

NORTH IOWA COMMUNITY SCHOOL DISTRICT

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

June 30, 2004

Table of 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>	
Government-Wide Financial Statements:		
Statement of Net Assets	A	14
Statement of Activities	B	15-16
Governmental Fund Financial Statements:		
Balance Sheet	C	17
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	18
Statement of Revenues, Expenditures and Changes in Fund Balances	E	19
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	20
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	21
Statement of Revenues, Expenses, and Changes in Net Assets	H	22
Statement of Cash Flows	I	23
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	24
Statement of Changes in Fiduciary Net Assets	K	25
Notes to Financial Statements		26-35
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund		37
Budget to GAAP Reconciliation		38
Notes to Required Supplementary Information - Budgetary Reporting		39
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	41
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	42
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	43-44
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	45
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	46
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		47-48
Schedule of Findings		49-51

Independent Auditor's Report

To the Board of Education of
North Iowa Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of North Iowa Community School District, Buffalo Center, Iowa, 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 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, the business type activities, each major fund and the aggregate remaining fund information of North Iowa Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, North Iowa Community School District adopted Governmental Accounting Standards Board 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; Statement Number 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 reports dated November 3, 2004, on our consideration of North Iowa Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 37 through 39 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting 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. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Iowa 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 unqualified opinions 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

November 3, 2004

North Iowa Community School District

Management Discussion & Analysis

This section of the North Iowa Community School District's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. The analysis focuses on the District's financial performance as a whole. Please read it in conjunction with the District's financial statements, which immediately follow this section. Because the North Iowa Community School 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.

Financial Highlights

- The State of Iowa imposed a 2.5% reduction in State Foundation Aid, Instructional Support Programs, Educational Excellence Allocations, Teacher Compensation Allocations, and Iowa Early Intervention Allocations in November, which reduced state FY04 revenues by \$84,000 in the General Fund.
- Since the reduction occurred mid year, the District had already obligated the resources to fund fiscal 2004 salaries and programs. The District responded to the reduction by a combination of reducing expenditures in technology; purchased services; equipment and supplies; and using a portion of fund balance.
- Because of the reduction in revenues and the increase in salaries, benefits, utilities and special education costs the District's General Fund balance decreased by \$79,127.
- Voters in Kossuth County passed a ten-year one-cent local option sales tax for school facilities which is expected to generate at least an additional \$70,340 per year.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *Government-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the Government-wide statements.
- The *governmental funds statements* explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

- *Proprietary funds statements* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- *Fiduciary funds statements* provide information about the relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District’s budget for the year.

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

Figure A-1

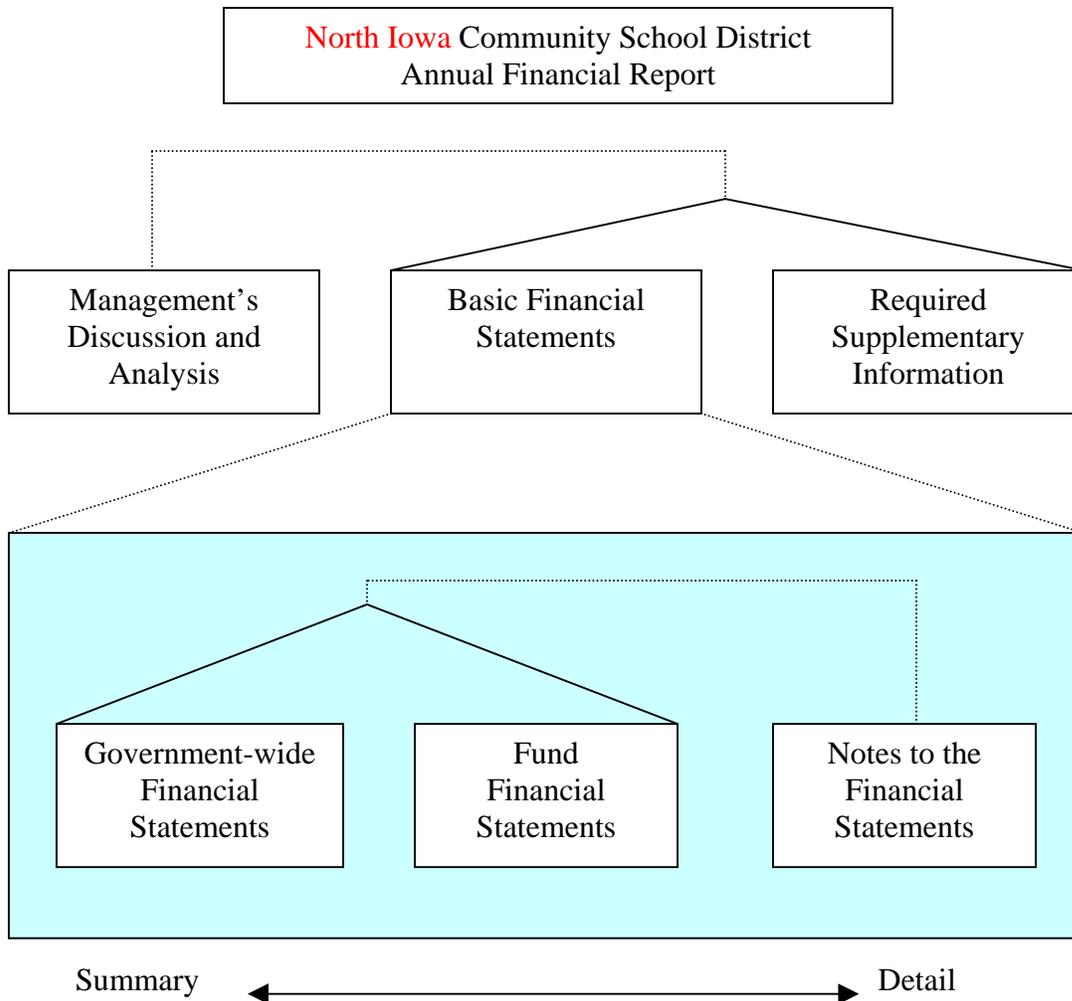


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

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

	Government-wide Statements	Fund Financial 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 business: food services is included here	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balance 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flow 	<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 and payable	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

Government-wide Statements

The Government-wide 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 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, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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 taxes 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 food service program and FFA projects would be 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:

- *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 funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship or differences between the two statements. The

District's governmental funds include the General Fund, Capital Projects Fund, Debt Service Fund, and Special Revenue Funds.

