

ATLANTIC 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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Atlantic Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
Dennis Davis	President	2004
Glen Smith	Vice President	2003
Jan Myers	Board Member	2003
Steven Jacobs	Board Member	2005
Phil Hascall	Board Member	2005
Board of Education (After September 2003 election)		
Dennis Davis	President	2004
Glen Smith	Vice President	2006
Jody Lorence	Board Member	2006
Steven Jacobs	Board Member	2005
Phil Hascall	Board Member	2005
School Officials		
Dr. Wendy Prigge	Superintendent	2004
Barbara Nelson	District Secretary and Business Manager	2004
Amy Groom	District Treasurer	2004
Dave Chase	Attorney	2004
Brian Gruhn	Attorney	2004

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(a professional corporation)
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Atlantic 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 Atlantic 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 Atlantic 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 October 26, 2004 on our consideration of the Atlantic 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 36 through 38 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

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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 Atlantic Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 26, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$10,411,495 in fiscal year 2003 to \$10,303,950 in fiscal year 2004, while General Fund expenditures decreased from \$10,275,345 in fiscal 2003 to \$10,209,357 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$3,026,571 in fiscal 2003 to \$3,121,464 in fiscal 2004, a 5.81% increase from prior year.
- The decrease in General fund revenues was attributed to a reduction in state aid funding. This was due to a state-wide cut of 2.5% in aid issued by the Governor of Iowa. The decrease in expenditures was attributed to less expense in the support service area. This was due to a decrease in facility and equipment repair, tuition and fewer purchases of instructional material and hardware.
- 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. In addition to the increase in allowable growth, it was still necessary to levy for a budget guarantee of \$229,545.
- Overall, the District increased in net assets in the governmental activities of \$347,089 and decreased in the business-type activities of \$19,467, respectively.

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 Atlantic 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 Atlantic 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 Atlantic 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. 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.

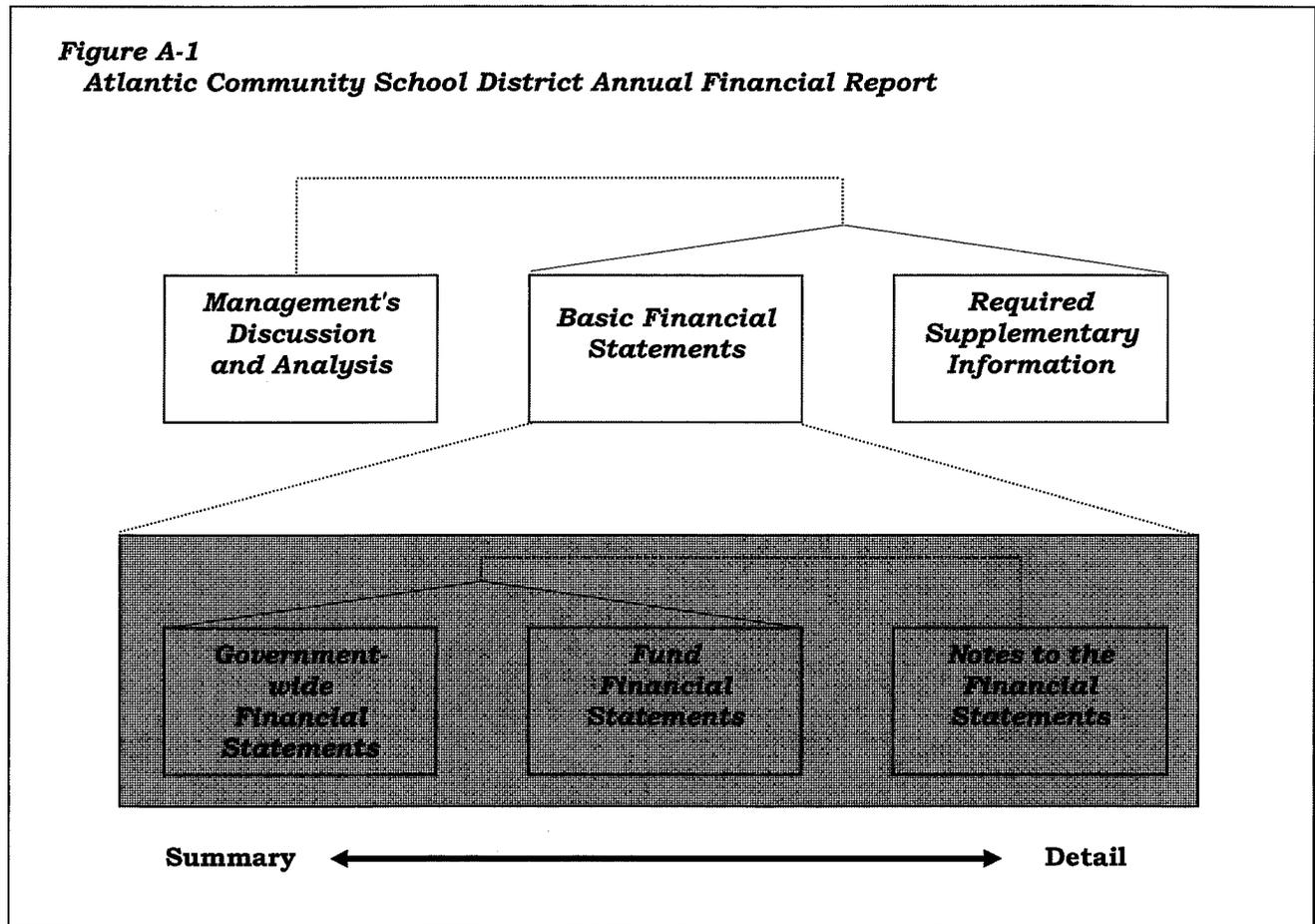


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 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
- Agency Fund – These are funds for which the District administers and accounts for parent prom, SWIA honor band, Ag Ed Advisory and Medicaid.

