

BEDFORD COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
District-Wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14-15
Governmental Fund Financial Statements:		
Balance Sheet	C	16
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	17
Statement of Revenues, Expenditures and Changes in Fund Balances	E	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	19
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	20
Statement of Revenues, Expenses and Changes in Net Assets	H	21
Statement of Cash Flows	I	22
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	23
Notes to Financial Statements		24-34
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		35-36
Budget Comparison Schedule - Budget to GAAP Reconciliation		37
Notes to Required Supplementary Information - Budgetary Reporting		38
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	40
Schedule of Changes in Student Activity Accounts	3	41-42
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Funds	4	43
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	44
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		45-46
Schedule of Findings		47-48

Bedford Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 election)		
David Dukes	President	2003
Layne Thornton	Vice President	2003
Tony Brown	Board Member	2005
Jack Spencer	Board Member	2004
Paul Walston	Board Member	2005
Board of Education (After September 2003 election)		
Layne Thornton	President	2006
Tony Brown	Vice President	2005
Jack Spencer	Board Member	2004
Paul Walston	Board Member	2005
Mike Irvin	Board Member	2006
School Officials		
Joe Drake	Superintendent	2004
Sharon Hart	District Secretary/Treasurer And Business Manager	2004
Rick Engel	Attorney	2004

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Bedford 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 Bedford 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 Bedford 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 11 to the financial statements, during the year ended June 30, 2004, Bedford 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 15, 2004 on our consideration of the Bedford Community School District's internal control over

financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 35 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 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 Bedford Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the 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 5, 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 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Bedford 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 decreased from \$4,212,593 in fiscal 2003 to \$4,200,032 in fiscal 2004, while General Fund expenditures decreased from \$4,256,630 in fiscal 2003 to \$4,189,384 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$223,189 in fiscal 2003 to a balance of \$237,225 in fiscal 2004, a 6.29% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to a decrease in the support service and other expenditures.
- The District's September 2003 enrollment declined compared to the previous year. The certified enrollment was 553.7, a decrease of 12.8 students.
- 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.

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 Bedford 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 Bedford 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 Bedford 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.

