

AUDUBON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Audubon Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Tim Andersen	President	2003
Shannon Nelsen	Vice President	2005
Sarah Christensen	Board Member	2005
Douglas Olsen	Board Member	2004
Paula Hansen	Board Member	2003
Board of Education (After September 2003 Election)		
Tim Andersen	President	2006
Shannon Nelsen	Vice President	2005
Sarah Christensen	Board Member	2005
Douglas Olsen	Board Member	2004
Carla Gust	Board Member	2006
School Officials		
Ron Dobson	Superintendent	2004
John Roberts	District Secretary/Treasurer	2004
Natalie Lange	Business Manager	2004
Rick Engel	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2004 on our consideration of the Audubon Community School District's internal control over financial

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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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


NOLTE, CORNMAN & JOHNSON, P.C.

September 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$4,746,416 in fiscal 2003 to \$4,847,748 in fiscal 2004, while General Fund expenditures increased from \$4,814,394 in fiscal 2003 to \$4,898,770 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$371,762 in fiscal 2003 to a balance of \$320,740 in fiscal 2004, a 13.72% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$11,993 in fiscal year 2003 to \$8,334 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

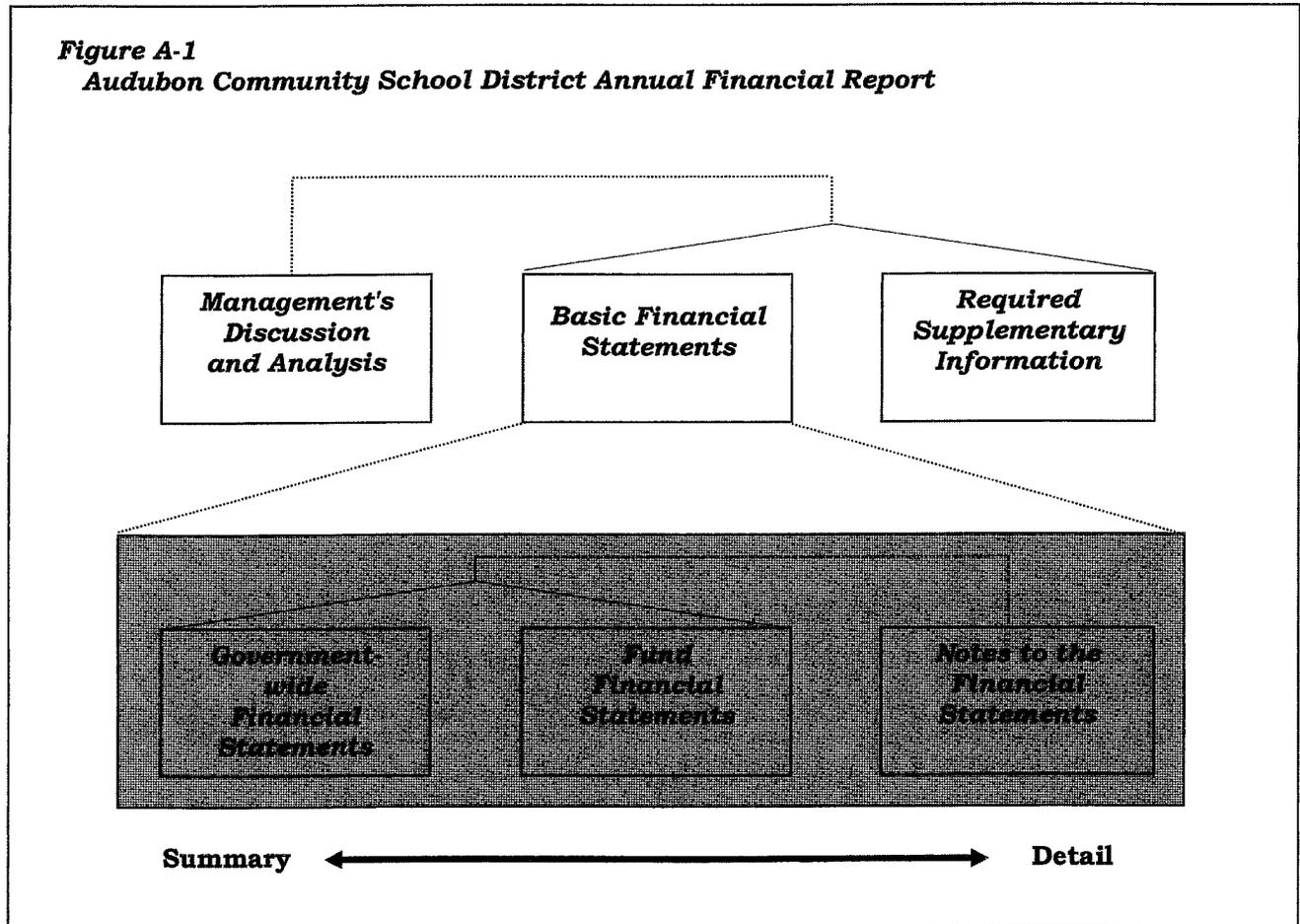


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, 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 and Special Revenue Funds.

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

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

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 3,173,830	63,770	3,237,600
Capital assets	2,885,630	56,686	2,942,316
Total assets	<u>6,059,460</u>	<u>120,456</u>	<u>6,179,916</u>
Long-term obligations	5,913	0	5,913
Other liabilities	2,337,248	3,024	2,340,272
Total liabilities	<u>2,343,161</u>	<u>3,024</u>	<u>2,346,185</u>
Net assets:			
Invested in capital assets, net of related debt	2,885,630	56,686	2,942,316
Restricted	562,160	0	562,160
Unrestricted	268,509	60,746	329,255
Total net assets	<u>\$ 3,716,299</u>	<u>117,432</u>	<u>3,833,731</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 483,825	189,690	673,515
Operating grants and contributions and restricted interest	586,738	102,732	689,470
General revenues:			
Property tax	2,104,839	0	2,104,839
Unrestricted state grants	2,252,134	0	2,252,134
Other	19,742	263	20,005
Total revenues	5,447,278	292,685	5,739,963
Program expenses:			
Governmental activities:			
Instructional	3,413,504	0	3,413,504
Support services	1,677,454	0	1,677,454
Non-instructional programs	3,923	279,015	282,938
Other expenditures	371,510	0	371,510
Total expenses	5,466,391	279,015	5,745,406
Changes in net assets	\$ (19,113)	13,670	(5,443)

Property tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 89% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$5,447,278 and expenses were \$5,466,391.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 3,413,504	2,542,065
Support services	1,677,454	1,669,847
Non-instructional programs	3,923	3,923
Other expenditures	371,510	179,993
Totals	\$ 5,466,391	4,395,828