- *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 statements. The District's enterprise fund, one type of a proprietary fund, is the same as its business-type activities but provides more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the FFA Projects Fund.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as Scholarship funds. The District accounts for outside donations for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net assets. 2003 amount are not available due to Fiscal year 2003-2004 implementation of GASB-34.

Figure A-3

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total School District</u>
	<u>2004</u>	<u>2004</u>	<u>2004</u>
Current and other assets	\$5,646,131	\$40,460	\$5,686,591
Capital assets	4,852,589	22,091	4,874,680
Total Assets	10,498,720	62,551	10,561,271
Long-term liabilities	3,055,000	0	3,055,000
Other liabilities	4,271,415	3,576	4,274,991
Total liabilities	7,326,415	3,576	7,329,991
Net Assets:			
Invested in capital assets, net of related debt	1,797,589	22,091	1,819,680
Restricted	205,105	0	205,108
Unrestricted	1,169,608	36,884	1,206,492
TOTAL NET ASSETS	3,172,305	\$58,975	\$3,231,280

Changes in net assets. Fiscal year 2003-2004 marks the initial District implementation of the GASB-34 financial reporting model. As a result, prior year comparisons are not available but will be provided in all subsequent years. *Figure A-4* reflects only totals from the current fiscal year ending June 30, 2004.

Figure A-4

Changes in Net Assets from Operating Results

	<u>Governmental Activities</u> 2004	<u>Business-type Activities</u> 2004	<u>Total School District</u> 2004
Revenues			
Program Revenues			
Charges for services	\$329,631	\$141,854	\$471,485
Operating Grants & Contributions	533,328	103,128	636,456
Capital Grants & Contributions	0	0	0
General Revenues			
Property taxes & other taxes	2,484,042	0	2,484,042
Unrestricted State Grants	1,835,396	0	1,835,396
Unrestricted Investment Earnings	29,593	0	29,593
Other Revenue	23,676	0	23,676
Total Revenues	\$5,235,666	\$244,982	\$5,480,648
Expenses			
Instruction	3,233,014	0	3,233,014
Support Services	1,601,739	0	1,601,739
Non-Instructional Programs	14,605	227,651	242,256
Other Expenses	623,144	0	623,144
Total Expenses	\$5,472,502	\$227,651	\$5,700,153
Transfers	0	0	0
Change in Net Assets	\$(236,836)	\$17,331	\$(219,505)

Governmental Activities -

Referring to *Figure A-4*, revenues for the District's governmental activities were \$5,235,666 for fiscal year 2004. Total governmental expenditures were \$5,472,502.

Figure A-5

Net Cost of Governmental Activities

	<u>Total Cost of Services</u> 2004	<u>Net Cost of Services</u> 2004
Instruction	\$3,233,014	\$2,558,819
Support Services	1,601,739	1,599,364
Non-instructional Programs	14,605	14,605
Other Expenses	623,144	436,755
TOTAL	\$5,472,502	\$4,609,543

Figure A-5 presents the cost of the District's major governmental activities: instruction, support services, non-instruction programs and other expenses. The table shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of

these functions. (As with *Figure A-4*, a two-year comparison with the prior fiscal year is not possible under the new GASB 34 format. In the future a two-year comparison will be provided.)

- The cost of all governmental activities this year was \$5,472,502.
- Some of the cost was financed by the users of the District's programs (\$329,631).
- The federal and state governments and private contributors subsidized certain programs with grants and contributions (\$533,328).
- Most of the District's costs (\$4,609,543), however, were financed by District and state taxpayers.
- This portion of governmental activities was financed with \$2,484,042 in property and other taxes and \$1,835,396 in unrestricted state aid (based in large part on the statewide education aid formula), investment earnings and miscellaneous revenues.

Business-Type Activities -

The District's business-type activities include the School Nutrition Fund and FFA Projects Fund. Revenues of these activities were comprised of charges for services, federal and state reimbursements, and investment income. The District's business-type activities show a slight increase in net assets with revenues exceeding expenses \$17,331 (refer to *Figure A-4*).

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported combined fund balances of \$1,143,461, which was \$336,863 less of last year's ending fund balances of \$1,480,324.

Governmental Fund Highlights

The General Fund balance decreased from \$1,038,340 to \$959,203, due in part to the reduction in student enrollment, negotiated salary and benefit settlement, and events such as the Governor's 2.5% rollback; and the elimination of Phase III funding. The Board chose to use carryover fund balance to maintain obligations and student programming.

The Management Fund balance decreased \$59,073 to \$115,080. The decrease was due in large part to decreased revenues in the Management Fund because the District taxed for less to reduce the amount in the account.

The Physical Plant and Equipment Levy (PPEL) Fund balance decreased \$193,734 to \$18,570. While property tax revenues remained approximately the same, the District spent current revenues and balances carried over from last year on building repairs and improvements.

Business Type Fund Highlights

The School Nutrition Fund and FFA Projects Fund net assets increased from \$41,644 at June 30, 2003 to \$58,975 at June 30, 2004, representing an increase of 30%. A new cafeteria and updated menu attracted growing participation.

Budgetary Highlights

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. 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 budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report.

