

ANDREW COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Andrew Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
Charles Cornelius	President	2003
Allan W. Till	Vice President	2004
Joell Deppe	Board Member	2005
Kevin Kilburg	Board Member	2004
Charles Schwager	Board Member	2005
Board of Education (After September 2003 election)		
Charles Cornelius	President	2006
Joell Deppe	Vice President	2005
Kevin Kilburg	Board Member	2004
Allan W. Till	Board Member	2004
Charles Schwager	Board Member	2005
School Officials		
Sarah Pinion	Superintendent	2004
Ruth Hingtgen	District Secretary/ Treasurer	2004
Lane & Waterman	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 10, 2004, on our consideration of the Andrew Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Andrew Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$2,577,650 in fiscal 2003 to \$2,583,404 in fiscal 2004, while General Fund expenditures increased from \$2,533,631 in fiscal 2003 to \$2,649,988 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$302,580 in fiscal 2003 to a balance of \$244,495 in fiscal 2004, a 19.2% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because of the negotiated salary and benefits settlement.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$5,137 in fiscal year 2003 to \$2,747 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Andrew 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 Andrew 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 Andrew Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

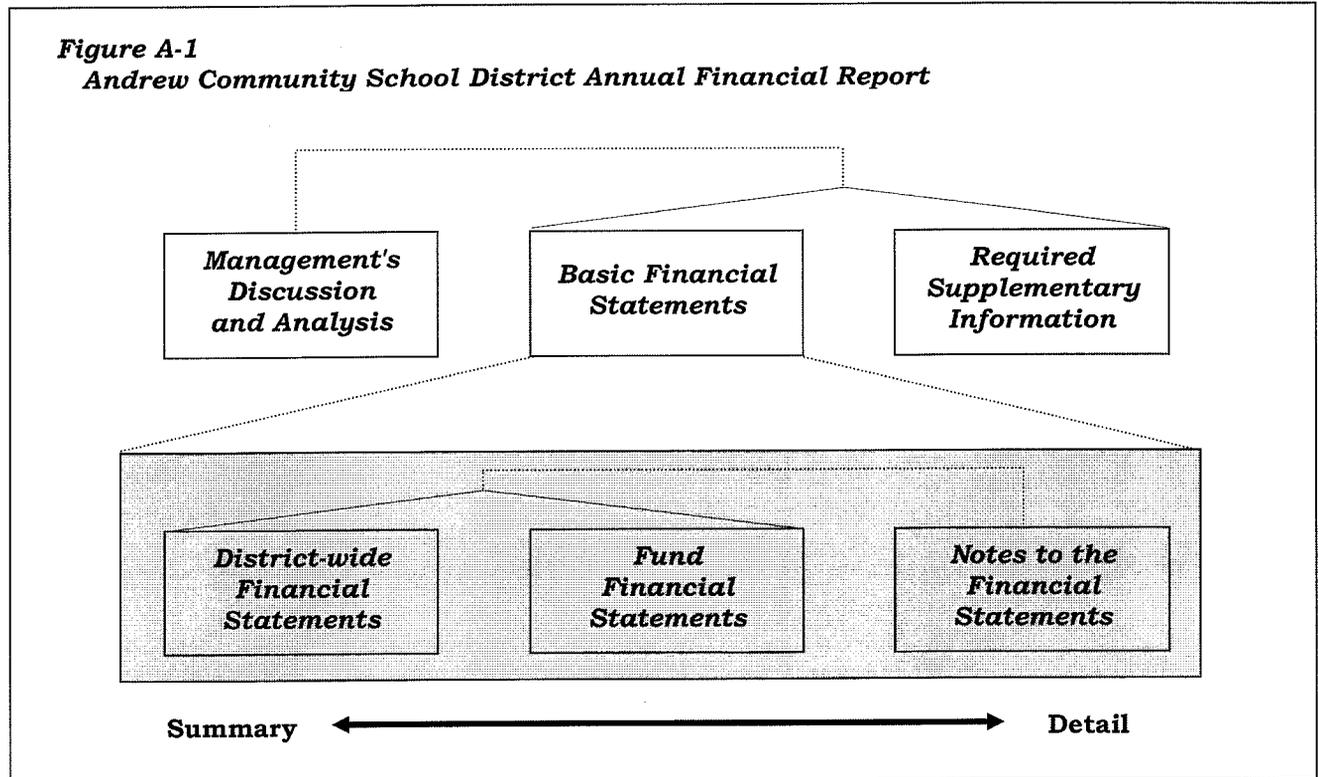


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	District-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

