,000	1,700,000	1,750,000	1,835,000
Interest and other charges	222,796	154,894	282,740	321,543
AEA flow-through	1,235,782	1,315,387	1,318,239	1,355,796
Total	<u>\$ 48,651,700</u>	<u>41,548,877</u>	<u>42,011,737</u>	<u>43,889,749</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AMES 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	\$ <u>50,054</u>
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	39,501
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	<u>234,636</u>
			<u>274,137</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	0225-G	454,281
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES			
	84.010	0225-G	<u>15,954</u>
			<u>470,235</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 03	24
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES			
	84.048	FY 04	<u>49,274</u>
			<u>49,298</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 03	13,199
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.151	FY 04	<u>42</u>
			<u>13,241</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	<u>20,204</u>
IMMIGRANT EDUCATION			
	84.162	FY 04	<u>7,424</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VI)			
	84.369	FY 04	<u>45,206</u>
TECHNOLOGY LITERACY CHALLENGE FUND GRANT			
	84.318	FY 02	<u>1,434</u>

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	10,527
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	174,139
			<u>184,666</u>
IOWA PUBLIC TELEVISION: STAR SCHOOLS	84.203	FY 03	<u>1,690</u>
AREA EDUCATION AGENCY: SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 04	<u>165,023</u>
DEPARTMENT OF HUMAN SERVICES: MEDICAL ASSISTANCE PROGRAM	93.778	FY 04	<u>62,438</u>
TOTAL			<u>\$ 1,345,050</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Ames 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
Ames Community School District:

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

Compliance

As part of obtaining reasonable assurance about whether Ames 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.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for item IV-K-04.

Internal Control Over Financial Reporting

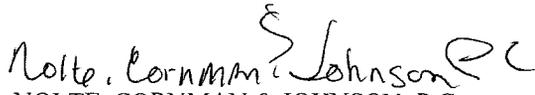
In planning and performing our audit, we considered Ames Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. 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 Ames Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

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. We noted no material weaknesses during the course of our audit.

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


NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 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 on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance

To the Board of Education of
Ames Community School District

Compliance

We have audited the compliance of Ames 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. Ames 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 Ames Community School District's management. Our responsibility is to express an opinion on Ames 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 Ames 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 Ames Community School District's compliance with those requirements.

In our opinion, Ames 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 Ames 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 Ames 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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

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relatively low level the risk that non-compliance with applicable requirements of laws, regulations, 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Ames Community School District and other parties to whom Ames 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 that reads "Nolte, Cornman & Johnson PC". The signature is written in a cursive, flowing style.

NOLTE, CORNMAN & JOHNSON, P.C.

August 11, 2004

AMES 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) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any 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:
 - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Ames Community School District qualified as a low-risk auditee.

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

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Supporting Documents for Payments with Credit Cards - Payments made with credit cards do not always have detailed supporting documentation.

Recommendation - The District has a policy in place for credit card usage as part of the Expense Reimbursement policy. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We have implemented procedures to ensure credit card receipts and supporting detail is obtained.

Conclusion - Response accepted.

AMES 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:

No reportable conditions were reported.

AMES 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. However, we did note an individual who received a travel allowance which was not included in the persons W-2.

Recommendation - The District should report travel allowances with the payroll subjecting it to payroll taxes.

Response - We have implemented procedures to correct travel allowances. We will continue to process travel allowances through payroll.

Conclusion - Response accepted.

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
Cris Berger, Secretary Spouse of owner of Popcorn America	Popcorn	\$59

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions 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. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

IV-H-04 Certified Enrollment - We noted a variance in the basic enrollment data certified to the Department of Education. The number of students which were tuitioned out was overstated by one student.

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

Response - We will contact the Iowa Department of Education and the Department of Management.

Conclusion - Response accepted.

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-04 Financial Condition - The Enterprise Fund - Nutrition Fund had deficit net assets of \$903,931, at June 30, 2004. The Internal Service Fund - Print Shop had deficit net assets of \$93,938 at June 30, 2004. The District also had deficit student account balances in the Special Revenue - Student Activity Fund.

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

Response - The Internal Service Fund - Print Shop showed a small profit in fiscal 2004. We continue to take steps to improve the financial condition of the Enterprise - Nutrition Fund. We will monitor the deficit student accounts in the Special Revenue - Student Activity Fund, and establish a workout plan for the deficit accounts.

Conclusion - Response accepted.