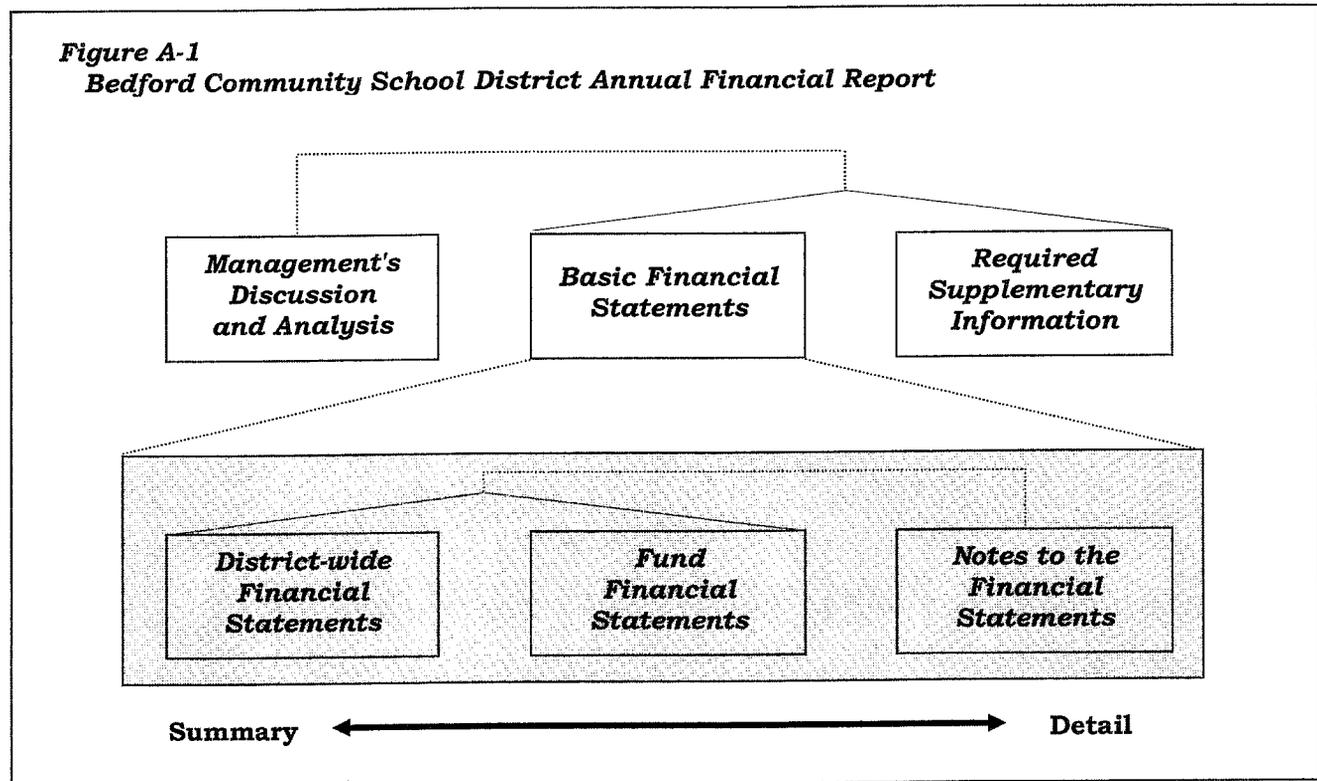


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, 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 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 the Agency fund.

- Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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	\$ 3,018,530	17,046	3,035,576
Capital assets	4,838,514	61,185	4,899,699
Total assets	<u>7,857,044</u>	<u>78,231</u>	<u>7,935,275</u>
Long-term obligations	1,585,000	0	1,585,000
Other liabilities	2,448,227	1,955	2,450,182
Total liabilities	<u>4,033,227</u>	<u>1,955</u>	<u>4,035,182</u>
Net assets:			
Invested in capital assets, net of related debt	3,375,916	61,185	3,437,101
Restricted	108,771	0	108,771
Unrestricted	339,130	15,091	354,221
Total net assets	<u>\$ 3,823,817</u>	<u>76,276</u>	<u>3,900,093</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	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	\$ 476,858	124,701	601,559
Operating grants and contributions and restricted interest	570,649	108,311	678,960
General revenues:			
Property tax	1,654,470	0	1,654,470
Local option sales and services tax	56,643	0	56,643
Unrestricted state grants	2,033,914	0	2,033,914
Other	8,679	55	8,734
Total revenues	4,801,213	233,067	5,034,280
Program expenses:			
Governmental activities:			
Instructional	2,971,318	0	2,971,318
Support services	1,299,827	0	1,299,827
Non-instructional programs	0	230,794	230,794
Other expenditures	577,377	0	577,377
Total expenses	4,848,522	230,794	5,079,316
Changes in net assets	\$ (47,309)	2,273	(45,036)

Property tax, local option sales and services tax and unrestricted state grants account for 74% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,801,213 and expenses were \$4,848,522. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,971,318	2,086,254
Support services	1,299,827	1,298,402
Other expenses	577,377	416,359
Totals	\$ 4,848,522	3,801,015

- The cost financed by users of the District's programs was \$476,858.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$570,649.

-
- The net cost of governmental activities was financed with \$1,654,470 in property tax, \$56,643 in local option sales and services tax, \$2,033,914 in state foundation aid, \$5,291 in interest income and \$3,388 in gain on sale of equipment.

Business-Type Activities

Revenues of the District's business-type activities were \$233,067 and expenses were \$230,794. 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 Bedford 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 \$475,668, above last year's ending fund balances of a \$402,962. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the impact of receiving local option sales and services tax.

Governmental Fund Highlights

- The District's improving General Fund financial position from \$223,189 to \$237,225 is the product of many factors:
 - Reduction in federal grants during the year resulted in a decrease in revenues.
 - The decrease in the support services and other expenditures was greater than the increase in the instruction functional area. This decrease in expenditures was anticipated due to budget concerns.
- The Debt Service Fund balance increased from \$8,137 in fiscal 2003 to \$14,260 in fiscal 2004. While revenues remained approximately the same, the District refinanced general obligation bonds at a lower interest rate. The present value savings of this refinancing to the District was \$47,814.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$74,003 at June 30, 2003 to \$76,276 at June 30, 2004, representing an increase of 3.07%.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$347,483 less than budgeted revenues, a variance of 6.51%. The most significant variance resulted from the District receiving less in local 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$4.9 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$232,278.

The original cost of the District's capital assets was \$7.5 million. Governmental funds account for \$7.4 million with the remainder of \$0.1 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 \$4,463,518 at June 30, 2004, compared to \$4,573,236 reported at June 30, 2003. This decrease resulted primarily from current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 13,400	0	13,400
Buildings	4,463,518	0	4,463,518
Improvements other than buildings	266,811	0	266,811
Machinery and equipment	94,785	61,185	155,970
Total	<u>\$ 4,838,514</u>	<u>61,185</u>	<u>4,899,699</u>

Long-Term Debt

At June 30, 2004, the District had \$1,585,000 in general obligation and other long-term debt outstanding. This represents a decrease of 2.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds of \$1,440,000 at June 30, 2004.