The North Iowa Community School District went through a financial crisis period immediately following the 1996 reorganization. Since that time the school board has opted to take a very conservative approach to budgeting. When preparing the budget, the District has utilized a philosophy to request the ability to expend its full budget if necessary but maintains a conservative fiscal approach to expenditures. Traditionally over the past eight years the District's certified budget has exceeded actual expenditures. The line item budgeting process used by the District has allowed the district goal to be met and expenditures to remain slightly below receipts.

Capital Asset and Debt Administration

Capital Assets

By the end of 2004, the District had invested \$4,874,680, net of accumulated depreciation, in a broad range of assets, including school buildings, athletic facilities, transportation equipment, and computer and audio-visual equipment (see *Figure A-6*). This amount represents a net decrease of \$23,286 or .5% from last year. (More detailed information about capital assets can be found in Note 4 to the financial statements.) The District was able to stay within its means and not accumulate any debt in FY04. Capital assets were purchased as revenue became available and included tuckpointing for the 1922 building and air conditioning for the 2003 building. The District also substantially completed a building addition renovation at Buffalo Center, the first new construction in nearly 40 years.

<i>Capital Assets (net of depreciation)</i>							
	Governmental Activities		Business Type Activities		Total School District		Total Percentage Change 2003-04
	2003	2004	2003	2004	2003	2004	
Land	11,000	11,000	0	0	11,000	11,000	0
Construction in progress	4,302,291	0	0	0	4,302,291	0	-100.0
Buildings	229,422	4,391,299	0	0	229,422	4,391,299	1814.1
Equipment & Furniture	295,707	227,589	24,942	22,091	320,649	249,680	-22.1
Improve/Other than Bldg	34,604	222,701	0	0	34,604	222,701	543.6
Total	4,873,024	4,852,589	24,942	22,091	4,897,966	4,874,680	-.5

Long-Term Debt

At June 30, 2004, the District had **\$3,055,000** in general obligation bonds (Figure A-7). This represents an decrease of approximately **4%** from last year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

Figure A-7			
Long-Term Debt			
	Balance End of 2002	Balance End of 2004	Due Within One Year
General Obligation Bonds	\$3,175,000	\$3,055,000	\$125,000

Factors Bearing on the District's Future

The North Iowa Community School District is no different from any other rural school district. Declining enrollment trends, aging population, loss of small family farms and businesses, and a fiscally hostile legislature are all factors that stress rural districts. The North Iowa Community School has positioned itself to remain financially healthy in the future. The District's solid cash balance and unspent balance allow the district to meet unanticipated financial stressors that are out of the power of the administration and elected school board to control. The main focus of all expenditures set forth by the district will remain focused toward greater student achievement. As part of that focus facilities, curriculum, and personnel will be vital to meeting that goal. Local economic development will help the district maintain a low tax levy rate yet utility and health insurance costs will cause tension in the District's attempt to maintain fiscal health.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability of the money it receives. If you have questions about this report or need additional financial information, contact **Larry D. Hill**, Superintendent, **North Iowa** Community School District, **111 3rd Ave. N.W., P. O. Box 510, Buffalo Center, Iowa 50424**.

BASIC FINANCIAL STATEMENTS

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business Type	Total
	\$	\$	\$
Assets			
Cash and cash equivalents:			
ISCAP	1,209,404	-	1,209,404
Other	1,848,029	36,564	1,884,593
Receivables:			
Property tax:			
Delinquent	21,920	-	21,920
Succeeding year	2,202,358	-	2,202,358
Accounts	2,559	297	2,856
Accrued interest:			
ISCAP	3,506	-	3,506
Other	980	-	980
Due from other governments	357,375	-	357,375
Inventories	-	3,599	3,599
Capital assets, net of accumulated depreciation	4,852,589	22,091	4,874,680
Total assets	10,498,720	62,551	10,561,271
Liabilities			
Warrants issued in excess of bank balance	569,280	-	569,280
Accounts payable	219,124	52	219,176
Salaries and benefits payable	50,528	-	50,528
Accrued interest payable	11,930	-	11,930
Succeeding year property tax	2,202,358	-	2,202,358
Other	-	3,524	3,524
ISCAP warrants payable	1,202,000	-	1,202,000
ISCAP accrued interest payable	5,315	-	5,315
ISCAP premium payable	10,880	-	10,880
Long-term liabilities			
Portion due within one year:			
General obligation bonds payable	125,000	-	125,000
Portion due after one year			
General obligation bonds payable	2,930,000	-	2,930,000
Total liabilities	7,326,415	3,576	7,329,991
Net assets			
Invested in capital assets, net of related debt	1,797,589	22,091	1,819,680
Restricted for:			
Iowa early intervention block grant	10,248	-	10,248
Management levy	115,080	-	115,080
Physical plant and equipment levy	18,570	-	18,570
Other special revenue purpose:			
Local option sales tax capital project:	42,562	-	42,562
Local option sales tax capital project:	18,648	-	18,648
Unrestricted	1,169,608	36,884	1,206,492
Total net assets	3,172,305	58,975	3,231,280

See notes to financial statements.