- The cost financed by users of the District's programs was \$483,825.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$586,738.
- The net cost of governmental activities was financed with \$2,104,839 in property tax, \$2,252,134 in state foundation aid, \$13,692 in interest income and \$6,050 as a transfer in from the Private Purpose Trust – Scholarships Fund.

Business-Type Activities

Revenues of the District's business-type activities were \$292,685 and expenses were \$279,015. 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 Audubon Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$697,768, below last year's ending fund balances of a \$746,786. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to increased spending in the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$371,762 to \$320,740 is the product of many factors:
 - Increase in state aid grants and increase in tax levy during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - The increase in expenditures was greater than the increase in revenues resulting in a net decrease of \$51,022.
- The Management Fund balance increased from \$140,198 in fiscal 2003 to \$152,059 in fiscal 2004. This increase is due to the anticipation that insurance expense will rise in the next year with comparable funding.
- The Physical Plant and Equipment Levy Fund balance decreased from \$176,677 in fiscal 2003 to \$152,824 in fiscal 2004. This is due to increased expenditures made during the year due to capital improvements.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$103,762 at June 30, 2003 to \$117,432 at June 30, 2004, representing an increase of 13.17%. In the future, the District plans to use this balance to purchase new food service equipment.

BUDGETARY HIGHLIGHTS

Over the course of the year, Audubon Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$296,641 less than budgeted revenues, a variance of 5.07%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

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

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$2,942,316, 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) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$347,607.

The original cost of the District's capital assets was \$10.1 million. Governmental funds account for \$9.9 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 machinery and equipment category. The District's machinery and equipment totaled \$928,125 at June 30, 2004, compared to \$985,341 reported at June 30, 2003. This decrease resulted from current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities	Business-type Activities	Total School District
	2004	2004	2004
Land	\$ 3,200	0	3,200
Buildings	1,584,432	0	1,584,432
Land improvements	369,873	0	369,873
Machinery and equipment	928,125	56,686	984,811
Total	<u>\$ 2,885,630</u>	<u>56,686</u>	<u>2,942,316</u>

Long-Term Debt

At June 30, 2004, the District had \$5,913 in other long-term debt outstanding. This represents an increase of 100% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding Compensated absences payable from the General Fund of \$5,913 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Compensated absences	\$ 5,913	0	100.0%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- The voters of Audubon County passed by 83.3% the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings and purchasing equipment. The funding will begin in September 2004.