The District's governmental funds include the General Fund, Special Revenue Funds, 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 required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Current and other assets	\$ 2,206,984	4,959	2,211,943
Capital assets	299,587	1,472	301,059
Total assets	<u>2,506,571</u>	<u>6,431</u>	<u>2,513,002</u>
Long-term obligations	0	0	0
Other liabilities	1,487,806	1,834	1,489,640
Total liabilities	<u>1,487,806</u>	<u>1,834</u>	<u>1,489,640</u>
Net assets:			
Invested in capital assets, net of related debt	299,587	1,472	301,059
Restricted	366,434	0	366,434
Unrestricted	352,744	3,125	355,869
Total net assets	<u>\$ 1,018,765</u>	<u>4,597</u>	<u>1,023,362</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 291,813	64,186	355,999
Operating grants and contributions and restricted interest	305,994	45,498	351,492
General revenues:			
Local tax	963,564	0	963,564
Local option sales and services tax	156,267	0	156,267
Unrestricted state grants	1,217,966	0	1,217,966
Unrestricted investment earnings	4,296	62	4,358
Total revenues	2,939,900	109,746	3,049,646
Program expenses:			
Governmental activities:			
Instructional	2,084,783	0	2,084,783
Support services	890,104	0	890,104
Non-instructional programs	14,840	106,190	121,030
Other expenses	132,313	0	132,313
Total expenses	3,122,040	106,190	3,228,230
Change in net assets	\$ (182,140)	3,556	(178,584)

Property tax and unrestricted state grants account for approximately 72% of the total revenue. The District's expenses primarily relate to instruction and support services which account for approximately 92% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$2,939,900 and expenses were \$3,122,040. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,084,783	1,588,753
Support services	890,104	887,960
Non-instructional	14,840	14,840
Other expenses	132,313	32,680
Totals	\$ 3,122,040	2,524,233

- The cost financed by users of the District's programs was \$291,813.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$305,994.

-
- The net cost of governmental activities was financed with \$1,119,831 in property and other taxes and \$1,217,966 in unrestricted state grants.

Business-Type Activities

Revenues of the District's business-type activities were \$109,746 and expenses were \$106,190. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$609,259, above last year's ending fund balances of a \$574,597. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the Local Option State Sales Tax revenue.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$302,580 to \$244,495, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Schoolhouse Fund balance decreased from \$8,499 in fiscal 2003 to \$0 in fiscal 2004. This fund balance at the beginning of the year was closed out to the General Fund during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$1,041 at June 30, 2003 to \$4,597 at June 30, 2004, representing an increase of approximately 342%. For fiscal 2004, the District increased meal prices, resulting increased revenues. The increase in revenues was less than offset by the increase in normal operational expenses.

BUDGETARY HIGHLIGHTS

The District's receipts were \$5,717 less than budgeted receipts, a variance of .2%. The most significant variance resulted from the District receiving more in federal sources than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget exceeded in the other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$301,059, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 13% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$55,089.

The original cost of the District's capital assets was \$2,378,145. Governmental funds account for \$2,353,740 with the remainder of \$24,405 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 \$28,044 at June 30, 2004, compared to \$0 reported at June 30, 2003. This increase resulted from kitchen project expenses.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 7,201	0	7,201
Construction in progress	28,044	0	28,044
Buildings	55,104	0	55,104
Improvements other than buildings	19,508	0	19,508
Machinery and equipment	189,730	1,472	191,202
Total	\$ 299,587	1,472	301,059

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District is facing declining enrollment which is reducing revenues for the District.
- The District had a 78% increase in the cost of health insurance which is increasing total expenditures for the District.