The District had total outstanding Capital Loan Notes payable from the Special Revenue – Physical Plant and Equipment Levy Fund of \$145,000 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,440,000	1,465,000	-1.7%
Capital loan notes	145,000	160,000	-9.4%
Totals	<u>\$ 1,585,000</u>	<u>1,625,000</u>	<u>-2.5%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of 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 Taylor County passed by 77% 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, purchasing equipment and paying long-term debt. The funding will begin in January 2005.

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 Sharon Hart, Business Manager, Bedford Community School District, 906 Penn Street, Bedford, Iowa, 50833.

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 4)	\$ 500,699	0	500,699
Other	762,636	10,227	772,863
Receivables:			
Property tax:			
Delinquent	40,340	0	40,340
Succeeding year	1,545,809	0	1,545,809
Income surtax	102,051	0	102,051
Accounts	5,216	0	5,216
Due from other governments	61,779	0	61,779
Inventories	0	6,819	6,819
Capital assets, net of accumulated depreciation(Note 5)	4,838,514	61,185	4,899,699
TOTAL ASSETS	7,857,044	78,231	7,935,275
LIABILITIES			
Accounts payable	70,636	0	70,636
Salaries and benefits payable	319,459	0	319,459
ISCAP warrants payable(Note 4)	498,000	0	498,000
ISCAP unamortized premium	6,907	0	6,907
Interest payable	7,416	0	7,416
Deferred revenue:			
Succeeding year property tax	1,545,809	0	1,545,809
Other	0	1,955	1,955
Long-term liabilities(Note 6):			
Portion due within one year:			
Bonds payable	165,000	0	165,000
Capital loan notes payable	15,000	0	15,000
Portion due after one year:			
Bonds payable	1,275,000	0	1,275,000
Capital loan notes payable	130,000	0	130,000
TOTAL LIABILITIES	4,033,227	1,955	4,035,182
NET ASSETS			
Investment in capital assets, net of related debt	3,375,916	61,185	3,437,101
Restricted for:			
Teacher compensation	146	0	146
Management levy	38,918	0	38,918
Other special revenue purposes	69,707	0	69,707
Unrestricted	339,130	15,091	354,221
TOTAL NET ASSETS	\$ 3,823,817	76,276	3,900,093

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 1,831,598	192,409	387,749
Special instruction	681,621	34,157	21,882
Other instruction	458,099	248,867	0
	<u>2,971,318</u>	<u>475,433</u>	<u>409,631</u>
Support services:			
Student services	128,403	0	0
Instructional staff services	67,926	0	0
Administration services	515,267	0	0
Operation and maintenance of plant services	370,019	0	0
Transportation services	154,144	1,425	0
Central support services	64,068	0	0
	<u>1,299,827</u>	<u>1,425</u>	<u>0</u>
Other expenditures:			
Facilities acquisition	49,087	0	0
Long-term debt interest	194,538	0	0
AEA flowthrough	161,018	0	161,018
Depreciation(unallocated) *	172,734	0	0
	<u>577,377</u>	<u>0</u>	<u>161,018</u>
Total governmental activities	4,848,522	476,858	570,649
Business-Type activities:			
Non-instructional programs:			
Nutrition services	230,794	124,701	108,311
Total business-type activities	<u>230,794</u>	<u>124,701</u>	<u>108,311</u>
Total	<u>\$ 5,079,316</u>	<u>601,559</u>	<u>678,960</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
 Debt service
 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 11)

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
(1,251,440)	0	(1,251,440)
(625,582)	0	(625,582)
(209,232)	0	(209,232)
<u>(2,086,254)</u>	<u>0</u>	<u>(2,086,254)</u>
(128,403)	0	(128,403)
(67,926)	0	(67,926)
(515,267)	0	(515,267)
(370,019)	0	(370,019)
(152,719)	0	(152,719)
(64,068)	0	(64,068)
<u>(1,298,402)</u>	<u>0</u>	<u>(1,298,402)</u>
(49,087)	0	(49,087)
(194,538)	0	(194,538)
0	0	0
(172,734)	0	(172,734)
<u>(416,359)</u>	<u>0</u>	<u>(416,359)</u>
(3,801,015)	0	(3,801,015)
0	2,218	2,218
0	2,218	2,218
<u>(3,801,015)</u>	<u>2,218</u>	<u>(3,798,797)</u>
\$ 1,392,227	0	1,392,227
57,332	0	57,332
204,911	0	204,911
56,643	0	56,643
2,033,914	0	2,033,914
5,291	55	5,346
3,388	0	3,388
<u>3,753,706</u>	<u>55</u>	<u>3,753,761</u>
(47,309)	2,273	(45,036)
<u>3,871,126</u>	<u>74,003</u>	<u>3,945,129</u>
<u>\$ 3,823,817</u>	<u>76,276</u>	<u>3,900,093</u>

