

DANVILLE COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

DANVILLE COMMUNITY SCHOOL DISTRICT

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DANVILLE COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2004

Name	Title	Term Expires
Board of Education (Before September 2003 Election)		
Judith Shotwell	Board President	2005
Russ Reed	Vice President	2005
Dwight Byerly, Jr.	Board Member	2003
Jeff Taeger	Board Member	2003
Stan Nelson	Board Member	2004
 (After September 2003 Election)		
Judith Shotwell	Board President	2005
Russ Reed	Vice President	2005
Stan Nelson	Board Member	2004
Dwight Byerly, Jr.	Board Member	2006
Jeff Taeger	Board Member	2006
School Officials		
Stephen McAllister	Superintendent	2004
Nancy House	Board Secretary/Treasurer	2004
Terry D. Loeschen	Attorney	2004

KAY L. CHAPMAN, CPA PC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Danville Community School District
Danville, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Danville Community School District, Danville, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my 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 Danville 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 11 to the financial statements, during the year ended June 30, 2004, Danville Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosure; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, I have also issued my reports dated September 14, 2004 on my consideration of Danville Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 43 through 45 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Danville Community School District's basic financial statements. I 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 supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
September 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$3,643,391 in fiscal 2003 to \$3,653,732 in fiscal 2004, and General Fund expenditures increased from \$3,698,193 in fiscal 2003 to \$3,807,558 in fiscal 2004. The District's General Fund balance decreased from \$(80,346) in fiscal 2003 to \$(233,872) in fiscal 2004, a 191% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax, open enrollment tuition, and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. The district added a third kindergarten classroom and teacher because enrollment was over fifty students. Another reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- The State of Iowa imposed a 2.5 percent reduction in State Aid in November 2003. Danville Comm. School's general Fund revenues were reduced by \$42,000. The district used cash balance to cover the reduction in State Aid.
- The final principal and interest payment was made from PPEL on July 1, 2003 on the \$155,000, five year school bus notes.
- Danville Community School remains on a budget guarantee so the fiscal year regular program district cost remained the same as prior year.
- Phase III funding was eliminated for 2003/2004.
- September 2003 enrollment was down seven students from the previous year.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$21,102 in fiscal 2003 to \$15,559 in fiscal 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Danville Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Danville Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Danville Community School District acts solely as an agent or custodian for the benefit of those outside of District government.

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

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

Other Supplementary Information provides detailed information about the nonmajor Governmental Funds.