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>
Governmental activities:				
Instruction:				
Regular instruction	1,896,156	140,184	233,773	-
Special instruction	920,622	50,298	106,182	-
Other instruction	416,236	138,658	5,100	-
	<u>3,233,014</u>	<u>329,140</u>	<u>345,055</u>	<u>-</u>
Support services:				
Student services	102,255	-	1,834	-
Instructional staff services	217,546	-	-	-
Administration services	563,799	-	-	-
Operation and maintenance of plant services	462,850	476	-	-
Transportation services	255,289	15	50	-
	<u>1,601,739</u>	<u>491</u>	<u>1,884</u>	<u>-</u>
Non-instructional programs	<u>14,605</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other expenditures:				
Facilities acquisition	155,202	-	-	-
Long-term debt interest	148,543	-	-	-
AEA flowthrough	186,389	-	186,389	-
Depreciation (unallocated)*	133,010	-	-	-
	<u>623,144</u>	<u>-</u>	<u>186,389</u>	<u>-</u>
Total governmental activities	<u>5,472,502</u>	<u>329,631</u>	<u>533,328</u>	<u>-</u>
Business type activities				
Non-instructional programs:				
Food service operations	196,055	104,132	103,128	-
FFA projects	31,596	37,722	-	-
Total business-type activities	<u>227,651</u>	<u>141,854</u>	<u>103,128</u>	<u>-</u>
Total	<u>5,700,153</u>	<u>471,485</u>	<u>636,456</u>	<u>-</u>
General Revenues:				
Property taxes levied for:				
General purposes				
Debt service				
Capital outlay				
Income surtax				
Local option sales and services tax				
Unrestricted state grants				
Unrestricted investment earnings				
Other				
Total general revenues				

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

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

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
(1,522,199)	-	(1,522,199)
(764,142)	-	(764,142)
(272,478)	-	(272,478)
<u>(2,558,819)</u>	<u>-</u>	<u>(2,558,819)</u>
(100,421)	-	(100,421)
(217,546)	-	(217,546)
(563,799)	-	(563,799)
(462,374)	-	(462,374)
(255,224)	-	(255,224)
<u>(1,599,364)</u>	<u>-</u>	<u>(1,599,364)</u>
(14,605)	-	(14,605)
(155,202)	-	(155,202)
(148,543)	-	(148,543)
-	-	-
<u>(133,010)</u>	<u>-</u>	<u>(133,010)</u>
<u>(436,755)</u>	<u>-</u>	<u>(436,755)</u>
<u>(4,609,543)</u>	<u>-</u>	<u>(4,609,543)</u>
-	11,205	11,205
-	6,126	6,126
-	17,331	17,331
<u>(4,609,543)</u>	<u>17,331</u>	<u>(4,592,212)</u>
1,865,869	-	1,865,869
259,681	-	259,681
86,658	-	86,658
245,752	-	245,752
26,082	-	26,082
1,835,396	-	1,835,396
29,593	-	29,593
23,676	-	23,676
<u>4,372,707</u>	<u>-</u>	<u>4,372,707</u>
(236,836)	17,331	(219,505)
<u>3,409,141</u>	<u>41,644</u>	<u>3,450,785</u>
<u>3,172,305</u>	<u>58,975</u>	<u>3,231,280</u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Balance Sheet
Governmental Funds

June 30, 2004

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
	\$	\$	\$
Assets			
Cash and pooled investments:			
ISCAP	1,209,404	-	1,209,404
Other	1,540,392	307,637	1,848,029
Receivables:			
Property tax:			
Delinquent	18,168	3,752	21,920
Succeeding year	1,827,325	375,033	2,202,358
Accounts	2,559	-	2,559
Accrued interest - ISCAP	3,506	-	3,506
Accrued interest - other	980	-	980
Interfund receivable	(5,000)	5,000	-
Due from other governments	338,811	18,564	357,375
	<u>4,936,145</u>	<u>709,986</u>	<u>5,646,131</u>
Liabilities and Fund Balances			
Liabilities:			
Warrants issued in excess of bank balance	550,352	18,928	569,280
Accounts payable	87,357	131,767	219,124
Salaries and benefits payable	50,528	-	50,528
ISCAP warrants payable	1,202,000	-	1,202,000
ISCAP accrued interest payable	5,315	-	5,315
ISCAP premium payable	10,880	-	10,880
Deferred revenue:			
Succeeding year property tax	1,827,325	375,033	2,202,358
Other	243,185	-	243,185
Total liabilities	<u>3,976,942</u>	<u>525,728</u>	<u>4,502,670</u>
Fund balances:			
Reserved for:			
Iowa early intervention block grant	10,248	-	10,248
Unreserved	948,955	184,258	1,133,213
Total fund balances	<u>959,203</u>	<u>184,258</u>	<u>1,143,461</u>
	<u>4,936,145</u>	<u>709,986</u>	<u>5,646,131</u>
Total liabilities and fund balances			

NORTH IOWA 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 (Exhibit C)	1,143,461
<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.	4,852,589
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds.	243,185
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	(11,930)
Long-term liabilities, such as bonds payable, are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.	<u>(3,055,000)</u>
Net assets of governmental activities (Exhibit A)	<u><u>3,172,305</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds

Year ended June 30, 2004

	General Fund	Nonmajor Governmental Funds	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	2,070,485	413,557	2,484,042
Tuition	162,449	-	162,449
Other	77,173	139,343	216,516
State sources	2,205,486	253	2,205,739
Federal sources	160,929	-	160,929
Total revenues	<u>4,676,522</u>	<u>553,153</u>	<u>5,229,675</u>
Expenditures:			
Current:			
Instruction:			
Regular instruction	1,893,522	1,818	1,895,340
Special instruction	920,622	-	920,622
Other instruction	287,455	127,073	414,528
	<u>3,101,599</u>	<u>128,891</u>	<u>3,230,490</u>
Support services:			
Student services	102,255	-	102,255
Instructional staff services	175,810	-	175,810
Administration services	490,194	69,522	559,716
Operation and maintenance of plant services	461,485	-	461,485
Transportation services	229,313	-	229,313
	<u>1,459,057</u>	<u>69,522</u>	<u>1,528,579</u>
Non-instructional programs	<u>14,605</u>	<u>-</u>	<u>14,605</u>
Other expenditures:			
Facilities acquisition	-	343,461	343,461
Long-term debt:			
Principal	-	120,000	120,000
Interest and fiscal charges	-	149,005	149,005
AEA flowthrough	186,389	-	186,389
	<u>186,389</u>	<u>612,466</u>	<u>798,855</u>
Total expenditures	<u>4,761,650</u>	<u>810,879</u>	<u>5,572,529</u>
Excess (deficiency) of revenues over (under) expenditures	(85,128)	(257,726)	(342,854)
Other financing sources (uses):			
Sales of materials and equipment	5,991	-	5,991
Net change in fund balances	(79,137)	(257,726)	(336,863)
Fund balances beginning of year, as restated	1,038,340	441,984	1,480,324
Fund balances end of year	<u>959,203</u>	<u>184,258</u>	<u>1,143,461</u>

See notes to financial statements.