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		Business-type		Total		Total
	Activities		Activities		District		Change
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	2003-04
	2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 8,678,834	8,431,373	109,711	115,875	8,788,545	8,547,248	2.82%
Capital assets	11,532,853	11,938,098	69,588	79,710	11,602,441	12,017,808	-3.46%
Total assets	20,211,687	20,369,471	179,299	195,585	20,390,986	20,565,056	-0.85%
Long-term obligations	5,175,000	5,685,000	0	0	5,175,000	5,685,000	-8.97%
Other liabilities	4,240,981	4,235,854	3,317	136	4,244,298	4,235,990	0.20%
Total liabilities	9,415,981	9,920,854	3,317	136	9,419,298	9,920,990	-5.06%
Net assets:							
Invested in capital assets, net of related debt	6,467,837	6,212,498	69,588	79,710	6,537,425	6,292,208	3.90%
Restricted	1,302,437	1,122,693	0	0	1,302,437	1,122,693	16.01%
Unrestricted	3,025,432	3,113,426	106,394	115,739	3,131,826	3,229,165	-3.01%
Total net assets	\$ 10,795,706	10,448,617	175,982	195,449	10,971,688	10,644,066	3.08%

The District's combined net assets increased by 3.08%, or \$327,622, 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 \$179,744, or 16.01% over the prior year. The increase was primarily a result of the District increase in carryover balances of state and federal awards.

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 – decreased \$97,339, or 3.08%. This decrease in unrestricted net assets was primarily a result of the District PPEL Fund balance deteriorating during the year.

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 District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 1,102,031	1,216,930	318,724	359,151	1,420,755	1,576,081	-9.86%
Operating grants and contributions and restricted interest	1,236,395	1,258,318	239,862	233,827	1,476,257	1,492,145	-1.06%
Capital grants and contributions and restricted interest	14,559	249,881	0	0	14,559	249,881	-94.17%
General revenues:							
Property tax	4,248,798	4,333,322	0	0	4,248,798	4,333,322	-1.95%
Local option sales and services tax	3,825	868	0	0	3,825	868	340.67%
Unrestricted state grants	5,151,116	5,192,589	0	0	5,151,116	5,192,589	-0.80%
Other	39,008	49,780	565	120	39,573	49,900	-20.70%
Total revenues	11,795,732	12,301,688	559,151	593,098	12,354,883	12,894,786	-4.19%
Program expenses:							
Governmental activities:							
Instructional	7,263,422	7,316,470	0	0	7,263,422	7,316,470	-0.73%
Support services	3,045,730	3,136,164	0	0	3,045,730	3,136,164	-2.88%
Non-instructional programs	17,284	13,771	578,618	579,591	595,902	593,362	0.43%
Other expenditures	1,122,207	1,703,921	0	0	1,122,207	1,703,921	-34.14%
Total expenses	11,448,643	12,170,326	578,618	579,591	12,027,261	12,749,917	-5.67%
Changes in net assets	347,089	131,362	(19,467)	13,507	327,622	144,869	126.15%
Beginning Net Assets	10,448,617	10,317,255	195,449	181,942	10,644,066	10,499,197	1.38%
Ending Net Assets	\$ 10,795,706	10,448,617	175,982	195,449	10,971,688	10,644,066	3.08%

The FY 04 total revenues net decrease of 4.19% is reflective of the decrease of a federal demonstration grant that was used for capital improvements of \$200,000. Also, the increase in local option sales tax was noted for Pottawattamie County. Next year, the amount of local option sales and services tax will be substantially greater due to the voters of Audubon and Cass Counties.

The largest program expenditure area change was in the other expenditures function area, which was primarily due to decreases in capital improvement expenditures under the capitalization threshold.

Governmental Activities

Revenues for governmental activities were \$11,795,732 and expenses were \$11,448,643.

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	\$ 7,263,422	5,369,532
Support services	3,045,730	3,003,738
Non-instructional programs	17,284	17,284
Other expenses	1,122,207	705,104
Totals	<u>\$ 11,448,643</u>	<u>9,095,658</u>

- The cost financed by users of the District's programs was \$1,102,031.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,250,954.
- The net cost of governmental activities was financed with \$4,248,798 in local property tax, \$3,825 in local option sales and services tax, \$5,151,116 in state foundation aid and \$38,708 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$559,151 and expenses were \$578,618. 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 Atlantic 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 \$4,300,853, above last year's ending fund balances of \$4,062,026. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to decreased expenditures in the General and Physical Plant and Equipment Fund.