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 Ruth Hingtgen, District Treasurer, Andrew Community School District, 13 S. Marion St, P.O. Box 230, Andrew, Iowa, 52030.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents:			
ISCAP	\$ 301,325	2,462	303,787
Other	922,984	0	922,984
Receivables			
Property tax:			
Delinquent	13,433	0	13,433
Succeeding year	852,242	0	852,242
Income surtax	87,924	0	87,924
Accounts	10,957	1,105	12,062
Accrued ISCAP interest	674	0	674
Due from other governments	17,445	0	17,445
Inventories	0	1,392	1,392
Capital assets, net of accumulated depreciation (Note 5)	299,587	1,472	301,059
TOTAL ASSETS	2,506,571	6,431	2,513,002
LIABILITIES			
Accounts payable	6,403	0	6,403
Salaries and benefits payable	276,449	1,834	278,283
ISCAP warrants payable	302,000	0	302,000
ISCAP accrued interest payable	1,022	0	1,022
ISCAP unamortized premium	593	0	593
Deferred revenue:			
Succeeding year property tax	852,242	0	852,242
Incurred but not reported claims	49,097	0	49,097
TOTAL LIABILITIES	1,487,806	1,834	1,489,640
NET ASSETS			
Investment in capital assets, net of related debt	299,587	1,472	301,059
Restricted for:			
Teacher Compensation	133	0	133
Phase III	580	0	580
Talented and Gifted	914	0	914
Early Intervention	43	0	43
Capital projects	211,816	0	211,816
Management levy	61,173	0	61,173
Physical plant and equipment levy	58,210	0	58,210
Other special revenue purposes	33,565	0	33,565
Unrestricted	352,744	3,125	355,869
TOTAL NET ASSETS	\$ 1,018,765	4,597	1,023,362

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,370,552	291,585	201,970
Special instruction	472,931	0	2,475
Other instruction	241,300	0	0
	<u>2,084,783</u>	<u>291,585</u>	<u>204,445</u>
Support services:			
Student services	99,525	0	0
Instructional staff services	65,181	0	0
Administration services	326,180	0	0
Operation and maintenance of plant services	156,966	0	0
Transportation services	241,457	228	1,916
Central services	795	0	0
	<u>890,104</u>	<u>228</u>	<u>1,916</u>
Non-instructional programs	<u>14,840</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Facilities acquisitions	19,903	0	0
AEA flowthrough	99,633	0	99,633
Depreciation(unallocated)*	12,777	0	0
	<u>132,313</u>	<u>0</u>	<u>99,633</u>
Total governmental activities	3,122,040	291,813	305,994
Business-Type activities:			
Non-instructional programs:			
Nutrition services	106,190	64,186	45,498
Total business-type activities	<u>106,190</u>	<u>64,186</u>	<u>45,498</u>
Total	<u>\$ 3,228,230</u>	<u>355,999</u>	<u>351,492</u>
General Revenues:			
Local tax for:			
General purposes			
Capital outlay			
Local option sales and services			
Unrestricted state grants			
Unrestricted investment earnings			
Total general revenues			
Changes in net assets			
Net assets beginning of year, as restated(Note 9)			
Net assets end of year			

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(876,997)	0	(876,997)
(470,456)	0	(470,456)
(241,300)	0	(241,300)
<u>(1,588,753)</u>	<u>0</u>	<u>(1,588,753)</u>
(99,525)	0	(99,525)
(65,181)	0	(65,181)
(326,180)	0	(326,180)
(156,966)	0	(156,966)
(239,313)	0	(239,313)
(795)	0	(795)
<u>(887,960)</u>	<u>0</u>	<u>(887,960)</u>
(14,840)		(14,840)
(19,903)	0	(19,903)
0	0	0
(12,777)	0	(12,777)
<u>(32,680)</u>	<u>0</u>	<u>(32,680)</u>
(2,524,233)	0	(2,524,233)
0	3,494	3,494
0	3,494	3,494
<u>(2,524,233)</u>	<u>3,494</u>	<u>(2,520,739)</u>
\$ 912,535	0	912,535
51,029	0	51,029
156,267	0	156,267
1,217,966	0	1,217,966
4,296	62	4,358
<u>2,342,093</u>	<u>62</u>	<u>2,342,155</u>
(182,140)	3,556	(178,584)
<u>1,200,905</u>	<u>1,041</u>	<u>1,201,946</u>
\$ <u>1,018,765</u>	<u>4,597</u>	<u>1,023,362</u>