NORTH IOWA 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 (Exhibit E)		(336,863)
<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 not 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 year as follows:		
Expenditures for capital assets	198,684	
Depreciation expense	<u>(219,119)</u>	(20,435)
Repayment of long-term liability principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		120,000
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>462</u>
Changes in net assets of governmental activities (Exhibit B)		<u><u>(236,836)</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Net Assets
Proprietary Funds

June 30, 2004

	<u>Nonmajor Funds</u>
	\$
Assets	
Cash and cash equivalents	36,564
Accounts receivable	297
Inventories	3,599
Capital assets, net of accumulated depreciation	<u>22,091</u>
Total assets	<u>62,551</u>
Liabilities	
Accounts payable	52
Deferred revenue	<u>3,524</u>
Total liabilities	<u>3,576</u>
Net assets	
Invested in capital assets, net of related debt	22,091
Unrestricted	<u>36,884</u>
Total net assets	<u><u>58,975</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds

Year ended June 30, 2004

	<u>Nonmajor Funds</u>
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for service	<u>141,854</u>
Operating expenses:	
Non-instructional programs:	
Salaries	78,310
Benefits	8,265
Purchased services	1,326
Supplies	136,899
Depreciation	<u>2,851</u>
	<u>227,651</u>
Operating gain (loss)	<u>(85,797)</u>
Non-operating revenue:	
State sources	3,335
Federal sources	<u>99,793</u>
Total non-operating revenue	<u>103,128</u>
Change in net assets	17,331
Net assets beginning of year, as restated	<u>41,644</u>
Net assets end of year	<u><u>58,975</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2004

	Nonmajor Funds
	\$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	105,539
Cash received from other services	37,721
Cash payments to employees for services	(86,575)
Cash payments to suppliers for goods or services	(124,701)
Net cash used by operating activities	<u>(68,016)</u>
Cash flows from non-capital financing activities:	
State grants received	3,335
Federal grants received	85,541
Net cash provided by non-capital financing activities	<u>88,876</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	20,860
Cash and cash equivalents at beginning of year	<u>15,704</u>
Cash and cash equivalents at end of year	<u><u>36,564</u></u>
Reconciliation of operating gain (loss) to net cash used	
operating activities:	
Operating gain (loss)	(85,797)
Adjustments to reconcile operating gain (loss)	
to net cash used by operating activities:	
Commodities used	14,252
Depreciation	2,851
Decrease (increase) in inventories	547
Decrease (increase) in accounts receivable	(81)
(Decrease) increase in accounts payable	(1,276)
(Decrease) increase in deferred revenue	1,488
Net cash used in operating activities	<u><u>(68,016)</u></u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received \$14,252 of federal commodities.

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets
Fiduciary Funds

June 30, 2004

	Private Purpose Trust <u>Scholarship</u> \$	<u>Agency</u> \$
Assets		
Cash and pooled investments	<u>129,075</u>	<u>50,000</u>
Liabilities		
Accounts payable	7,500	-
Other payables	-	50,000
Total liabilities	<u>7,500</u>	<u>50,000</u>
Net Assets		
Reserved for scholarships	<u><u>121,575</u></u>	<u><u>-</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trust Scholarship <u>\$</u>
Additions:	
Local sources:	
Gifts and contributions	17,524
Interest	<u>5,718</u>
Total additions	23,242
Deductions:	
Support services:	
Scholarships awarded	<u>35,525</u>
Change in net assets	(12,283)
Net assets beginning of year	<u>133,858</u>
Net assets end of year	<u><u>121,575</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

1. Summary of Significant Accounting Policies

North Iowa Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Buffalo Center, Thompson, Rake, and Lakota, Iowa and the predominately agricultural territory in a portion of Kossuth and Winnebago 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, North Iowa 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 North Iowa Community School District has no component units that 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 does 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 County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

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

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

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

Unrestricted net assets 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 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 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 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 revenues 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 expenditures, including instructional, support and other costs.

The District's proprietary funds include the Enterprise, School Nutrition Fund and the FFA Projects Fund. The School Nutrition Fund is used to account for the food service operations of the District and the FFA Projects Fund is used to account for the business type activities of the FFA.

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

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

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations, 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 fund financial statements are reported using the economic resources measurement focus and 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 judgements, 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 the 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, have a maturity date no longer than three months.

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

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 judgements, 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 the 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, have a maturity date no longer than three months.

Property Tax Receivable – Property tax in governmental funds is 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 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 became due and collectible in September and March of the fiscal year with a 1 ½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003, through June 30, 2004, and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2003.

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

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

Capital Assets – Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair 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.

<u>Asset Class</u>	<u>Amount</u>
	\$
Land	-
Buildings	30,000
Improvements other than buildings	30,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	5,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-50 years
Improvements other than buildings	20 years
Furniture and equipment	3-15 years

Salaries and Benefits Payable – Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are 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 receivable and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of unspent grant proceeds, amounts received in advance for meal sales and 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 and sick leave hours for subsequent use. Employees are not paid for unused vacation and sick leave benefits when employment with the District ends.

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 did not exceed the amounts budgeted.

2. **Cash and Pooled Investments**

The District's deposits in banks 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 \$1,588,163 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

3. Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
		\$
Special Revenue:		
Physical Plant and Equipment Levy Fund	General Fund	5,000

The interfund receivable/payable transaction occurred during fiscal year 2002. The balance should be repaid within the next year.

4. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation 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
			\$	\$	\$	\$
2003-04B	1/30/04	1/28/05	644,358	3,506	640,000	5,315
2004-05A	6/30/04	6/30/05	565,046	-	562,000	-
Total			<u>1,209,404</u>	<u>3,506</u>	<u>1,202,000</u>	<u>5,315</u>

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

Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
\$	\$	\$	\$
-	-	-	-

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

Series	Interest Rates on Warrants	Interest Rates on Investments
	%	%
2003-04A	2.000	1.050
2003-04B	2.000	1.131
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	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Governmental activities:				
Capital assets not being depreciated:				
Construction in progress	4,302,291	31,747	4,334,038	-
Land	11,000	-	-	11,000
Total capital assets not being depr.	4,313,291	31,747	4,334,038	11,000
Capital assets being depreciated:				
Buildings	2,101,114	4,282,984	-	6,384,098
Improvements other than buildings	249,131	200,000	-	449,131
Furniture and equipment	1,116,385	17,991	45,927	1,088,449
Total capital assets being deprec.	3,466,630	4,500,975	45,927	7,921,678
Less accumulated depreciation for:				
Buildings	1,871,692	121,107	-	1,992,799
Improvements other than buildings	214,527	11,903	-	226,430
Furniture and equipment	820,678	86,109	45,927	860,860
Total accumulated depreciation	2,906,897	219,119	45,927	3,080,089
Total capital assets being Depreciated, net	559,733	4,281,856	-	4,841,589
Governmental activities capital Assets, net	4,873,024	4,313,603	4,334,038	4,852,589
	Balance Beginning of Year, as Restated	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
Business type activities:				
Furniture and equipment	78,159	-	-	78,159
Less accumulated depreciation	53,217	2,851	-	56,068
Business type activities capital Assets, net	24,942	2,851	-	22,091

Depreciation expense was charged to the following functions:

	\$
Governmental activities:	
Instruction:	
Regular	816
Other	1,708
Support Services:	
Instructional staff services	41,736
Administration services	4,083
Operation and maintenance of plant services	1,365
Transportation	36,401
	86,107
Unallocated depreciation	133,010
	219,119
Business type activities:	
Food services	2,851
	2,851

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	Reductions	Balance End of Year	Due Within One Year
	\$	\$	\$	\$	\$
General obligation bonds	3,175,000	-	120,000	3,055,000	125,000
	3,175,000	-	120,000	3,055,000	125,000

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of March, 2001			
	Interest Rates	Principal	Interest	Total
	%	\$	\$	\$
2005	4.65	125,000	143,155	268,155
2006	4.65	130,000	137,342	267,342
2007	4.65	140,000	131,298	271,298
2008	4.65	145,000	124,788	269,788
2009	4.65	155,000	118,045	273,045
2010-2014	4.65-4.70	925,000	472,267	1,397,267
2015-2019	4.70	1,160,000	230,590	1,390,590
2020	4.70	275,000	12,925	287,925
		3,055,000	1,370,410	4,425,410

7. Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual covered 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 contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$168,335, \$161,516, and \$161,209 respectively, equal to the required contributions for each year.

8. Risk Management

North Iowa 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.

9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$186,389 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

10. Accounting Change and Restatement

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

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for 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 separate the District's programs between governmental and business type activities. The beginning net assets 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		
	General	Nonmajor	Total
	\$	\$	\$
Net assets, June 30, 2003, as previously reported	1,038,340	434,024	1,472,364
Reclassify District Support Trust Funds	-	7,960	7,960
GASB Interpretation 6 adjustments	-	-	-
Net assets, July 1, 2003, as restated for governmental funds	<u>1,038,340</u>	<u>441,984</u>	1,480,324
GASB 34 adjustments:			
Capital assets net of accumulated depreciation of \$2,906,897			4,873,024
Long-term liabilities:			
Bonds			(3,175,000)
Accrued interest payable			(12,392)
Deferred revenue			<u>243,185</u>
Net assets, July 1, 2003, as restated			<u>3,409,141</u>

The beginning School Nutrition Fund balance was increased by \$11,965 to record equipment that had been purchased by other funds, for the School Nutrition Fund, in prior years.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Actual	Proprietary Fund Actual	Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
				Original	Final	
	\$	\$	\$		\$	\$
Receipts:						
Local sources	2,845,458	143,260	2,988,718	3,279,711	3,279,711	(290,993)
State sources	2,206,744	3,335	2,210,079	2,263,555	2,263,555	(53,476)
Federal sources	144,339	99,793	244,132	199,850	199,850	44,282
Total receipts	<u>5,196,541</u>	<u>246,388</u>	<u>5,442,929</u>	<u>5,743,616</u>	<u>5,743,616</u>	<u>(300,687)</u>
Disbursements:						
Instruction	3,192,617	-	3,192,617	3,321,500	3,321,500	128,883
Support services	1,542,959	-	1,542,959	1,856,840	1,856,840	313,881
Non-instructional programs	13,062	225,528	238,590	287,063	287,063	48,473
Other expenditures	834,179	-	834,179	946,936	946,936	112,757
Total disbursements	<u>5,582,817</u>	<u>225,528</u>	<u>5,808,345</u>	<u>6,412,339</u>	<u>6,412,339</u>	<u>603,994</u>
Excess (deficiency) of receipts over (under) disbursements	(386,276)	20,860	(365,416)	(668,723)	(668,723)	303,307
Other financing sources (uses) net	<u>5,991</u>	<u>-</u>	<u>5,991</u>	<u>575</u>	<u>575</u>	<u>5,416</u>
Excess (deficiency) of receipts and other financing sources (uses) over (under) disbursements	(380,285)	20,860	(359,425)	(668,148)	(668,148)	308,723
Balance beginning of year	<u>1,659,034</u>	<u>15,704</u>	<u>1,674,738</u>	<u>2,442,341</u>	<u>2,442,341</u>	<u>(767,603)</u>
Balance end of year	<u><u>1,278,749</u></u>	<u><u>36,564</u></u>	<u><u>1,315,313</u></u>	<u><u>1,774,193</u></u>	<u><u>1,774,193</u></u>	<u><u>(458,880)</u></u>