Governmental Fund Highlights

- The District's growth in its General Fund financial position from \$3,026,571 in fiscal 2003 to \$3,121,464 in fiscal 2004 is the product of many factors. Revenues decreased due to the mid-year state aid reduction. The District's decrease in General Fund expenditures was primarily due to a reduction in facility and equipment repair, tuition and fewer purchases of instructional material and hardware.
- The Physical Plant and Equipment Levy Fund balance increased from \$594,986 in fiscal 2003 to \$736,490 in fiscal 2004 due to less capital improvements expenditures. The District follows a five-year capital improvement plan that is reviewed annually.

- The Capital Projects Fund balance increased from \$868 in fiscal 2003 to \$4,693 in fiscal 2004 due to the increase in local option sales and services tax received to be used for capital improvements.
- The Management Fund balance decreased from \$133,477 to \$113,400. The Management Fund expenditures include early retirement benefits, property and liability insurance coverages, worker's compensation insurance and unemployment benefits.
- The Student Activity Fund balance increased from \$138,788 to \$151,411 due to the variance of student activities from year to year.
- The Expendable Trust Fund balance decreased from \$32,834 to \$31,011 due to the variance of activity from year to year.
- The Debt Service Fund balance increased from \$134,512 to \$142,384 due to normal operations of paying debt principal and interest.

Proprietary Fund Highlights

The Proprietary Fund net assets decreased from \$195,449 at June 30, 2003 to \$175,982 at June 30, 2004, representing a decrease of 9.96%. The District had a decrease in revenues and comparable expenditures resulting in a decrease of net assets.

BUDGETARY HIGHLIGHTS

The District's revenues were \$28,855 more than budgeted revenues, a variance of less than 1%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$11.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 3.46% from last year. More detailed information about capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$529,602.

The original cost of the District's capital assets was \$18.2 million. Governmental funds account for \$18.0 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$9,844,047 at June 30, 2004, compared to \$10,083,158 reported at June 30, 2003. This significant decrease resulted from depreciation expense for the fiscal year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 331,147	331,147	0	0	331,147	331,147	0.00%
Buildings	9,844,047	10,083,158	0	0	9,844,047	10,083,158	-2.37%
Land improvements	1,040,491	1,134,517	0	0	1,040,491	1,134,517	-8.29%
Machinery and equipment	317,168	389,276	69,588	79,710	386,756	468,986	-17.53%
Total	\$ 11,532,853	11,938,098	69,588	79,710	11,602,441	12,017,808	-3.46%

Long-Term Debt

At June 30, 2004, the District had \$5,175,000 in general obligation long-term debt outstanding. This represents a decrease of 8.97% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 4 to the financial statements.

The District had outstanding general obligation bonds of \$5,175,000 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2004	2003	2003-04
General obligation bonds	\$ 5,175,000	5,685,000	-8.97%
Totals	\$ 5,175,000	5,685,000	-8.97%

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 since 1996 when enrollment totals were 399.9 students more than the 1,440.6 students certified in September of 2004.
- Projected declining enrollment will continue the need for the Budget Guarantee. The Budget Guarantee will begin to phase out in 2004-05 at a rate of 10% per year until it is no longer available as a funding option in 2013.
- While 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. The state legislature set a 2% allowable growth increase for FY 04, and was subsequently reduced by a 2.5% state aid reduction during the year. The state legislature set a 4% allowable growth for the 2004-05 school year.
- The successful Local Option Sales and Services Tax elections in Audubon and Cass Counties will provide monies to fund capital improvement projects. The LOSST tax may also provide some monies for payment or retirement of outstanding bonds previously issued for school infrastructure purposes.

- A new Super Wal-Mart is scheduled to open in the spring of 2005. This will have an unspecified economic impact on the District.
- On February 3, 2004, District voters approved an Instructional Support Levy. This will generate nearly \$580,000 in additional revenue. Because the levy is largely funded by an income surtax, only 15% of the funds will be available in the 2004-05 fiscal year.
- The District will negotiate a new agreement during fiscal 2005 with the Atlantic Education Association (AEA). 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.

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 Barbara Nelson, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:	\$ 4,013,678	61,652	4,075,330
Receivables:			
Property tax:			
Delinquent	85,773	0	85,773
Succeeding year	4,092,304	0	4,092,304
Income surtax	174,093	0	174,093
Accounts	11,638	10	11,648
Due from other governments	301,348	27,918	329,266
Inventories	0	20,131	20,131
Capital assets, net of accumulated depreciation (Note 3)	11,532,853	69,588	11,602,441
TOTAL ASSETS	20,211,687	179,299	20,390,986
LIABILITIES			
Accounts payable	59,517	0	59,517
Salaries and benefits payable	52,067	0	52,067
Accrued interest payable	37,093	0	37,093
Deferred revenue:			
Succeeding year property tax	4,092,304	0	4,092,304
Other	0	3,317	3,317
Long-term liabilities (Note 4):			
Portion due within one year:			
Bonds payable	525,000	0	525,000
Portion due after one year:			
Bonds payable	4,650,000	0	4,650,000
TOTAL LIABILITIES	9,415,981	3,317	9,419,298
NET ASSETS			
Investment in capital assets, net of related debt	6,467,837	69,588	6,537,425
Restricted for:			
Talented and gifted	67,796	0	67,796
Teacher compensation	364	0	364
Early intervention	410	0	410
At risk	21,093	0	21,093
Title IIA	6,369	0	6,369
Physical plant and equipment levy	910,583	0	910,583
Management levy	113,400	0	113,400
Other special revenue purposes	182,422	0	182,422
Unrestricted	3,025,432	106,394	3,131,826
TOTAL NET ASSETS	\$ 10,795,706	175,982	10,971,688