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 Natalie Lange, Business Manager, Audubon Community School District, 800 Third Avenue, Audubon, Iowa, 50025.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 1,148,901	60,984	1,209,885
Receivables:			
Property tax:			
Delinquent	27,374	0	27,374
Succeeding year	1,825,522	0	1,825,522
Income surtax	138,814	0	138,814
Accounts	723	11	734
Due from other governments	32,496	0	32,496
Inventories	0	2,775	2,775
Capital assets, net of accumulated depreciation (Note 4)	2,885,630	56,686	2,942,316
TOTAL ASSETS	6,059,460	120,456	6,179,916
LIABILITIES			
Accounts payable	33,080	486	33,566
Salaries and benefits payable	478,646	0	478,646
Deferred revenue:			
Succeeding year property tax	1,825,522	0	1,825,522
Other	0	2,538	2,538
Long-term liabilities (Note 5):			
Portion due within one year:			
Compensated absences	5,913	0	5,913
TOTAL LIABILITIES	2,343,161	3,024	2,346,185
NET ASSETS			
Investment in capital assets, net of related debt	2,885,630	56,686	2,942,316
Restricted for:			
Phase III	1,129	0	1,129
Talented and gifted	137,825	0	137,825
Teacher compensation	46,178	0	46,178
Management levy	152,059	0	152,059
Physical plant and equipment levy	152,824	0	152,824
Other special revenue purposes	72,145	0	72,145
Unrestricted	268,509	60,746	329,255
TOTAL NET ASSETS	\$ 3,716,299	117,432	3,833,731

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,283,123	191,073	367,832
Special instruction	530,756	0	27,389
Other instruction	599,625	285,145	0
	<u>3,413,504</u>	<u>476,218</u>	<u>395,221</u>
Support services:			
Student services	133,269	0	0
Instructional staff services	208,977	0	0
Administration services	571,154	0	0
Operation and maintenance of plant services	476,900	0	0
Transportation services	285,664	7,607	0
Central support services	1,490	0	0
	<u>1,677,454</u>	<u>7,607</u>	<u>0</u>
Non-instructional programs:			
Community service and education operations	3,923	0	0
Other expenditures:			
AEA flowthrough	191,517	0	191,517
Depreciation(unallocated)*	179,993	0	0
	<u>371,510</u>	<u>0</u>	<u>191,517</u>
Total governmental activities	5,466,391	483,825	586,738
Business-Type activities:			
Non-instructional programs:			
Nutrition services	279,015	189,690	102,732
Total business-type activities	<u>279,015</u>	<u>189,690</u>	<u>102,732</u>
Total	<u>\$ 5,745,406</u>	<u>673,515</u>	<u>689,470</u>

General Revenues:

Local tax for:
 General purposes
 Capital outlay
Unrestricted state grants
Unrestricted investment earnings
Transfer in

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
(1,724,218)	0	(1,724,218)
(503,367)	0	(503,367)
(314,480)	0	(314,480)
<u>(2,542,065)</u>	<u>0</u>	<u>(2,542,065)</u>
(133,269)	0	(133,269)
(208,977)	0	(208,977)
(571,154)	0	(571,154)
(476,900)	0	(476,900)
(278,057)	0	(278,057)
(1,490)	0	(1,490)
<u>(1,669,847)</u>	<u>0</u>	<u>(1,669,847)</u>
(3,923)	0	(3,923)
0	0	0
(179,993)	0	(179,993)
<u>(179,993)</u>	<u>0</u>	<u>(179,993)</u>
(4,395,828)	0	(4,395,828)
0	13,407	13,407
0	13,407	13,407
<u>(4,395,828)</u>	<u>13,407</u>	<u>(4,382,421)</u>
\$ 1,925,198	0	1,925,198
179,641	0	179,641
2,252,134	0	2,252,134
13,692	263	13,955
6,050	0	6,050
<u>4,376,715</u>	<u>263</u>	<u>4,376,978</u>
(19,113)	13,670	(5,443)
<u>3,735,412</u>	<u>103,762</u>	<u>3,839,174</u>
<u>\$ 3,716,299</u>	<u>117,432</u>	<u>3,833,731</u>