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
	\$	\$	\$
Revenues	5,196,541	33,134	5,229,675
Expenditures	5,582,817	(10,288)	5,572,529
Net	(386,276)	43,422	(342,854)
Other financing sources (uses) net	5,991	-	5,991
Beginning fund balances	1,659,034	(178,710)	1,480,324
Ending fund balances	<u>1,278,749</u>	<u>(135,288)</u>	<u>1,143,461</u>
	Proprietary Fund		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
	\$	\$	\$
Revenues	246,388	(1,406)	244,982
Expenditures	225,528	2,123	227,651
Net	20,860	(3,529)	17,331
Beginning fund balances	15,704	25,940	41,644
Ending fund balances	<u>36,564</u>	<u>22,411</u>	<u>58,975</u>

NORTH IOWA 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 Internal Service, 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 functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. The District did not amend the budget during the year.

OTHER SUPPLEMENTARY INFORMATION

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2004

Assets	Special Revenue Funds							Total
	Management Levy	Student Activity Fund	Physical Plant and Equipment Levy	Public Education and Recreation Levy	District Support Trust	Capital Projects	Debt Service	
	\$	\$	\$	\$	\$	\$	\$	
Cash and pooled investments	114,981	34,053	68,462	15,032	8,198	61,167	5,744	307,637
Receivables:								
Property tax:								
Delinquent	99	-	760	311	-	-	2,582	3,752
Succeeding year	10,000	-	69,173	27,405	-	-	268,455	375,033
Interfund receivable	-	-	5,000	-	-	-	-	5,000
Due from other governments	-	-	-	-	-	18,564	-	18,564
Total assets	125,080	34,053	143,395	42,748	8,198	79,731	276,781	709,986
Liabilities & Fund Balances								
Liabilities:								
Accounts payable	-	-	55,652	15,032	-	61,083	-	131,767
Excess of warrants issued over bank balance	-	-	-	-	-	-	18,928	18,928
Deferred revenue:								
Succeeding year property tax	10,000	-	69,173	27,405	-	-	268,455	375,033
Total liabilities	10,000	-	124,825	42,437	-	61,083	287,383	525,728
Fund balances:								
Unreserved fund balance	115,080	34,053	18,570	311	8,198	18,648	(10,602)	184,258
Total liabilities and fund balances	125,080	34,053	143,395	42,748	8,198	79,731	276,781	709,986

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
Shop and voc. ag. resale	(1,573)	1,034	1,416	1,955	-
Petty cash	(2,989)	5	273	3,532	275
Towel fee	1,262	477	265	(1,474)	-
Activity tickets	13,468	8,649	3,112	(27,739)	(8,734)
Interest	557	134	1,043	(1,825)	(2,177)
Drama	1,404	5,306	5,954	(556)	200
Speech	(776)	1,131	2,254	2,099	200
Vocal music	491	517	682	(126)	200
Instrumental music	(2,828)	496	1,261	3,793	200
Band fund raiser	101	1,610	1,084	-	627
Annual	(1,781)	4,963	11,260	8,078	-
Elementary classes	1,533	-	137	(1,396)	-
Boys basketball	4,728	12,097	9,591	(5,834)	1,400
Football	815	9,311	6,538	(1,788)	1,800
Baseball	584	7,632	13,166	6,350	1,400
Boys track	(1,947)	597	1,349	3,699	1,000
Boys golf	(195)	-	573	1,418	650
Wrestling	(118)	2,115	3,379	2,782	1,400
Girls basketball	3,845	9,678	5,992	(6,131)	1,400
Volleyball	1,446	5,288	6,226	886	1,394
Girls softball	(2,994)	2,158	4,018	6,254	1,400
Girls track	(806)	1,695	1,619	1,730	1,000
Girls golf	21	-	578	1,207	650
Spanish club	324	-	-	(324)	-
Cheerleading	1,941	3,125	3,083	-	1,983
FHA	430	5,169	5,126	13	486
Student council	395	4,248	3,169	(974)	500
Honor society	50	632	413	27	296
Tournament all sport fund	3,677	3,413	747	(3,594)	2,749
Class of 2000	(63)	-	-	63	-
Class of 2002	18	-	-	(18)	-
Class of 2003	965	-	206	(759)	-
Class of 2004	611	942	3,998	2,445	-
Class of 2005	752	7,796	4,850	(2,269)	1,429
Class of 2006	936	225	-	-	1,161
Class of 2007	-	180	-	663	843
Class of 2008	615	215	400	-	430
Class of 2009	280	170	-	(5)	445
Class of 2010	190	140	-	-	330
Class of 2011	658	175	-	(658)	175
Quiz bowl	100	(40)	146	386	300

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance	Revenues	Expenditures	Intra-Fund Transfers	Balance End of Year
	Beginning of Year				
	\$	\$	\$	\$	\$
MS student council	102	4,201	2,712	(1,191)	400
MS music club	10,028	15,009	10,499	(2,823)	11,715
MS art club	877	-	-	(877)	-
MS NJHS	(347)	-	-	347	-
MS annual	1,400	1,548	1,582	-	1,366
MS officials	(2,701)	497	2,765	7,229	2,260
MS field trips	526	1,801	2,263	36	100
MS softball	395	-	343	348	400
MS football	563	-	120	157	600
MS girls basketball	103	-	193	340	250
MS boys basketball	175	43	239	271	250
MS wrestling	44	-	117	273	200
MS volleyball	234	-	96	62	200
MS girls track	75	105	339	359	200
MS boys track	38	75	214	301	200
HS/MS uniforms	(548)	3,339	5,849	3,558	500
Beginning accruals	(3,866)	-	(4,166)	(300)	-
Total	33,225	127,901	127,073	-	34,053