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 4,937,651	520,927	538,558	1,855
Special instruction	1,616,021	275,969	253,748	0
Other instruction	709,750	274,347	28,486	0
	<u>7,263,422</u>	<u>1,071,243</u>	<u>820,792</u>	<u>1,855</u>
Support services:				
Student services	340,420	0	0	0
Instructional staff services	326,908	0	0	0
Administration services	969,597	0	0	0
Operation and maintenance of plant services	988,311	22,053	0	11,204
Transportation services	417,831	8,735	0	0
Central support services	2,663	0	0	0
	<u>3,045,730</u>	<u>30,788</u>	<u>0</u>	<u>11,204</u>
Non-instructional programs:				
Food service operations	17,284	0	0	0
	<u>17,284</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	58,480	0	0	1,500
Long-term debt interest	240,090	0	0	0
AEA flowthrough	415,603	0	415,603	0
Depreciation(unallocated)*	408,034	0	0	0
	<u>1,122,207</u>	<u>0</u>	<u>415,603</u>	<u>1,500</u>
Total governmental activities	11,448,643	1,102,031	1,236,395	14,559
Business-Type activities:				
Non-instructional programs:				
Nutrition services	578,618	318,724	239,862	0
Total business-type activities	<u>578,618</u>	<u>318,724</u>	<u>239,862</u>	<u>0</u>
Total	<u>\$ 12,027,261</u>	<u>1,420,755</u>	<u>1,476,257</u>	<u>14,559</u>

General Revenues:

Property tax levied for:
 General purposes
 Debt service
 Capital projects
Local option sales and services tax:
 Unrestricted state grants
 Unrestricted investment earnings
 Gain on sale of equipment

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 9)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,876,311)	0	(3,876,311)
(1,086,304)	0	(1,086,304)
(406,917)	0	(406,917)
(5,369,532)	0	(5,369,532)
(340,420)	0	(340,420)
(326,908)	0	(326,908)
(969,597)	0	(969,597)
(955,054)	0	(955,054)
(409,096)	0	(409,096)
(2,663)	0	(2,663)
(3,003,738)	0	(3,003,738)
(17,284)	0	(17,284)
(17,284)	0	(17,284)
(56,980)	0	(56,980)
(240,090)	0	(240,090)
0	0	0
(408,034)	0	(408,034)
(705,104)	0	(705,104)
(9,095,658)	0	(9,095,658)
0	(20,032)	(20,032)
0	(20,032)	(20,032)
(9,095,658)	(20,032)	(9,115,690)
\$ 3,161,416	0	3,161,416
755,665	0	755,665
331,717	0	331,717
3,825	0	3,825
5,151,116	0	5,151,116
38,708	565	39,273
300	0	300
9,442,747	565	9,443,312
347,089	(19,467)	327,622
10,448,617	195,449	10,644,066
\$ 10,795,706	175,982	10,971,688

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments:	\$ 2,881,259	705,935	426,484	4,013,678
Receivables:				
Property tax:				
Delinquent	64,251	3,507	18,015	85,773
Succeeding year	3,102,352	137,036	852,916	4,092,304
Income surtax	0	174,093	0	174,093
Accounts	10,184	0	1,454	11,638
Due from other governments	271,180	29,548	620	301,348
TOTAL ASSETS	\$ 6,329,226	1,050,119	1,299,489	8,678,834
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 53,343	2,500	3,674	59,517
Salaries and benefits payable	52,067	0	0	52,067
Deferred revenue:				
Succeeding year property tax	3,102,352	137,036	852,916	4,092,304
Income surtax	0	174,093	0	174,093
Total liabilities	3,207,762	313,629	856,590	4,377,981
Fund balances:				
Reserved for:				
Debt service	0	0	142,384	142,384
Talented and gifted	67,796	0	0	67,796
Teacher compensation	364	0	0	364
Early intervention	410	0	0	410
At risk	21,093	0	0	21,093
Title IIA	6,369	0	0	6,369
Unreserved:				
Designated:				
Special purposes by the board	60,460	0	0	60,460
Cash flow	850,000	0	0	850,000
Undesignated:				
General	2,114,972	0	0	2,114,972
Physical plant and equipment levy	0	736,490	0	736,490
Management levy	0	0	113,400	113,400
Other special revenue purposes	0	0	182,422	182,422
Capital projects	0	0	4,693	4,693
Total fund balances	3,121,464	736,490	442,899	4,300,853
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,329,226	1,050,119	1,299,489	8,678,834