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

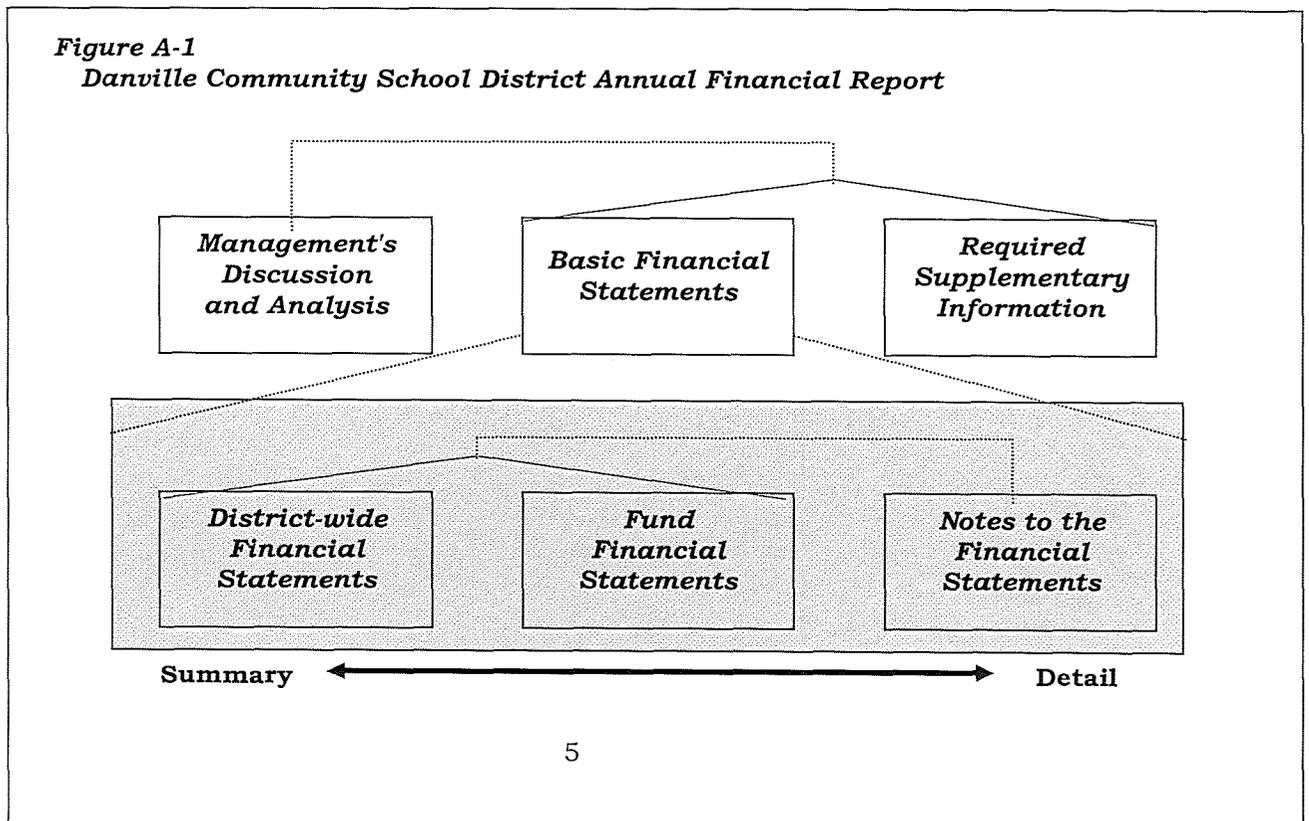


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

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

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

- 2) *Proprietary funds*: Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds consist of a Private-Purpose Trust Fund.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2004 compared to June 30, 2003.

	Governmental		Business Type		Total		Total Change
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	
Current and other assets	\$ 3,431,741	\$ 3,374,685	\$ 16,631	\$ 13,571	\$ 3,448,372	\$ 3,388,256	1.77%
Capital assets	<u>5,171,821</u>	<u>5,177,479</u>	<u>2,216</u>	<u>3,212</u>	<u>5,174,037</u>	<u>5,180,691</u>	-0.13%
Total assets	<u>8,603,562</u>	<u>8,552,164</u>	<u>18,847</u>	<u>16,783</u>	<u>8,622,409</u>	<u>8,568,947</u>	0.62%
Long-term obligations	2,565,409	2,922,269	-	-	2,565,409	2,922,269	-12.21%
Other liabilities	<u>3,277,999</u>	<u>3,063,903</u>	<u>50,610</u>	<u>37,248</u>	<u>3,328,609</u>	<u>3,101,151</u>	7.33%
Total liabilities	<u>5,843,408</u>	<u>5,986,172</u>	<u>50,610</u>	<u>37,248</u>	<u>5,894,018</u>	<u>6,023,420</u>	-2.15%
Net assets							
Invested in capital assets, net of related debt	2,656,821	2,329,967	2,216	3,212	2,659,037	2,333,179	13.97%
Restricted	465,998	438,209	-	-	465,998	438,209	6.34%
Unrestricted	<u>(362,665)</u>	<u>(202,184)</u>	<u>(33,979)</u>	<u>(23,677)</u>	<u>(396,644)</u>	<u>(225,861)</u>	-75.61%
Total net assets	<u>\$ 2,760,154</u>	<u>\$ 2,565,992</u>	<u>\$ (31,763)</u>	<u>\$ (20,465)</u>	<u>\$ 2,728,391</u>	<u>\$ 2,545,527</u>	7.18%

The District's combined net assets increased by approximately 7%, or \$182,864, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$27,789, or 6% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$170,783, or 76%. This decline in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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