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

	General	Manage- ment	Physical Plant and Equipment Levy	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments	\$ 762,992	151,022	162,027	72,860	1,148,901
Receivables:					
Property tax					
Delinquent	23,739	1,037	2,598	0	27,374
Succeeding year	1,605,331	75,000	145,191	0	1,825,522
Income surtax	138,814	0	0	0	138,814
Accounts	45	0	0	678	723
Due from other governments	32,496	0	0	0	32,496
TOTAL ASSETS	\$ 2,563,417	227,059	309,816	73,538	3,173,830
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 19,886	0	11,801	1,393	33,080
Salaries and benefits payable	478,646	0	0	0	478,646
Deferred revenue:					
Succeeding year property tax	1,605,331	75,000	145,191	0	1,825,522
Income surtax	138,814	0	0	0	138,814
Total liabilities	<u>2,242,677</u>	<u>75,000</u>	<u>156,992</u>	<u>1,393</u>	<u>2,476,062</u>
Fund balances:					
Reserved for:					
Teacher compensation	1,129	0	0	0	1,129
Talented and gifted	137,825	0	0	0	137,825
Early intervention	46,178	0	0	0	46,178
Unreserved:					
Designated for special purpose	7,060	0	0	0	7,060
Undesignated:					
General	128,548	0	0	0	128,548
Management levy	0	152,059	0	0	152,059
Physical plant and equipment levy	0	0	152,824	0	152,824
Other special revenue purposes	0	0	0	72,145	72,145
Total fund balances	<u>320,740</u>	<u>152,059</u>	<u>152,824</u>	<u>72,145</u>	<u>697,768</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,563,417	227,059	309,816	73,538	3,173,830

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances of governmental funds (page 16)	\$ 697,768
<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.	2,885,630
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	138,814
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(5,913)</u>
Net assets of governmental activites (page 13)	<u>\$ 3,716,299</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Manage- ment	Physical Plant and Equipment Levy	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 1,712,699	73,685	179,641	0	1,966,025
Tuition	191,073	0	0	0	191,073
Other	105,285	0	1,328	199,831	306,444
State sources	2,662,659	53	128	0	2,662,840
Federal sources	176,032	0	0	0	176,032
Total revenues	4,847,748	73,738	181,097	199,831	5,302,414
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	2,261,514	13,076	0	0	2,274,590
Special instruction	530,756	0	0	0	530,756
Other instruction	404,186	0	0	187,785	591,971
	3,196,456	13,076	0	187,785	3,397,317
Support services:					
Student services	129,054	503	0	4,100	133,657
Instructional staff services	195,053	671	13,253	0	208,977
Administration services	566,784	2,514	0	0	569,298
Operation and maintenance of plant services	435,210	35,803	25,284	0	496,297
Transportation services	179,283	9,310	32,200	0	220,793
Central support services	1,490	0	0	0	1,490
	1,506,874	48,801	70,737	4,100	1,630,512
Non-instructional programs:					
Community service and education operations	3,923	0	0	0	3,923
Other expenditures:					
Facilities acquisitions	0	0	134,213	0	134,213
AEA flowthrough	191,517	0	0	0	191,517
	191,517	0	134,213	0	325,730
Total expenditures	4,898,770	61,877	204,950	191,885	5,357,482
Excess(deficiency) of revenues over(under) expenditures	(51,022)	11,861	(23,853)	7,946	(55,068)
OTHER FINANCING SOURCES:					
Transfer in	0	0	0	6,050	6,050
Net change in fund balances	(51,022)	11,861	(23,853)	13,996	(49,018)
Fund balance beginning of year, as restated(Note 9)	371,762	140,198	176,677	58,149	746,786
Fund balance end of year	\$ 320,740	152,059	152,824	72,145	697,768

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)		\$ (49,018)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
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. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:		
Expenditures for capital assets	\$ 230,753	
Depreciation expense	<u>(333,749)</u>	(102,996)
 Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.		
		138,814
 Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Compensated absences		<u>(5,913)</u>
Changes in net assets of governmental activities (page 15)		<u>\$ (19,113)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 60,984
Receivables:	
Accounts	11
Inventories	2,775
Capital assets, net of accumulated depreciation (Note 4)	56,686
TOTAL ASSETS	120,456
 LIABILITIES	
Accounts payable	486
Deferred revenues:	
Other	2,538
TOTAL LIABILITIES	3,024
 NET ASSETS	
Investment in capital assets, net of related debt	56,686
Unrestricted	60,746
TOTAL NET ASSETS	\$ 117,432