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

	General	Debt Service	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 500,699	0	0	500,699
Other	512,124	9,026	241,486	762,636
Receivables:				
Property tax				
Delinquent	31,715	5,234	3,391	40,340
Succeeding year	1,250,147	184,200	111,462	1,545,809
Income surtax	102,051	0	0	102,051
Accounts	3,665	0	1,551	5,216
Due from other governments	42,799	0	18,980	61,779
TOTAL ASSETS	\$ 2,443,200	198,460	376,870	3,018,530
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 29,411	0	41,225	70,636
Salaries and benefits payable	319,459	0	0	319,459
ISCAP warrants payable(Note 4)	498,000	0	0	498,000
ISCAP unamortized premium	6,907	0	0	6,907
Deferred revenue:				
Succeeding year property tax	1,250,147	184,200	111,462	1,545,809
Income surtax	102,051	0	0	102,051
Total liabilities	<u>2,205,975</u>	<u>184,200</u>	<u>152,687</u>	<u>2,542,862</u>
Fund balances:				
Reserved:				
Debt service	0	14,260	0	14,260
Teacher compensation	146	0	0	146
Unreserved:				
Undesignated:				
General	237,079	0	0	237,079
Management levy	0	0	38,918	38,918
Physical plant and equipment levy	0	0	42,424	42,424
Capital projects	0	0	73,134	73,134
Other special revenue purposes	0	0	69,707	69,707
Total fund balances	<u>237,225</u>	<u>14,260</u>	<u>224,183</u>	<u>475,668</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,443,200	198,460	376,870	3,018,530

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD 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)	\$	475,668
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		4,838,514
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		102,051
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.		(7,416)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(1,585,000)</u>
Net assets of governmental activities (page 13)	\$	<u>3,823,817</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Debt Service	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,322,317	204,911	188,607	1,715,835
Tuition	226,566	0	0	226,566
Other	46,586	12,067	196,930	255,583
Intermediate sources	13,842	0	0	13,842
State sources	2,387,939	0	0	2,387,939
Federal sources	202,782	0	0	202,782
Total revenues	<u>4,200,032</u>	<u>216,978</u>	<u>385,537</u>	<u>4,802,547</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,821,191	0	6,100	1,827,291
Special instruction	681,621	0	0	681,621
Other instruction	292,097	0	169,764	461,861
	<u>2,794,909</u>	<u>0</u>	<u>175,864</u>	<u>2,970,773</u>
Support services:				
Student services	126,943	0	0	126,943
Instructional staff services	66,160	0	0	66,160
Administration services	459,081	0	57,686	516,767
Operation and maintenance of plant services	342,615	0	19,782	362,397
Transportation services	174,590	0	0	174,590
Central support services	64,068	0	0	64,068
	<u>1,233,457</u>	<u>0</u>	<u>77,468</u>	<u>1,310,925</u>
Other expenditures:				
Facilities acquisitions	0	0	56,448	56,448
Long-term debt:				
Principal	0	180,000	0	180,000
Interest and fiscal charges	0	194,065	0	194,065
AEA flowthrough	161,018	0	0	161,018
	<u>161,018</u>	<u>374,065</u>	<u>56,448</u>	<u>591,531</u>
Total expenditures	<u>4,189,384</u>	<u>374,065</u>	<u>309,780</u>	<u>4,873,229</u>
Excess(deficiency) of revenues over(under) expenditures	10,648	(157,087)	75,757	(70,682)
Other financing sources(uses):				
Sale of bonds	0	1,605,000	0	1,605,000
Advance bond refinancing	0	(1,465,000)	0	(1,465,000)
Sale of equipment	3,388	0	0	3,388
Transfers in	0	23,210	0	23,210
Transfers out	0	0	(23,210)	(23,210)
Total other financing sources(uses)	<u>3,388</u>	<u>163,210</u>	<u>(23,210)</u>	<u>143,388</u>
Net change in fund balances	14,036	6,123	52,547	72,706
Fund balance beginning of year	223,189	8,137	171,636	402,962
Fund balance end of year	<u>\$ 237,225</u>	<u>14,260</u>	<u>224,183</u>	<u>475,668</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 18)	\$	72,706
 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	\$ 67,830	
Depreciation expense	<u>(222,650)</u>	(154,820)
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		
		(4,722)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	\$ (1,605,000)	
Repaid	<u>1,645,000</u>	40,000
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.		
		<u>(473)</u>
Changes in net assets of governmental activities (page 15)	\$	<u>(47,309)</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