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP	\$ 301,325	0	0	301,325
Other	497,760	202,284	151,848	851,892
Receivables:				
Property tax:				
Delinquent	12,106	0	1,327	13,433
Succeeding year	768,783	0	83,459	852,242
Income surtax	87,924	0	0	87,924
Interfund	0	0	0	0
Accounts	1,425	9,532	0	10,957
Accrued ISCAP interest	674	0	0	674
Due from other governments	17,445	0	0	17,445
TOTAL ASSETS	\$ 1,687,442	211,816	236,634	2,135,892
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 6,176	0	227	6,403
Salaries and benefits payable	276,449	0	0	276,449
ISCAP warrants payable	302,000	0	0	302,000
ISCAP accrued interest payable	1,022	0	0	1,022
ISCAP unamortized premium	593	0	0	593
Deferred revenue:				
Succeeding year property tax	768,783	0	83,459	852,242
Income surtax	87,924	0	0	87,924
Total liabilities	1,442,947	0	83,686	1,526,633
Fund balances:				
Reserved for:				
Teacher Compensation	133	0	0	133
Phase III	580	0	0	580
Talented and Gifted	914	0	0	914
Early Intervention	43	0	0	43
Unreserved:				
Undesignated	242,825	211,816	152,948	607,589
Total fund balances	244,495	211,816	152,948	609,259
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,687,442	211,816	236,634	2,135,892

SEE NOTES TO FINANCIAL STATEMENTS.

ANDREW 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 16)	\$	609,259
 <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 in the governmental funds.		299,587
Accounts receivable income surtax, is not yet available to finance expenditures of the current fiscal period.		87,924
Blending of the Internal Service Funds to be reflected on an entity-wide basis.		<u>21,995</u>
Net assets of governmental activites (page 13)	\$	<u><u>1,018,765</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ANDREW 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	\$ 877,893	156,267	85,671	1,119,831
Tuition	147,485	0	0	147,485
Other	34,066	941	113,558	148,565
State sources	1,418,156	0	59	1,418,215
Federal sources	105,804	0	0	105,804
Total revenues	<u>2,583,404</u>	<u>157,208</u>	<u>199,288</u>	<u>2,939,900</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,220,869	0	7,625	1,228,494
Special instruction	472,931	0	0	472,931
Other instruction	141,161	0	101,455	242,616
	<u>1,834,961</u>	<u>0</u>	<u>109,080</u>	<u>1,944,041</u>
Support services:				
Student services	90,932	0	112	91,044
Instructional staff services	58,751	0	69	58,820
Administration services	276,678	0	22,318	298,996
Operation and maintenance of plant services	146,251	0	1,290	147,541
Transportation services	137,165	0	59,534	196,699
Central services	795	0	0	795
	<u>710,572</u>	<u>0</u>	<u>83,323</u>	<u>793,895</u>
Non-instructional programs	4,822	0	1,537	6,359
Other expenditures:				
Facilities acquisitions	0	43,089	18,221	61,310
AEA flowthrough	99,633	0	0	99,633
	<u>99,633</u>	<u>43,089</u>	<u>18,221</u>	<u>160,943</u>
Total expenditures	<u>2,649,988</u>	<u>43,089</u>	<u>212,161</u>	<u>2,905,238</u>
Excess(deficiency) of revenues over(under) expenditures	(66,584)	114,119	(12,873)	34,662
Other financing sources:				
Transfers in	8,499	0	0	8,499
Transfers out	0	0	(8,499)	(8,499)
Total other financing sources	<u>8,499</u>	<u>0</u>	<u>(8,499)</u>	<u>0</u>
Net change in fund balances	(58,085)	114,119	(21,372)	34,662
Fund balance beginning of year	302,580	97,697	174,320	574,597
Fund balance end of year	<u>\$ 244,495</u>	<u>211,816</u>	<u>152,948</u>	<u>609,259</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ANDREW 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 18) \$ 34,662

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

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

Capital outlays	\$ 58,275	
Depreciation expense	<u>(54,719)</u>	3,556

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (8,329)

Net change in the Internal Service Funds charged back against expenditures made for self-funded insurance at an entity-wide basis. (212,029)