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC 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)	\$	4,300,853
 <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.		11,532,853
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		174,093
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.		(37,093)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(5,175,000)</u>
Net assets of governmental activites (page 14)	\$	<u>10,795,706</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,061,346	331,717	859,560	4,252,623
Tuition	742,794	0	0	742,794
Other	169,661	5,928	282,200	457,789
Intermediate sources	7,121	0	0	7,121
State sources	5,956,095	143	730	5,956,968
Federal sources	366,933	11,204	0	378,137
Total revenues	<u>10,303,950</u>	<u>348,992</u>	<u>1,142,490</u>	<u>11,795,432</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	4,902,418	19,582	14,636	4,936,636
Special instruction	1,615,769	0	0	1,615,769
Other instruction	438,222	0	265,737	703,959
	<u>6,956,409</u>	<u>19,582</u>	<u>280,373</u>	<u>7,256,364</u>
Support services:				
Student services	339,827	0	593	340,420
Instructional staff services	326,391	0	517	326,908
Administration services	950,277	0	22,520	972,797
Operation and maintenance of plant services	919,955	0	56,849	976,804
Transportation services	294,877	46,144	20,067	361,088
Central support services	2,663	0	0	2,663
	<u>2,833,990</u>	<u>46,144</u>	<u>100,546</u>	<u>2,980,680</u>
Non-instructional programs:				
Food service operations	3,355	8,385	5,544	17,284
Other expenditures:				
Facilities acquisitions	0	133,377	0	133,377
Long-term debt:				
Principal	0	0	510,000	510,000
Interest and fiscal charges	0	0	243,597	243,597
AEA flowthrough	415,603	0	0	415,603
	<u>415,603</u>	<u>133,377</u>	<u>753,597</u>	<u>1,302,577</u>
Total expenditures	<u>10,209,357</u>	<u>207,488</u>	<u>1,140,060</u>	<u>11,556,905</u>
Excess of revenues over expenditures	94,593	141,504	2,430	238,527
OTHER FINANCING SOURCES:				
Sale of equipment	300	0	0	300
Net change in fund balances	94,893	141,504	2,430	238,827
Fund balance beginning of year	3,026,571	594,986	440,469	4,062,026
Fund balance end of year	<u>\$ 3,121,464</u>	<u>736,490</u>	<u>442,899</u>	<u>4,300,853</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC 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) \$ 238,827

*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	\$ 117,567	
Depreciation expense	(518,014)	
Loss on disposal of capital assets	<u>(4,798)</u>	(405,245)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 510,000

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. 3,507

Changes in net assets of governmental activities (page 16) \$ 347,089

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents:	\$ 61,652
Receivables:	
Accounts	10
Due from other governments	27,918
Inventories	20,131
Capital assets, net of accumulated depreciation(Note 6)	69,588
TOTAL ASSETS	<u>179,299</u>
LIABILITIES	
Deferred revenue:	
Other	3,317
TOTAL LIABILITIES	<u>3,317</u>
NET ASSETS	
Investment in capital assets, net of related debt	69,588
Unrestricted	106,394
TOTAL NET ASSETS	<u>\$ 175,982</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 318,724
TOTAL OPERATING REVENUES	318,724
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	199,684
Benefits	29,815
Services	1,895
Supplies	335,636
Depreciation	11,588
TOTAL OPERATING EXPENSES	578,618
OPERATING LOSS	(259,894)
NON-OPERATING REVENUES:	
State sources	6,925
Federal sources	232,937
Interest income	565
TOTAL NON-OPERATING REVENUES	240,427
Change in net assets	(19,467)
Net assets beginning of year	195,449
Net assets end of year	\$ 175,982

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 326,125
Cash payments to employees for services	(229,499)
Cash payments to suppliers for goods or services	(304,454)
Net cash used in operating activities	(207,828)
Cash flows from non-capital financing activities:	
State grants received	6,925
Federal grants received	198,780
Net cash provided by non-capital financing activities	205,705
Cash flows from capital financing activities:	
Acquisition of capital assets	(1,466)
Net cash used in capital financing activities	(1,466)
Cash flows from investing activities:	
Interest on investments	565
Net cash provided by investing activities	565
Net decrease in cash and cash equivalents	(3,024)
Cash and cash equivalents at beginning of year	64,676
Cash and cash equivalents at end of year	\$ 61,652
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (259,894)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	28,000
Depreciation	11,588
Decrease in inventories	5,213
Decrease in accounts receivable	4,084
Decrease in accounts payable	(136)
Increase in deferred revenue	3,317
Net cash used in operating activities	\$ (207,828)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 61,652
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$28,000.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust	Agency
	<u>Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 124,810	2,108
Receivables:		
Accounts	0	62
	<u>124,810</u>	<u>2,170</u>
LIABILITIES		
Due to other groups	<u>0</u>	<u>2,170</u>
NET ASSETS		
Reserved for scholarships	<u>\$ 124,810</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust Scholarship
Additions:	\$ 0
Deductions:	0
Change in net assets	0
Net assets beginning of year	124,810
Net assets end of year	\$ 124,810

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Atlantic 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 Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Atlantic 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 Atlantic 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 Cass, Audubon and Pottawattamie 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 Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

The District reports the following proprietary fund:

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

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

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	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

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 extra duties and curriculum work for the current school year, which is paid 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.