		School Nutrition
ASSETS		
Cash and pooled investments	\$	10,227
Inventories		6,819
Capital assets, net of accumulated depreciation (Note 5)		61,185
TOTAL ASSETS		78,231
LIABILITIES		
Deferred revenue:		
Other		1,955
TOTAL LIABILITIES		1,955
NET ASSETS		
Investment in capital assets, net of related debt		61,185
Unrestricted		15,091
TOTAL NET ASSETS	\$	76,276

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD 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	\$ 124,701
TOTAL OPERATING REVENUES	124,701
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	88,683
Benefits	23,423
Supplies	109,060
Depreciation	9,628
TOTAL OPERATING EXPENSES	230,794
OPERATING LOSS	(106,093)
NON-OPERATING REVENUES:	
State sources	3,332
Federal sources	104,979
Interest income	55
TOTAL NON-OPERATING REVENUES	108,366
Change in net assets	2,273
Net assets beginning of year, as restated(Note 11)	74,003
Net assets end of year	\$ 76,276

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 123,544
Cash received from miscellaneous	920
Cash payments to employees for services	(112,106)
Cash payments to suppliers for goods or services	(92,142)
Net cash used in operating activities	<u>(79,784)</u>
Cash flows from non-capital financing activities:	
State grants received	3,332
Federal grants received	89,831
Net cash provided by non-capital financing activities	<u>93,163</u>
Cash flows from capital financing activities:	
Acquisition of assets	(11,820)
Net cash used in capital financing activities	<u>(11,820)</u>
Cash flows from investing activities:	
Interest on investments	55
Net cash provided by investing activities	<u>55</u>
Net increase in cash and cash equivalents	1,614
Cash and cash equivalents at beginning of year	<u>8,613</u>
Cash and cash equivalents at end of year	<u>\$ 10,227</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (109,093)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	15,148
Depreciation	9,628
Decrease in inventories	1,958
Decrease in accounts payable	(188)
Decrease in deferred revenue	(237)
Net cash used in operating activities	<u>\$ (82,784)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 10,227</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$15,148.

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>Agency</u>
ASSETS	
Due from other groups	\$ 11,423
	<u>11,423</u>
LIABILITIES	
Excess of warrants issued over bank balance	11,423
	<u>11,423</u>
NET ASSETS	<u>\$ 0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

BEDFORD COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Bedford 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 Bedford, Iowa, and the predominate agricultural territory in Taylor and Ringgold 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, Bedford Community School District has included all funds, organizations, 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 Bedford 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 Taylor and Ringgold 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 Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary 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	\$ 500
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 Life (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

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

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

receivables and other receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Control

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

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Special Revenues - Physical Plant and Equipment Levy	\$ <u>23,210</u>

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

(4) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 500,699	0	498,000	0

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	250,000	250,000	0

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.051%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 11)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 13,400	0	0	13,400
Total capital assets not being depreciated	13,400	0	0	13,400
Capital assets being depreciated:				
Buildings	5,784,210	41,120	0	5,825,330
Land improvements	517,834	2,800	0	520,634
Machinery and equipment	967,517	23,910	7,350	984,077
Total capital assets being depreciated	7,269,561	67,830	7,350	7,330,041
Less accumulated depreciation for:				
Buildings	1,210,974	150,838	0	1,361,812
Land improvements	231,927	21,896	0	253,823
Machinery and equipment	846,726	49,916	7,350	889,292
Total accumulated depreciation	2,289,627	222,650	7,350	2,504,927
Total capital assets being depreciated, net	4,979,934	(154,820)	0	4,825,114
Governmental activities capital assets, net	\$ 4,993,334	(154,820)	0	4,838,514

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 103,671	11,820	0	115,491
Less accumulated depreciation	44,678	9,628	0	54,306
Business-type activities capital assets, net	\$ 58,993	2,192	0	61,185

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 4,307
Other	2,537
Support services:	
Student services	1,460
Instructional staff services	1,766
Administration	2,500
Operation and maintenance	7,622
Transportation	29,724
Unallocated depreciation	172,734
Total governmental activities depreciation expense	\$ 222,650
Business-type activities:	
Food services	\$ 9,628

(6) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 1,465,000	1,605,000	1,630,000	1,440,000	165,000
Capital loan notes	160,000	0	15,000	145,000	15,000
Total	\$ 1,625,000	1,605,000	1,645,000	1,585,000	180,000