Changes in net assets of governmental activities(page 15) \$ (182,140)

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
Assets		
Cash and pooled investments	\$ 2,462	71,092
Accounts receivable	1,105	0
Inventories	1,392	0
Capital assets, net of accumulated depreciation	1,472	0
Total current assets	<u>6,431</u>	<u>71,092</u>
Liabilities		
Salaries and benefits payable	1,834	0
Incurred but not reported claims	0	49,097
Total liabilities	<u>1,834</u>	<u>49,097</u>
Net Assets		
Invested in capital assets, net of related debt	1,472	0
Unrestricted	3,125	21,995
Total net assets	<u>\$ 4,597</u>	<u>21,995</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type Activities:	
	Enterprise Fund	Governmental Activities:
	School Nutrition	Internal Service
OPERATING REVENUE:		
Local sources:		
Charges for services	\$ 64,186	298,131
TOTAL OPERATING REVENUES	<u>64,186</u>	<u>298,131</u>
OPERATING EXPENSES:		
Non-instructional programs:		
Food service operations:		
Salaries	45,164	0
Benefits	12,294	510,160
Services	1,830	0
Supplies	46,532	0
Depreciation	370	0
TOTAL OPERATING EXPENSES	<u>106,190</u>	<u>510,160</u>
OPERATING LOSS	<u>(42,004)</u>	<u>(212,029)</u>
NON-OPERATING REVENUES:		
State sources	1,759	0
Federal sources	43,739	0
Interest on investments	62	0
TOTAL NON-OPERATING REVENUES	<u>45,560</u>	<u>0</u>
Change in net assets	3,556	(212,029)
Net assets beginning of year	<u>1,041</u>	<u>234,024</u>
Net assets end of year	<u>\$ 4,597</u>	<u>21,995</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Business-Type	
	Activities: Enterprise Fund School Nutrition	Governmental Activities: Internal Service Fund
Cash flows from operating activities:		
Cash received from sale of lunches and breakfasts	\$ 63,005	0
Cash received from miscellaneous operating activities	225	298,131
Cash payments to employees for services	(60,890)	(479,436)
Cash payments to suppliers for goods or services	(38,399)	0
Net cash used in operating activities	<u>(36,059)</u>	<u>(181,305)</u>
Cash flows from non-capital financing activities:		
State grants received	1,759	0
Federal grants received	34,569	0
Net cash provided by non-capital financing activities	<u>36,328</u>	<u>0</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(627)	0
Net cash used in capital and related financing activities	<u>(627)</u>	<u>0</u>
Cash flows from investing activities:		
Interest on investments	62	0
Net cash provided by investing activities	<u>62</u>	<u>0</u>
Net decrease in cash and cash equivalents	(296)	(181,305)
Cash and cash equivalents at beginning of year	2,758	252,397
Cash and cash equivalents at end of year	<u>\$ 2,462</u>	<u>71,092</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (42,004)	(212,029)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Commodities consumed	9,170	0
Depreciation	370	0
Decrease in inventories	1,590	0
Increase in accounts receivable	(956)	0
Decrease in accounts payable	(797)	0
Increase in incurred but not reported claims	0	30,724
Decrease in salaries and benefits payable	(3,432)	0
Net cash used in operating activities	<u>\$ (36,059)</u>	<u>(181,305)</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>\$ 2,462</u>	<u>71,092</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$9,170.

SEE NOTES TO FINANCIAL STATEMENTS.

ANDREW COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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

A. Reporting Entity

For financial reporting purposes, Andrew 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 Andrew 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 Jackson County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues,

are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund and the Internal Service Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Internal Service Fund is used to account for the self-funded health insurance plan of the District. The Internal Service Fund is charged

back to the Governmental Funds and shown combined in the Statement of Net Assets and Statement of Activities. This chargeback is based upon a percentage of total employees by the participants' various functional areas.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

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

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Improvements other than buildings	2,000
Furniture and equipment:	
School Nutrition Fund equipment	500

Property, furniture 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
Improvements other than buildings	20 years
Furniture and equipment	5-20 years

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

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

days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the District or the District's agent in the District's name, or by multiple financial institution collateral pool 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 \$773,860 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.