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	\$ 189,690
TOTAL OPERATING REVENUES	189,690
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	106,363
Benefits	14,062
Supplies	144,416
Depreciation	13,858
TOTAL OPERATING EXPENSES	278,699
OPERATING LOSS	(89,009)
NON-OPERATING REVENUES:	
State sources	4,068
Federal sources	98,664
Interest income	263
Loss on disposal of assets	(316)
TOTAL NON-OPERATING REVENUES	102,679
Change in net assets	13,670
Net assets beginning of year	103,762
Net assets end of year	\$ 117,432

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON 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	\$ 184,647
Cash received from miscellaneous sources	5,416
Cash payments to employees for services	(120,425)
Cash payments to suppliers for goods or services	(126,949)
Net cash used in operating activities	(57,311)
Cash flows from non-capital financing activities:	
State grants received	4,068
Federal grants received	82,349
Net cash provided by non-capital financing activities	86,417
Cash flows from capital and related financing activities:	
Purchase of capital assets	(3,473)
Net cash used in capital and related financing activities	(3,473)
Cash flows from investing activities:	
Interest on investments	263
Net cash provided by investing activities	263
Net increase in cash and cash equivalents	25,896
Cash and cash equivalents at beginning of year	35,088
Cash and cash equivalents at end of year	\$ 60,984
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (89,009)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	16,315
Depreciation	13,858
Decrease in inventories	711
Decrease in accounts receivable	127
Increase in accounts payable	441
Increase in deferred revenue	246
Net cash used in operating activities	\$ (57,311)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 60,984

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$16,315.

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
ASSETS	
Cash and pooled investments	\$ 171,757
TOTAL ASSETS	<u>171,757</u>
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 171,757</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Private Purpose Trust
	Scholarship
Additions:	
Local sources:	
Interest and contributions	\$ 6,448
Total additions	6,448
Deductions	0
Excess of additions over deductions	6,448
Other financing uses	
Transfer out	(6,050)
Change in net assets	398
Net assets beginning of year	171,359
Net assets end of year	\$ 171,757

SEE NOTES TO FINANCIAL STATEMENTS.

AUDUBON COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Audubon 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 Audubon, Iowa, and the predominate agricultural territory in Audubon and Guthrie 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, Audubon 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 Audubon 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 Audubon and Guthrie Counties 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 Management Fund is utilized to account for property insurance.

The Physical Plant and Equipment Levy Fund is utilized to account for equipment purchases as well as capital improvements.

The District reports the following major proprietary funds:

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.

C. Measurement Focus and Basis of Accounting

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

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

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

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

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

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements

issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 400
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	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	5-20 years

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

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the

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

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(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 investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$130,759 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Special Revenue - Expendable Trust	Private Purpose Trust - Scholarship	<u>\$ 6,050</u>

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

(4) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,200	0	0	3,200
Construction in progress	49,930	0	49,930	0
Total capital assets not being depreciated	<u>53,130</u>	<u>0</u>	<u>49,930</u>	<u>3,200</u>
Capital assets being depreciated:				
Buildings	7,008,675	184,143	0	7,192,818
Land improvements	739,746	0	0	739,746
Machinery and equipment	1,899,004	96,540	49,540	1,946,004
Total capital assets being depreciated	<u>9,647,425</u>	<u>280,683</u>	<u>49,540</u>	<u>9,878,568</u>
Less accumulated depreciation for:				
Buildings	5,465,380	143,006	0	5,608,386
Land improvements	332,886	36,987	0	369,873
Machinery and equipment	913,663	153,756	49,540	1,017,879
Total accumulated depreciation	<u>6,711,929</u>	<u>333,749</u>	<u>49,540</u>	<u>6,996,138</u>
Total capital assets being depreciated, net	<u>2,935,496</u>	<u>(53,066)</u>	<u>0</u>	<u>2,882,430</u>
Governmental activities capital assets, net	<u>\$ 2,988,626</u>	<u>(53,066)</u>	<u>49,930</u>	<u>2,885,630</u>
	Balance Year	Increases	Decreases	Balance of Year
Business-type activities:				
Machinery and equipment	\$ 216,577	3,473	1,899	218,151
Less accumulated depreciation	149,190	13,858	1,583	161,465
Business-type activities capital assets, net	<u>\$ 67,387</u>	<u>(10,385)</u>	<u>316</u>	<u>56,686</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 30,097
Other		20,119
Support services:		
Instructional staff		3,939
Operation and maintenance of plant		1,830
Transportation		97,771
		<u>153,756</u>
Unallocated depreciation		<u>179,993</u>
Total governmental activities depreciation expense		<u>\$ 333,749</u>
Business-type activities:		
Food services		\$ 13,858
Total business-type activities depreciation expense		<u>\$ 13,858</u>