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

The District had no investments as of June 30, 2004.

(3) 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	\$ 331,147	0	0	331,147
Total capital assets not being depreciated	331,147	0	0	331,147
Capital assets being depreciated:				
Buildings	14,051,719	79,695	36,736	14,094,678
Land improvements	1,918,500	0	0	1,918,500
Machinery and equipment	1,736,829	37,872	84,458	1,690,243
Total capital assets being depreciated	17,707,048	117,567	121,194	17,703,421
Less accumulated depreciation for:				
Buildings	3,968,561	314,008	31,938	4,250,631
Land improvements	783,983	94,026	0	878,009
Machinery and equipment	1,347,553	109,980	84,458	1,373,075
Total accumulated depreciation	6,100,097	518,014	116,396	6,501,715
Total capital assets being depreciated, net	11,606,951	(400,447)	4,798	11,201,706
Governmental activities capital assets, net	\$ 11,938,098	(400,447)	4,798	11,532,853
Business-type activities:				
Machinery and equipment	\$ 179,281	1,466	2,535	178,212
Less accumulated depreciation	99,571	11,588	2,535	108,624
Business-type activities capital assets, net	\$ 79,710	(10,122)	0	69,588

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 21,315
Special		3,865
Other		5,791
Support services:		
Administration		800
Operation and maintenance of plant		15,757
Transportation		62,452
		109,980
Unallocated depreciation		408,034
Total governmental activities depreciation expense		\$ 518,014
Business-type activities:		
Food services		\$ 11,588
Total business-type activities depreciation expense		\$ 11,588

(4) 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	\$ 5,685,000	0	510,000	5,175,000	525,000

Bonds Payable

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

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2001		
		Principal	Interest	Total
2005	4.125 %	\$ 525,000	222,560	747,560
2006	4.125	545,000	200,904	745,904
2007	4.125	565,000	178,422	743,422
2008	4.125	595,000	155,116	750,116
2009	4.250	615,000	130,572	745,572
2010	4.350	640,000	104,436	744,436
2011	4.450	660,000	76,596	736,596
2012	4.550	670,000	47,226	717,226
2013	4.650	360,000	16,740	376,740
Total		\$ 5,175,000	1,132,572	6,307,572

(5) Advance refunding

On June 1, 2001, the District issued refunding bonds in the amount of \$5,685,000 to advance refund \$5,610,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and all interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2004, \$0 of such bonds are outstanding. Repayment of principal and interest for the year was \$5,610,000 and \$0.

(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 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 \$395,294, \$391,204 and \$399,131 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$647,317.

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

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

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

Atlantic 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 \$415,603 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) Restate Capital Assets/Net Assets Beginning Balances

This restatement is due to error in computer formula calculations of depreciation and assets not included in the inventory. The restatement of the capital assets and net assets are as follows:

	Balance Beginning of Year	Increases	Decreases	Balance Beginning of Year, as restated
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 291,235	39,912	0	331,147
Total capital assets not being depreciated	<u>291,235</u>	<u>39,912</u>	<u>0</u>	<u>331,147</u>
Capital assets being depreciated:				
Buildings	14,303,393	0	251,674	14,051,719
Land improvements	774,994	1,143,506	0	1,918,500
Machinery and equipment	1,530,774	206,055	0	1,736,829
Total capital assets being depreciated	<u>16,609,161</u>	<u>1,349,561</u>	<u>251,674</u>	<u>17,707,048</u>
Less accumulated depreciation for:				
Buildings	3,958,893	9,668	0	3,968,561
Land improvements	179,944	604,039	0	783,983
Machinery and equipment	1,215,583	131,970	0	1,347,553
Total accumulated depreciation	<u>5,354,420</u>	<u>745,677</u>	<u>0</u>	<u>6,100,097</u>
Total capital assets being depreciated, net	<u>11,254,741</u>	<u>603,884</u>	<u>251,674</u>	<u>11,606,951</u>
Governmental activities capital assets, net	<u>\$ 11,545,976</u>	<u>643,796</u>	<u>251,674</u>	<u>11,938,098</u>

The effect if the adjustment to restate the capital assets results in a change to the previously reported governmental activities, net assets as follows:

Net assets, June 30, 2003, as previously reported	\$ 10,056,495
Capital asset adjustments, net	<u>392,122</u>
Net assets, July 1, 2003, as restated	<u>\$ 10,448,617</u>