(3) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Schoolhouse	\$ 8,499
Total		<u>\$ 8,499</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation is ISCAP at June 30, 2004 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2003-04B	1/30/04	1/28/05	\$ 123,838	674	123,000	1,022
2004-05A	6/30/04	6/30/05	177,487	0	179,000	0
Total			<u>\$ 301,325</u>	<u>674</u>	<u>302,000</u>	<u>1,022</u>

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the district must repay the outstanding withdrawal from its General Fund receipts. In addition, the district must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2004 was noted.

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,201	0	0	7,201
Construction in progress	0	28,044		28,044
Total capital assets not being depreciated	<u>7,201</u>	<u>28,044</u>	<u>0</u>	<u>35,245</u>
Capital assets being depreciated:				
Buildings	1,285,990	21,692	61,782	1,245,900
Improvements other than buildings	44,989	0	0	44,989
Furniture and equipment	1,022,761	8,539	1,851	1,029,449
Total capital assets being depreciated	<u>2,353,740</u>	<u>30,231</u>	<u>63,633</u>	<u>2,320,338</u>
Less accumulated depreciation for:				
Buildings	1,249,890	2,688	61,782	1,190,796
Improvements other than buildings	23,908	1,573	0	25,481
Furniture and equipment	791,112	50,458	1,851	839,719
Total accumulated depreciation	<u>2,064,910</u>	<u>54,719</u>	<u>63,633</u>	<u>2,055,996</u>
Total capital assets being depreciated, net	<u>288,830</u>	<u>(24,488)</u>	<u>0</u>	<u>264,342</u>
Governmental activities capital assets, net	\$ <u>296,031</u>	<u>3,556</u>	<u>0</u>	<u>299,587</u>

	Balance Year	Increases	Decreases	Balance of Year
Business-type activities:				
Furniture and equipment	\$ 24,405	6,583	0	30,988
Less accumulated depreciation	23,190	6,953	627	29,516
Business-type activities capital assets, net	\$ <u>1,215</u>	<u>(370)</u>	<u>(627)</u>	<u>1,472</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular	\$	8,587
Other		755
Support services:		
Administration		1,740
Operation and maintenance of plant		3,064
Transportation		27,796
		<u>41,942</u>
Unallocated depreciation		<u>12,777</u>
Total governmental activities depreciation expense	\$	<u>54,719</u>
Business-type activities:		
Food services	\$	370
Total business-type activities depreciation expense	\$	<u>370</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a

publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$87,319, \$87,289, \$83,175, respectively, equal to the required contributions for each year.

(7) Risk Management

The district has a self-funded health health insurance plan. The District purchases commercial insurance to provide for the aggregate stop-loss coverage for the excess of 110% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess of \$10,000 in insured claims for any one covered individual. Settle claims have not exceeded the commercial coverage in any of the past three 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 \$21,995 at June 30, 2004. The incurred but not reported and unpaid claims liability of \$49,097 reported in the plan at June 30, 2004 based on the requirements of GASB Statement Number 10, is set up as a liability on the balance sheet.

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$99,633 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and

Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

Beginning capital assets for governmental activities of \$2,452,192 were restated to \$2,360,941. The restatement primarily removed assets below the District's capitalizations threshold.

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

	Fund			Total
	General	Capital Projects	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 302,580	97,697	174,320	574,597
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 302,580</u>	<u>97,697</u>	<u>174,320</u>	<u>574,597</u>
GASB 34 adjustments:				
Income surtax				96,253
Capital assets, net of accumulated depreciation of \$2,064,910				296,031
Recognition of Internal Service Funds within funds serviced				<u>234,024</u>
Net assets, July 1, 2003, as restated				<u>\$ 1,200,905</u>