General Obligation 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 July 1, 2003		
		Principal	Interest	Total
2005	2.00	% \$ 165,000	37,200	202,200
2006	2.00	170,000	33,900	203,900
2007	2.50	175,000	30,500	205,500
2008	2.50	175,000	26,125	201,125
2009	2.50	180,000	21,750	201,750
2010	3.00	185,000	17,250	202,250
2011	3.00	195,000	11,700	206,700
2012	3.00	195,000	5,850	200,850
Total		\$ 1,440,000	184,275	1,624,275

Capital Loan Notes Payable

Details of the District's June 30, 2004 capital loan notes indebtedness are as follows:

Year Ending June 30,	Interest Rates	Capital Loan Notes		
		Principal	Interest	Total
2005	4.20	% \$ 15,000	7,296	22,296
2006	4.30	15,000	6,666	21,666
2007	4.40	15,000	6,020	21,020
2008	4.50	20,000	5,360	25,360
2009	4.60	20,000	4,460	24,460
2010	4.70	20,000	3,540	23,540
2011	6.50	20,000	2,600	22,600
2012	6.50	20,000	1,300	21,300
Total		\$ 145,000	37,242	182,242

(7) Defeasement of Bonds

On July 1, 2003, the District issued refunding bonds in the amount of \$1,605,000 to advance refund \$1,465,000 of outstanding general obligation bonds. The proceeds of the refunding issue

have been placed in an irrevocable escrow account and have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunded bonds. At June 30, 2004, \$1,335,000 of such bonds was outstanding. Repayment of principal and interest for the year was \$130,000 and \$75,977 respectively. It is expected that the escrow will be closed out June 1, 2012. The present value savings of this refinancing to the District was \$47,814.

(8) 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 \$161,959, \$157,241 and \$161,904 respectively, equal to the required contributions for each year.

(9) Risk Management

Bedford 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.

(10) 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 \$161,018 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.

(11) 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 District-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.

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

	Fund			Total
	General	Debt Service	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 223,189	8,137	171,636	402,962
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 223,189</u>	<u>8,137</u>	<u>171,636</u>	<u>402,962</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$2,289,627				4,993,334
Income surtax				106,773
Long-term liabilities:				
General obligation bonds payable			1,465,000	
Capital loan notes payable			<u>160,000</u>	(1,625,000)
Accrued interest payable				<u>(6,943)</u>
Net assets, July 1, 2003, as restated				<u>\$ 3,871,126</u>

	Fund		Total
	School Nutrition		
Net assets, June 30, 2003, as previously reported	\$ 24,049		24,049
Capital Contributions	49,954		49,954
Net assets, July 1, 2003, as restated for proprietary funds	<u>\$ 74,003</u>		<u>74,003</u>

REQUIRED SUPPLEMENTAL INFORMATION

BEDFORD 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 Types Actual
Receipts:		
Local sources	\$ 2,029,827	124,519
Intermediate sources	16,576	0
State sources	2,380,895	3,332
Federal sources	332,415	104,979
Total receipts	<u>4,759,713</u>	<u>232,830</u>
Disbursements:		
Instruction	2,988,778	0
Support services	1,282,575	0
Non-instructional programs	0	231,216
Other expenditures	558,765	0
Total disbursements	<u>4,830,118</u>	<u>231,216</u>
Excess(deficiency) of receipts over(under) disbursements	(70,405)	1,614
Other financing sources, net	<u>143,388</u>	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	72,983	1,614
Balance beginning of year	<u>689,653</u>	8,613
Balance end of year	<u>\$ 762,636</u>	<u>10,227</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,154,346	2,391,254	2,391,254	(236,908)
16,576	21,000	21,000	(4,424)
2,384,227	2,489,772	2,489,772	(105,545)
437,394	438,000	438,000	(606)
4,992,543	5,340,026	5,340,026	(347,483)
2,988,778	3,167,034	3,500,000	511,222
1,282,575	1,632,000	1,800,000	517,425
231,216	258,000	350,000	118,784
558,765	404,412	1,000,000	441,235
5,061,334	5,461,446	6,650,000	1,588,666
(68,791)	(121,420)	(1,309,974)	1,241,183
143,388	22,707	22,707	120,681
74,597	(98,713)	(1,287,267)	1,361,864
698,266	617,765	617,765	80,501
772,863	519,052	(669,502)	1,442,365

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

	Governmental Funds		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 4,759,713	42,834	4,802,547
Expenses	4,830,118	43,111	4,873,229
Net	(70,405)	(277)	(70,682)
Other financing sources, net	143,388	0	143,388
Beginning fund balances	689,653	(286,691)	402,962
Ending fund balances	\$ 762,636	(286,968)	475,668