REQUIRED SUPPLEMENTAL INFORMATION

ATLANTIC 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	\$ 5,453,206	319,289
Intermediate sources	7,121	0
State sources	5,956,968	6,925
Federal sources	378,137	232,937
Total revenues	<u>11,795,432</u>	<u>559,151</u>
Expenditures:		
Instruction	7,256,364	0
Support services	2,980,680	0
Non-instructional programs	17,284	578,618
Other expenditures	1,302,577	0
Total expenditures	<u>11,556,905</u>	<u>578,618</u>
Excess(deficiency) of revenues over(under) expenditures	238,527	(19,467)
Other financing sources, net	<u>300</u>	<u>0</u>
Excess(deficiency) of revenues and other financing sources over(under) expenditures	238,827	(19,467)
Balance beginning of year	<u>4,062,026</u>	<u>195,449</u>
Balance end of year	<u>\$ 4,300,853</u>	<u>175,982</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,772,495	5,567,864	5,567,864	204,631
7,121	0	0	7,121
5,963,893	6,118,904	6,118,904	(155,011)
611,074	638,960	638,960	(27,886)
<u>12,354,583</u>	<u>12,325,728</u>	<u>12,325,728</u>	<u>28,855</u>
7,256,364	7,814,180	7,814,180	557,816
2,980,680	3,207,067	3,207,067	226,387
595,902	628,000	628,000	32,098
1,302,577	1,775,630	1,775,630	473,053
<u>12,135,523</u>	<u>13,424,877</u>	<u>13,424,877</u>	<u>1,289,354</u>
219,060	(1,099,149)	(1,099,149)	1,318,209
300	1,000	1,000	(700)
219,360	(1,098,149)	(1,098,149)	1,317,509
4,257,475	3,524,727	3,524,727	732,748
<u>4,476,835</u>	<u>2,426,578</u>	<u>2,426,578</u>	<u>2,050,257</u>

ATLANTIC 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.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					Debt Service	Capital Projects	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Expend- able Trust	Total Special Revenue Funds				
ASSETS								
Cash and pooled investments	\$ 112,137	152,787	31,011	295,935	126,476	4,073	426,484	
Receivables:								
Property tax:								
Current year delinquent	2,107	0	0	2,107	15,908	0	18,015	
Succeeding year	100,000	0	0	100,000	752,916	0	852,916	
Accounts	0	1,454	0	1,454	0	0	1,454	
Due from other governments	0	0	0	0	0	620	620	
TOTAL ASSETS	\$ 214,244	154,241	31,011	399,496	895,300	4,693	1,299,489	
LIABILITIES AND FUND EQUITY								
Liabilities:								
Accounts payable	\$ 844	2,830	0	3,674	0	0	3,674	
Deferred revenue:								
Succeeding year property tax:	100,000	0	0	100,000	752,916	0	852,916	
	100,844	2,830	0	103,674	752,916	0	856,590	
Fund equity:								
Fund balances:								
Reserved for:								
Debt service	0	0	0	0	142,384	0	142,384	
Unreserved:								
Undesignated	113,400	151,411	31,011	295,822	0	4,693	300,515	
Total fund balances	113,400	151,411	31,011	295,822	142,384	4,693	442,899	
TOTAL LIABILITIES AND FUND EQUITY	\$ 214,244	154,241	31,011	399,496	895,300	4,693	1,299,489	

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	Capital Projects	Total Other Nonmajor Governmental Funds
	Management	Student Activity	Expendable Trust	Total Special Revenue Funds			
REVENUES:							
Local sources:							
Local tax	\$ 100,070	0	0	100,070	755,665	3,825	859,560
Other	493	275,370	1,177	277,040	5,160	0	282,200
State sources	86	0	0	86	644	0	730
TOTAL REVENUES	100,649	275,370	1,177	377,196	761,469	3,825	1,142,490
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	14,636	0	0	14,636	0	0	14,636
Other instruction	0	262,737	3,000	265,737	0	0	265,737
Support services:							
Student support	593	0	0	593	0	0	593
Instructional staff support	517	0	0	517	0	0	517
Administration services	22,520	0	0	22,520	0	0	22,520
Operation and maintenance of plant services	56,849	0	0	56,849	0	0	56,849
Student transportation	20,067	0	0	20,067	0	0	20,067
Non-instructional programs:							
Food service operations	5,544	0	0	5,544	0	0	5,544
Other:							
Long-term debt:							
Principal	0	0	0	0	510,000	0	510,000
Interest and fiscal charges	0	0	0	0	243,597	0	243,597
TOTAL EXPENDITURES	120,726	262,737	3,000	386,463	753,597	0	1,140,060
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(20,077)	12,633	(1,823)	(9,267)	7,872	3,825	2,430
FUND BALANCE BEGINNING OF YEAR	133,477	138,778	32,834	305,089	134,512	868	440,469
FUND BALANCE END OF YEAR	\$ 113,400	151,411	31,011	295,822	142,384	4,693	442,899