(10) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 1,414,077	63,292
State sources	1,418,217	1,759
Federal sources	98,984	43,739
Total revenues	<u>2,931,278</u>	<u>108,790</u>
Disbursements:		
Instruction	1,925,989	0
Support services	783,491	0
Non-instructional programs	6,456	109,086
Other expenditures	165,111	0
Total expenditures	<u>2,881,047</u>	<u>109,086</u>
Excess(deficiency) of receipts over(under) disbursements	50,231	(296)
Other financing sources, net	<u>0</u>	<u>0</u>
Excess(deficiency) of receipts over(under) disbursements	50,231	(296)
Balance beginning of year	<u>801,661</u>	<u>2,758</u>
Balance end of year	<u>\$ 851,892</u>	<u>2,462</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,477,369	1,451,060	1,451,060	26,309
1,419,976	1,489,725	1,489,725	(69,749)
142,723	105,000	105,000	37,723
<u>3,040,068</u>	<u>3,045,785</u>	<u>3,045,785</u>	<u>(5,717)</u>
1,925,989	2,108,000	2,108,000	182,011
783,491	1,030,000	1,030,000	246,509
115,542	144,000	144,000	28,458
165,111	151,792	151,792	(13,319)
<u>2,990,133</u>	<u>3,433,792</u>	<u>3,433,792</u>	<u>443,659</u>
49,935	(388,007)	(388,007)	(437,942)
0	0	0	0
49,935	(388,007)	(388,007)	(437,942)
804,419	480,705	480,705	323,714
<u>854,354</u>	<u>92,698</u>	<u>92,698</u>	<u>761,656</u>

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

	Governmental Funds		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 2,931,278	8,622	2,939,900
Expenditures	2,881,047	24,191	2,905,238
Net	50,231	(15,569)	34,662
Other financing sources, net	0	0	0
Beginning fund balances	801,661	(227,064)	574,597
Ending fund balances	\$ 851,892	(242,633)	609,259

	Proprietary Fund Enterprise		
	Cash Basis	Accrual Adjust- ments	Modified Accrual Basis
Revenues	\$ 108,790	956	109,746
Expenditures	109,086	(2,896)	106,190
Net	(296)	3,852	3,556
Other financing sources, net	0	0	0
Beginning fund balances	2,758	(1,717)	1,041
Ending fund balances	\$ 2,462	2,135	4,597

ANDREW COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

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

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

During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total
ASSETS					
Cash and pooled investments	\$ 60,636	31,944	57,420	1,848	151,848
Receivables:					
Property tax:					
Current year delinquent	537	0	790	0	1,327
Succeeding year	35,000	0	48,459	0	83,459
TOTAL ASSETS	\$ 96,173	31,944	106,669	1,848	236,634
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	227	0	0	227
Deferred revenue:					
Succeeding year property tax	35,000	0	48,459	0	83,459
Total Liabilities	35,000	227	48,459	0	83,686
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	61,173	31,717	58,210	1,848	152,948
Total fund balances	61,173	31,717	58,210	1,848	152,948
TOTAL LIABILITIES AND FUND EQUITY	\$ 96,173	31,944	106,669	1,848	236,634

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Manage- ment	Student Activity	Physical Plant and Equipment Levy	School house 67.5	Expendable Trust	Total
REVENUES:						
Local sources:						
Local tax	\$ 34,642	0	51,029	0	0	85,671
Other	242	109,592	1,711	0	2,013	113,558
State sources	24	0	35	0	0	59
TOTAL REVENUES	34,908	109,592	52,775	0	2,013	199,288
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	2,130	0	3,400	0	2,095	7,625
Other instruction	0	101,455	0	0	0	101,455
Support services:						
Student support services	112	0	0	0	0	112
Instructional staff	69	0	0	0	0	69
Administration services	22,318	0	0	0	0	22,318
Operation and maintenance of plant services	1,290	0	0	0	0	1,290
Student transportation	3,156	0	56,378	0	0	59,534
Food service operations	1,537	0	0	0	0	1,537
Other expenditures:						
Facilities acquisitions	0	0	18,221	0	0	18,221
TOTAL EXPENDITURES	30,612	101,455	77,999	0	2,095	212,161
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	4,296	8,137	(25,224)	0	(82)	(12,873)
OTHER FINANCING SOURCES:						
Transfers out	0	0	0	(8,499)	0	(8,499)
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	4,296	8,137	(25,224)	(8,499)	(82)	(21,372)
FUND BALANCE BEGINNING OF YEAR	56,877	23,580	83,434	8,499	1,930	174,320
FUND BALANCE END OF YEAR	\$ 61,173	31,717	58,210	0	1,848	152,948