	Proprietary Funds		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 232,830	237	233,067
Expenses	231,216	(422)	230,794
Net	1,614	659	2,273
Beginning net assets, as restated (Note 11)	8,613	65,390	74,003
Ending net assets	\$ 10,227	66,049	76,276

BEDFORD 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 expenditures by \$1,188,554.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds						Total Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Capital Projects	
ASSETS							
Cash and pooled investments	\$ 36,992	48,367	42,694	21,817	149,870	91,616	241,486
Receivables:							
Property tax							
Current year delinquent	1,926	0	1,465	0	3,391	0	3,391
Succeeding year	75,000	0	36,462	0	111,462	0	111,462
Accounts	0	1,551	0	0	1,551	0	1,551
Due from other governments	0	0	0	0	0	18,980	18,980
TOTAL ASSETS	\$ 113,918	49,918	80,621	21,817	266,274	110,596	376,870
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 0	2,028	1,735	0	3,763	37,462	41,225
Deferred revenue:							
Succeeding year property tax	75,000	0	36,462	0	111,462	0	111,462
	75,000	2,028	38,197	0	115,225	37,462	152,687
Fund equity:							
Fund balances:							
Unreserved, undesignated	38,918	47,890	42,424	21,817	151,049	73,134	224,183
	38,918	47,890	42,424	21,817	151,049	73,134	224,183
TOTAL LIABILITIES AND FUND EQUITY	\$ 113,918	49,918	80,621	21,817	266,274	110,596	376,870

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds						Total
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds	Capital Projects	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 74,632	0	57,332	0	131,964	56,643	188,607
Other	1,531	183,385	257	265	185,438	11,492	196,930
TOTAL REVENUES	76,163	183,385	57,589	265	317,402	68,135	385,537
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	0	0	0	6,100	6,100	0	6,100
Other instruction	0	169,764	0	0	169,764	0	169,764
Support services:							
Administration services	57,686	0	0	0	57,686	0	57,686
Operation and maintenance of plant services	0	0	19,782	0	19,782	0	19,782
Other expenditures:							
Facilities acquisition	0	0	11,541	0	11,541	44,907	56,448
TOTAL EXPENDITURES	57,686	169,764	31,323	6,100	264,873	44,907	309,780
Excess(deficiency) of revenues over(under) expenditures	18,477	13,621	26,266	(5,835)	52,529	23,228	75,757
OTHER FINANCING USES:							
Transfers out	0	0	(23,210)	0	(23,210)	0	(23,210)
TOTAL OTHER FINANCING USES	0	0	(23,210)	0	(23,210)	0	(23,210)
Excess(deficiency) of revenues over(under) expenditures and other financing uses	18,477	13,621	3,056	(5,835)	29,319	23,228	52,547
FUND BALANCES BEGINNING OF YEAR	20,441	34,269	39,368	27,652	121,730	49,906	171,636
FUND BALANCES END OF YEAR	\$ 38,918	47,890	42,424	21,817	151,049	73,134	224,183

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Athletics:				
Football	\$ 8,100	15,027	10,892	12,235
Volleyball	123	4,558	3,206	1,475
Basketball	3,289	10,971	6,589	7,671
Wrestling	(1,992)	6,194	3,239	963
Track	(435)	3,479	5,278	(2,234)
Softball	(2,151)	2,656	3,963	(3,458)
Baseball	(7,586)	5,371	2,977	(5,192)
Golf	0	875	875	0
Cross Country	(195)	1,935	1,740	0
	(847)	51,066	38,759	11,460
HS Clubs & Organizations:				
FFA	9,632	14,055	13,647	10,040
FHA	1,150	1,762	1,368	1,544
Iron Man Club	19	0	0	19
NHS	307	472	519	260
Student Council	254	5,129	4,320	1,063
SADOBS	1,139	1,501	2,080	560
Instrumental Club	(1,097)	879	383	(601)
Liabrary Book Fair	0	453	453	0
Vocal	132	720	654	198
BPA	1,145	8,528	8,147	1,526
Yearbook	6,640	6,228	6,825	6,043
Teachers	547	2,083	1,874	756
Cheerleaders	791	13,042	12,164	1,669
Art	604	807	407	1,004
Musical	1,778	0	35	1,743
Music Club	4,842	2,550	7,353	39
Class of 2005	489	20,100	13,430	7,159
Class of 2006	621	0	0	621
Class of 2007	555	0	0	555
Class of 2008	500	0	106	394
Class of 2009	0	500	0	500
Class of 2010	0	500	0	500
Class of 2003	125	44	169	0
Class of 2004	1,230	12,986	14,266	(50)
	31,403	92,339	88,200	35,542
MS Athletics:				
Volleyball	0	408	391	17
Basketball	1,421	1,933	3,525	(171)
Wrestling	125	846	753	218
Track	252	541	370	423
Softball	(135)	855	720	0