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 2,040	400	429	2,011
Speech	0	4,883	4,883	0
Debate	833	2,815	3,648	0
Middle School Music	1,720	3,148	4,868	0
Vocal Music	10,298	9,433	7,167	12,564
Show Choir Costume	0	4,135	0	4,135
Band	5,393	12,817	11,285	6,925
Color Guard	0	0	12	(12)
Musical	0	1,971	2,054	(83)
Middle School Athletics	614	4,205	4,891	(72)
Cross Country	140	2,505	2,617	28
Boys Basketball	26,399	19,809	21,793	24,415
Football	26,080	19,314	18,451	26,943
Baseball	(9)	6,654	6,616	29
Boys Track	0	6,819	3,987	2,832
Boys Tennis	35	1,726	1,714	47
Boys Golf	(1,134)	1,409	227	48
Wrestling	7,155	6,167	4,808	8,514
Girls Basketball	24,262	33,384	33,969	23,677
Volleyball	8,151	5,933	4,751	9,333
Softball	169	3,562	3,891	(160)
Girls Track	939	5,994	6,964	(31)
Girls Tennis	0	1,358	847	511
Girls Golf	(222)	1,200	930	48
National Honor Society	628	1,138	1,317	449
Student Council	3,882	9,323	10,491	2,714
FFA	7,691	34,675	37,192	5,174
Prime Time	521	328	24	825
MS Activities	843	777	648	972
Javelin	(1,963)	11,862	5,227	4,672
French Club	267	0	0	267
Spanish Club	111	0	0	111
Cheerleaders	954	1,328	1,169	1,113
Pride	4,990	23,602	22,449	6,143
Globe Account	62	0	0	62
Schuler Student Council	203	0	0	203
Jr Class Prom	3,693	7,419	7,518	3,594
Coke	0	1,971	1,971	0
General Activity	224	17,024	17,248	0
Student Connection	2,198	1,111	1,334	1,975
Operation Special Kids	594	1,037	595	1,036
Hosp BD Activity	1,017	2,250	2,868	399
Insuff. Funds	0	862	862	0
Interest	0	1,022	1,022	0
Total	\$ 138,778	275,370	262,737	151,411

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 2,301	5,640	5,833	2,108
Receivables:				
Accounts	0	62	0	62
	<u>\$ 2,301</u>	<u>5,702</u>	<u>5,833</u>	<u>2,170</u>
LIABILITIES				
Due to other groups	\$ 2,301	5,702	5,833	2,170

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	\$ 4,252,623	4,160,097	3,991,060	4,065,506
Tuition	742,794	809,650	690,061	613,251
Other	457,789	502,691	513,625	620,688
Intermediate sources	7,121	3,730	0	0
State sources	5,956,968	6,062,687	6,089,618	6,109,183
Federal sources	378,137	588,072	347,626	272,474
Total	\$ 11,795,432	12,126,927	11,631,990	11,681,102
Expenditures:				
Instruction:				
Regular instruction	\$ 4,936,636	4,925,143	4,918,757	4,850,915
Special instruction	1,615,769	1,618,390	1,674,844	1,466,473
Other instruction	703,959	763,310	655,915	684,947
Support services:				
Student services	340,420	320,077	317,235	291,893
Instructional staff services	326,908	270,765	320,969	285,000
Administration services	972,797	1,056,236	1,004,422	990,391
Operation and maintenance of plant services	976,804	979,580	961,076	979,586
Transportation services	361,088	387,036	329,332	468,354
Central support services	2,663	2,830	3,813	3,695
Other support services	0	974	0	0
Non-instructional programs	17,284	13,142	27,159	5,709
Other expenditures:				
Facilities acquisitions	133,377	505,098	597,761	315,743
Long-term debt:				
Principal	510,000	420,000	405,000	385,000
Interest and other charges	243,597	330,746	352,846	374,096
AEA flow-through	415,603	444,875	449,344	469,950
Total	\$ 11,556,905	12,038,202	12,018,473	11,571,752

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC 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	\$ 28,000
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	25,545
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	179,392
			<u>204,937</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0387-G	18,467
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0387-GC	167,531
			<u>185,998</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 04	11,040
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	84.281	FY 02	5,374
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	8,738
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 03	11,204
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	65,816
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	17,333
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 04	9,354
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	59,012
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 04	3,273

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT (CONTINUED) :			
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	94.778	FY 04	469
TOTAL			\$ 610,548

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

We have audited the financial statements of Atlantic Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 26, 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 Atlantic 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 Part IV of the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic 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.

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 weakness 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 Atlantic Community School District and other parties to whom Atlantic 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 Atlantic 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 PC
NOLTE, CORNMAN & JOHNSON, P.C.

October 26, 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
Atlantic Community School District

Compliance

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

In our opinion, Atlantic 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 Atlantic 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 Atlantic 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 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 Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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

NOLTE, CORNMAN & JOHNSON, P.C.

October 26, 2004

ATLANTIC 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 audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
 - Clustered
 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
 - Individual
 - CFDA Number 84.010 - Title I - Grants to Local Educational Agencies
 - CFDA Number 84.215 - Fund for the Improvement of Education
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Atlantic Community School District did not qualify as a low-risk auditee.

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

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

ATLANTIC 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 matters were reported.

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

Part IV: Other Findings Related to Statutory Reporting

- IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.
- IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Claude Anderson, Bus Driver Spouse of owner of B&N Fabric	Supplies	\$15
Barb Olson, Teacher Spouse of owner of Olson Fuel Supply Inc	Fuel (per bid)	\$29,205
Kathy Henningsen, Teacher Spouse of owner of Henningsen Construction	Purchased Services	\$595
Jan Kerns, Secretary Spouse of owner of Jon's Garage Door Service	Repairs	\$191

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the bus driver, teachers and secretary spouses 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 no variances in the basic enrollment data certified to the Department of Education.

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

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