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Fiduciary Assets and Liabilities
Agency Fund

Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
	\$	\$	\$	\$
Assets				
Cash	-	50,000	-	50,000
Liabilities				
Due to other entities	-	50,000	-	50,000

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	2,484,042	2,482,015	2,488,669	2,246,204
Tuition	162,449	143,553	112,404	104,235
Other	216,516	283,602	406,818	337,296
Intermediate sources	-	-	375	810
State sources	2,205,739	2,097,791	2,110,285	2,183,868
Federal sources	160,929	904,432	126,405	110,954
Total revenues	<u>5,229,675</u>	<u>5,911,393</u>	<u>5,244,956</u>	<u>4,983,367</u>
Expenditures:				
Instruction:				
Regular instruction	1,895,340	1,892,812	1,883,064	1,771,774
Special instruction	920,622	836,600	848,554	817,749
Other instruction	414,528	379,004	362,725	358,215
Support services:				
Student services	102,255	103,952	114,131	111,898
Instructional staff services	175,810	150,686	190,036	194,600
Administration services	559,716	537,924	513,108	419,716
Operation and maintenance of plant services	461,485	485,674	373,901	506,311
Transportation services	229,313	225,850	240,338	214,201
Central support services				
Non-instructional programs	14,605	15,265	8,013	11,062
Other expenditures:				
Facilities acquisition	343,461	2,198,404	2,278,999	342,734
Long-term debt:				
Principal	120,000	115,000	110,000	-
Interest and other charges	149,005	154,295	193,058	-
AEA flowthrough	186,389	188,332	188,064	197,043
Total expenditures	<u>5,572,529</u>	<u>7,283,798</u>	<u>7,303,991</u>	<u>4,945,303</u>

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

To the Board of Education of the
North Iowa Community School District:

We have audited the financial statements of the North Iowa Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 3, 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 North Iowa 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, noncompliance 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in Part II of 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 items 04-II-A, 04-II-K and 04-II-L. Internal Control over Financial Reporting

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Iowa 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 judgement, 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 Part I of 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 items [04-I-A](#) and [04-I-B](#) are material weaknesses. Prior year reportable conditions have all been resolved except for items [04-I-A](#).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the [North Iowa](#) Community School District and other parties to whom the 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 [North Iowa](#) 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.

BURTON E. TRACY & CO., P.C.
Certified Public Accountants

[November 3, 2004](#)

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2004

Part I: Findings Related to the Financial Statements:

Instances of Noncompliance:

No matters were reported.

Reportable Conditions:

04-I-A Segregation of Duties: The limited number of personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities, such as recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability, although we noted the District had taken steps to segregate duties between the present personnel. This is not an unusual condition but it is important the District officials are aware that the condition exists.

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

District Response: The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion: Response accepted.

04-I-B Completeness of Accounting Records: A local bank is handling certain bank accounts for a scholarship fund. This scholarship fund is not part of the District's financial accounting and reporting system and transactions have not been subjected to the control system the District has for all other financial transactions.

Recommendation: All District funds are the legal responsibility of the Board, Board Secretary and Board Treasurer. All public funds have the same legal requirements for accounting, reporting, auditing and allowing, dual signatures, publishing and investing. The monies and bank accounts for the scholarship should become part of the District's fund accounting system and should be subject to the same controls as all other District funds.

District Response: The scholarship account will be made part of the District's accounting system.

Conclusion: Response accepted.

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

04-II-A Official Depositories: Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2004.

Recommendation: The District should increase the official depository so it is not exceeded during the times when cash flow of the District is the greatest.

District Response: We will increase our depository resolution.

Conclusion: Response accepted.

04-II-B Certified Budget: Disbursements for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Expenditures: No expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

04-II-D Travel Expenses: 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.

04-II-E Business Transactions: We noted no transactions between the District and District officials or employees.

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

04-II-G Board Minutes: We noted no transactions requiring board approval that had not been approved by the board.

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

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

04-II-J Certified Annual Report: The Certified Annual Report was filed with the Department of Education two days late. We also noted that the expenditures on Part 6 had not been adjusted for the prior year accounts payable and prior year salaries payable.

Recommendation: The District should send an amended Part 6 to the Iowa Department of Education.

District Response: The error on Part 6 was caused because the prior year payable entries were lost when we made an accounting software conversion during fiscal year 2004. Part 6 has been corrected and has been sent to the Iowa Department of Education. Future CARs will be filed timely.

Conclusion: Response accepted.

NORTH IOWA COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year Ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting (continued):

04-II-K Reclassification of Student Activity Fund Accounts: The Student Activity Fund is to be used to account for the District's extra-curricular student activities and student organizations. All revenues and expenditures must be posted to a specific student activity. We noted the District was using a petty cash account as a student activity.

Recommendation: All Student Activity Funds should be reviewed and the Petty Cash Account should be eliminated.

District Response: We will review the accounts and make any necessary adjustments.

Conclusion: Response accepted.

04-II-L Financial Condition: The District has a deficit fund balance in the [Debt Service Fund](#) of \$10,602; also, the Student Activity Fund has [two](#) accounts with deficit balances at June 30, 2004.

Recommendation: The District should continue to monitor these accounts and investigate alternatives to eliminate these deficits.

District Response: We are working on ways to eliminate these deficits.

Conclusion: Response accepted.

04-II-M Public Hearing: The Code of Iowa requires that schools hold a public hearing for all capital improvements with a cost exceeding \$25,000. We noted that the Board approved a capital improvement without holding a public hearing.

Recommendation: The District should hold public hearings for all capital projects with cost in excess of \$25,000.

District Response: We will do this in the future.

Conclusion: Response accepted.