BEDFORD 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
MS Athletics (Continued):				
Baseball	0	1,335	1,335	0
Football	(67)	1,086	1,019	0
	<u>1,596</u>	<u>7,004</u>	<u>8,113</u>	<u>487</u>
MS Clubs & Organizations:				
Student Council	28	6	34	0
Magazine Sales	0	8,872	8,872	0
	<u>28</u>	<u>8,878</u>	<u>8,906</u>	<u>0</u>
Elementary Clubs & Organizations:				
K-8 Book Fair	0	6,703	6,703	0
Teachers	0	4,006	4,229	(223)
Student Council	612	1,741	1,546	807
Yearbook	(890)	6	0	(884)
	<u>(278)</u>	<u>12,456</u>	<u>12,478</u>	<u>(300)</u>
District-wide Accounts:				
Great Race	2,090	181	2,310	(39)
Activity Tickets	0	4,435	4,435	0
Interest	0	334	329	5
Paperback Books	274	324	528	70
Field Trips	0	2,837	2,837	0
After Prom	3	3,531	2,869	665
	<u>2,367</u>	<u>11,642</u>	<u>13,308</u>	<u>701</u>
Total	<u>\$ 34,269</u>	<u>183,385</u>	<u>169,764</u>	<u>47,890</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD 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				
Due from other groups	\$ 21,525	47,011	57,113	11,423
LIABILITIES				
Excess of warrants issued over bank balance	\$ 21,525	47,011	57,113	11,423

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

BEDFORD 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	\$ 1,715,835	1,612,417	1,494,350	1,412,241
Tuition	226,566	256,724	310,678	287,197
Other	255,583	256,587	392,791	334,261
Intermediate sources	13,842	36,558	31,888	33,201
State sources	2,387,939	2,292,532	2,885,352	2,523,001
Federal sources	202,782	301,054	203,435	202,335
Total	\$ 4,802,547	4,755,872	5,318,494	4,792,236
Expenditures:				
Instruction:				
Regular instruction	\$ 1,827,291	1,903,975	1,991,396	1,949,715
Special instruction	681,621	570,619	452,316	441,484
Other instruction	461,861	463,915	436,425	494,289
Support services:				
Student services	126,943	133,220	173,115	162,483
Instructional staff services	66,160	65,210	57,022	41,867
Administration services	516,767	507,742	478,466	546,380
Operation and maintenance of plant services	362,397	397,100	345,795	405,958
Transportation services	174,590	172,462	230,758	243,381
Central support services	64,068	211,177	92,194	84,402
Other expenditures:				
Facilities acquisitions	56,448	345,850	396,497	42,887
Long-term debt:				
Principal	180,000	140,000	168,450	155,095
Interest and other charges	194,065	94,758	91,766	102,270
AEA flow-through	161,018	172,244	174,426	183,933
Total	\$ 4,873,229	5,178,272	5,088,626	4,854,144

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
Bedford Community School District:

We have audited the financial statements of Bedford Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 15, 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 Bedford Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

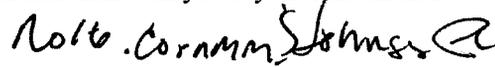
In planning and performing our audit, we considered Bedford Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over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

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

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

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



NOLTE, CORNMAN & JOHNSON, P.C.

September 15, 2004

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

Part I: Findings Related to the Basic 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.

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

Recommendation - The District should submit outstanding checks over a year to the Great Iowa Treasure Hunt. If unclaimed, write off the checks that were submitted.

Response - In October, we submitted the outstanding checks to the Great Iowa Treasure Hunt.

Conclusion - Response accepted.

- I-C-04 Student Activity Fund - We noted during our audit that the Student Activity Fund included several deficit account balances.

Recommendation - The District should monitor accounts with deficit balances to prevent over spending of these deficit accounts. The District may also want to consider a workout plan to bring these accounts to a positive position.

Response - We will monitor these accounts.

Conclusion - Response accepted.

BEDFORD 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, did not exceed the amount budgeted.
- 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 or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Tony Brown, Board Member Manager of Hy-Vee	Supplies	\$12,991

The above transactions with the board member do not appear to represent a conflict of interest, however the District should be aware of the possibility of 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.
- IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.