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Compensated absences	\$ 0	5,913	0	5,913	5,913

(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 \$187,780, \$181,872 and \$186,061 respectively, equal to the required contributions for each year.

(7) Risk Management

Audubon 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: life, dental and long-term disability.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$26,403.

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.

Audubon 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 \$191,517 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

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

Beginning capital assets for governmental activities of \$19,068,833 were restated to \$9,700,555. The restatement primarily removed assets to equal current listing of assets.

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

	Fund				Total
	General	Manage- ment	Physical Plant and Equipment Levy	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 371,762	140,198	176,677	229,508	918,145
Reclass Private Purpose Trust - Scholarship fund	0	0	0	(171,359)	(171,359)
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 371,762</u>	<u>140,198</u>	<u>176,677</u>	<u>58,149</u>	<u>746,786</u>
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$6,711,929					<u>2,988,626</u>
Net assets, July 1, 2003, as restated					<u>\$ 3,735,412</u>

(10) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 2,499,793	190,326
State sources	2,621,353	4,068
Federal sources	144,612	98,664
Total receipts	<u>5,265,758</u>	<u>293,058</u>
Disbursements:		
Instruction	3,277,976	0
Support services	1,592,432	0
Non-instructional programs	4,057	267,162
Other expenditures	485,799	0
Total disbursements	<u>5,360,264</u>	<u>267,162</u>
Excess(deficiency) of receipts over(under) disbursements	(94,506)	25,896
Other financing sources, net	<u>6,050</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(88,456)	25,896
Balance beginning of year	<u>1,237,357</u>	<u>35,088</u>
Balance end of year	<u>\$ 1,148,901</u>	<u>60,984</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,690,119	2,772,630	2,772,630	(82,511)
2,625,421	2,792,827	2,792,827	(167,406)
243,276	290,000	290,000	(46,724)
<u>5,558,816</u>	<u>5,855,457</u>	<u>5,855,457</u>	<u>(296,641)</u>
3,277,976	4,472,366	4,472,366	1,194,390
1,592,432	1,852,000	1,852,000	259,568
271,219	357,762	357,762	86,543
485,799	382,294	402,017	(83,782)
<u>5,627,426</u>	<u>7,064,422</u>	<u>7,084,145</u>	<u>1,456,719</u>
(68,610)	(1,208,965)	(1,228,688)	1,160,078
6,050	0	0	6,050
(62,560)	(1,208,965)	(1,228,688)	1,166,128
1,272,445	1,398,850	1,398,850	(126,405)
<u>1,209,885</u>	<u>189,885</u>	<u>170,162</u>	<u>1,039,723</u>

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 5,265,758	36,656	5,302,414
Expenses	5,360,264	(2,782)	5,357,482
Net	(94,506)	39,438	(55,068)
Other financing sources	6,050	0	6,050
Beginning fund balances	1,237,357	(490,571)	746,786
Ending fund balances	\$ 1,148,901	(451,133)	697,768

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 293,058	(373)	292,685
Expenses	267,162	11,853	279,015
Net	25,896	(12,226)	13,670
Beginning net assets	35,088	68,674	103,762
Ending net assets	\$ 60,984	56,448	117,432

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$19,723.