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Beginning of Year	Revenues	Expendi- tures	End of Year
General Athletics	\$ 0	12,503	12,516	(13)
Athletic Store	0	0	45	(45)
Girls Fundraiser	0	1,032	415	617
Boys Fundraising	0	1,183	325	858
Uniforms	0	100	0	100
Football	0	0	1,461	(1,461)
Concessions	0	9,500	7,556	1,944
Cross Country	0	228	299	(71)
Boys Basketball	(208)	477	1,438	(1,169)
Baseball	0	504	1,760	(1,256)
Boys Track	(294)	680	719	(333)
Girls Basketball	(458)	263	1,245	(1,440)
Volleyball	(632)	3,173	3,415	(874)
Golf	511	2,959	2,373	1,097
Softball	(3,090)	593	0	(2,497)
Girls Track	(510)	587	666	(589)
General Music	8,594	8,920	8,181	9,333
Music Store	0	1,000	1,094	(94)
Media Center	3,388	2,737	2,183	3,942
Library Club	37	62	52	47
Hawk Club	0	300	0	300
Art Club	50	1,051	1,557	(456)
Yearbook	(2,527)	5,061	4,195	(1,661)
Cheerleaders	338	1,316	1,888	(234)
FFA	36	6,347	7,102	(719)
Student Council	8,409	13,374	10,319	11,464
Spanish Club	338	0	0	338
Thespians	2,283	3,407	2,773	2,917
German Club	131	0	0	131
Foreign Language Travel	(160)	1,439	978	301
Class of 2005	433	1,783	1,165	1,051
Class of 2006	0	551	156	395
Class of 2003	114	57	171	0
Class of 2004	1,585	2,496	3,622	459
Interest	0	155	155	0
Petty Cash	110	0	0	110
Embroidery Fund	159	0	44	115
General Activity	0	4,438	4,109	329
Graduation Fees	(1,130)	405	654	(1,379)
Elementary Store	1,542	4,574	5,574	542
Trophy Case	642	0	0	642
Stage Curtain Fundraiser	4,775	7,509	11,250	1,034
Concession Stand	(886)	810	0	(76)
Bleachers	0	8,018	0	8,018
Total	\$ 23,580	109,592	101,455	31,717

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,119,831	1,025,490	863,295	818,480
Tuition	147,485	152,751	142,376	137,892
Other	148,565	32,134	37,263	44,368
State sources	1,418,215	1,460,046	1,483,893	1,413,506
Federal sources	105,804	79,153	73,888	75,272
Total	<u>\$ 2,939,900</u>	<u>2,749,574</u>	<u>2,600,715</u>	<u>2,489,518</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,228,494	1,212,473	1,189,882	1,110,630
Special instruction	472,931	427,430	369,634	405,686
Other instruction	242,616	128,408	120,017	101,874
Support services:				
Student services	91,044	87,043	89,257	85,210
Instructional staff services	58,820	62,376	56,823	54,076
Administration services	298,996	252,073	256,353	241,537
Operation and maintenance of plant services	147,541	117,782	110,130	128,248
Transportation services	196,699	134,521	163,509	143,180
Central services	795	880	299	1,283
Non-instructional programs	6,359	3,645	29	75
Other expenditures:				
Facilities acquisitions	61,310	0	0	0
AEA flow-through	99,633	107,000	106,788	103,731
Total	<u>\$ 2,905,238</u>	<u>2,533,631</u>	<u>2,462,721</u>	<u>2,375,530</u>

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
Andrew Community School District:

We have audited the financial statements of Andrew Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 10, 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 Andrew Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

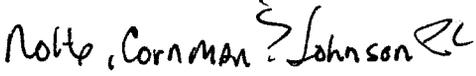
In planning and performing our audit, we considered Andrew Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

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

September 10, 2004

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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

Response – We will continue to review our procedures and implement additional controls where possible.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the other expenditures functional program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted. .

II-E-04 Business Transactions – No business transactions between the District and District officials were noted.

II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-K-04 Deficit Balances – Several student activity accounts had deficit balances at June 30, 2004.

Recommendation – The District should continue to investigate alternatives to eliminate deficits in order to return these accounts to a sound financial condition.

Response – The District is continuing to investigate alternatives to eliminate deficits in the student activity accounts at the end of the fiscal year.

Conclusion – Response accepted.