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

OTHER SUPPLEMENTAL INFORMATION

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

	<u>Special Revenue Funds</u>		
	Student Activity	Expendable Trust	Total Special Revenue Funds
ASSETS			
Cash and pooled investments	\$ 54,415	18,445	72,860
Receivables:			
Accounts	663	15	678
TOTAL ASSETS	<u>\$ 55,078</u>	<u>18,460</u>	<u>73,538</u>
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	\$ 1,393	0	1,393
Fund equity:			
Fund balances:			
Unreserved, undesignated	53,685	18,460	72,145
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 55,078</u>	<u>18,460</u>	<u>73,538</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds		
	Student Activity	Expendable Trust	Total Special Revenue Funds
REVENUES:			
Local sources:			
Other	\$ 192,412	7,419	199,831
TOTAL REVENUES	<u>192,412</u>	<u>7,419</u>	<u>199,831</u>
EXPENDITURES:			
Current:			
Instruction:			
Other instruction	187,785	0	187,785
Support services:			
Student support	0	4,100	4,100
TOTAL EXPENDITURES	<u>187,785</u>	<u>4,100</u>	<u>191,885</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,627	3,319	7,946
OTHER FINANCING SOURCES:			
Transfer in	0	6,050	6,050
TOTAL OTHER FINANCING SOURCES	<u>0</u>	<u>6,050</u>	<u>6,050</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES	4,627	9,369	13,996
FUND BALANCE BEGINNING OF YEAR, AS RESTATED (NOTE 9)	<u>49,058</u>	<u>9,091</u>	<u>58,149</u>
FUND BALANCE END OF YEAR	<u>\$ 53,685</u>	<u>18,460</u>	<u>72,145</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

AUDUBON 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
Interest	\$ 5,080	(3,880)	0	1,200
Speech and Drama	4,113	10,053	8,079	6,087
Journalism	5	0	0	5
Vocal Music	1,253	4,248	4,408	1,093
Band	0	1,154	1,051	103
Industrial Tech	1,109	7,197	6,859	1,447
Vo Ag Resale	160	105	227	38
Greenhouse	4	3,528	3,344	188
Box Tops	1,555	1,630	3,185	0
High School	657	42,860	40,358	3,159
Elementary	352	1,521	1,161	712
Middle School	233	9,409	8,732	910
MS Special Ed	241	250	150	341
Middle School Music	7,885	933	8,763	55
Annual	396	13,939	4,651	9,684
Concessions	1,095	23,316	25,767	(1,356)
Show and Jazz Choir	0	813	(244)	1,057
Home Ec	352	947	825	474
Class of 2003	235	51	286	0
Class of 2004	3,816	100	3,814	102
Class of 2005	205	17,634	14,052	3,787
Class of 2006	(42)	0	37	(79)
Class of 2007	0	0	7	(7)
AFS Club	292	75	30	337
Art Club	286	0	0	286
FHA	602	75	60	617
FFA	12,690	24,862	20,097	17,455
National Honor Society	146	486	434	198
Peer Helpers	13	0	0	13
Pep Club	2,236	4,213	5,722	727
Drill Team	1,943	3,346	4,348	941
Student Senate	1,317	22,633	20,447	3,503
JH Student Senate	571	228	191	608
Character Counts	258	686	944	0
Total	\$ 49,058	192,412	187,785	53,685

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,966,025	1,837,182	1,699,840	1,677,246
Tuition	177,860	221,825	231,168	211,801
Other	319,657	322,605	357,070	413,411
State sources	2,662,840	2,646,224	2,665,148	2,742,278
Federal sources	176,032	180,468	170,068	173,364
Total	\$ 5,302,414	5,208,304	5,123,294	5,218,100
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,274,590	2,168,459	2,234,146	2,126,632
Special instruction	530,756	502,645	520,364	518,378
Other instruction	591,971	565,897	575,454	521,279
Support services:				
Student services	133,657	197,527	168,344	157,149
Instructional staff services	208,977	217,172	237,680	294,232
Administration services	569,298	586,851	591,367	528,730
Operation and maintenance of plant services	496,297	440,957	432,849	461,459
Transportation services	220,793	194,236	164,440	171,859
Central support services	1,490	1,800	53,584	52,538
Non-instructional programs	3,923	5,525	1,914	2,685
Other expenditures:				
Facilities acquisitions	134,213	272,397	37,570	168,806
AEA flow-through	191,517	204,656	205,920	212,348
Total	\$ 5,357,482	5,358,122	5,223,632	5,216,095

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

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

Internal Control Over Financial Reporting

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

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

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consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved except for item I-A-04.

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

September 30, 2004

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

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

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

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

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

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

Conclusion - Response accepted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Larry Kendle, Bus Driver Owns Kendle Oil	Fuel (per bid)	\$19,466

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Larry Kendle do not appear to represent a conflict of interest.

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

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

- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.