Figure A-4
Change in Net Assets

	Governmental Activities	Business Type Activities	Total School District
Revenues			
Program revenues			
Charges for service and sales	\$ 855,596	\$164,830	\$ 1,020,426
Operating grants, contributions and restricted interest	388,598	76,502	465,100
General revenues			
Property tax	1,794,609	-	1,794,609
Unrestricted state grants	1,469,656	-	1,469,656
Unrestricted investment earnings	20,569	252	20,821
Other	<u>15,817</u>	<u>-</u>	<u>15,817</u>
Total revenues	<u>4,544,845</u>	<u>241,584</u>	<u>4,786,429</u>
Program expenses			
Governmental activities			
Instruction	2,842,651	-	2,842,651
Support services	1,110,239	-	1,110,239
Non-instructional programs	4,968	252,882	257,850
Other expenses	<u>392,825</u>	<u>-</u>	<u>392,825</u>
Total expenses	<u>4,350,683</u>	<u>252,882</u>	<u>4,603,565</u>
Change in net assets	<u>\$ 194,162</u>	<u>\$ (11,298)</u>	<u>\$ 182,864</u>

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$4,544,845 and expenses were \$4,350,683. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 2,842,651	\$ 1,725,136
Support services	1,110,239	1,110,149
Non-instructional programs	4,968	4,968
Other expenses	<u>392,825</u>	<u>266,236</u>
Total expenses	<u>\$ 4,350,683</u>	<u>\$ 3,106,489</u>

- The cost financed by users of the District's programs was \$855,596.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$388,598.
- The net cost of governmental activities was financed with \$1,794,609 in property and other taxes and \$1,469,656 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$241,584 and expenses were \$252,882. The District's business type activities consist of the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District did not increase meal prices.

INDIVIDUAL FUND ANALYSIS

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

- The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$171,874, well below last year's ending fund balances of \$330,553. The fund balance decreased in the General Fund because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the result of many factors. Growth during the year in tax and grants resulted in an increase in revenues. However, the increase in revenues was more than offset by the District's increase in General Fund expenditures requiring the District to use carryover fund balance to meet its financial obligations during the year.
- The General Fund balance decreased from \$(80,346) to \$(233,872), due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid and existing expenditure commitments of the District.
- The Capital Projects Fund balance decreased from \$370,641 in fiscal 2003 to \$346,380 in fiscal 2004 due to expenditures to remodel the Career Center, junior/senior high school special education rooms, and ICN Room.

Proprietary Fund Highlights

Enterprise Fund net assets decreased from \$(20,465) at June 30, 2003 to \$(31,763) at June 30, 2004, representing a decrease of approximately 56%. For fiscal 2004, the District did not increase meal prices.

BUDGETARY HIGHLIGHTS

Over the course of the year, Danville Community School District amended its annual budget one time to reflect additional revenue and expenditures in the area of Instruction from \$2,777,300 to \$3,807,300, a difference of \$30,000, and Noninstructional Programs from \$225,000 to \$240,000. Salary and benefits for the third kindergarten position totaled approximately \$31,642.

The District's receipts were \$76,788 less than budgeted receipts, a variance of 2%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$5,174,037, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of approximately 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$225,548.

The original cost of the District's capital assets was \$7,706,386. Governmental funds account for \$7,691,040, with the remainder of \$15,346 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings and improvements, and furniture and equipment categories.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business Type		Total		Total
	Activities		Activities		School District		Change
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Land	\$ 24,715	\$ 24,715	\$ -	\$ -	\$ 24,715	\$ 24,715	0.00%
Buildings and improvements	4,807,678	4,810,818	-	-	4,807,678	4,810,818	-0.07%
Improvements other than buildings	13,328	17,602	-	-	13,328	17,602	-24.28%
Furniture and equipment	<u>326,100</u>	<u>324,344</u>	<u>2,216</u>	<u>3,212</u>	<u>328,316</u>	<u>327,556</u>	0.23%
Totals	<u>\$5,171,821</u>	<u>\$5,177,479</u>	<u>\$2,216</u>	<u>\$3,212</u>	<u>\$5,174,037</u>	<u>\$5,180,691</u>	-0.13%

Long-Term Debt

At June 30, 2004, the District had \$2,565,409 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 12% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

During fiscal year 1997-1998, the District sold \$2.4 million in general obligation bonds, approved by voters to help finance new junior/senior high school classrooms addition and gymnasium. The bonds are to be repaid over a twenty-year period. In addition, the district issued revenue anticipation bonds in the amount of \$970,000 to be used for repairs and improvements to the junior high school gymnasium. These bonds will be repaid from revenue generated from the local sales and services tax. During the year ended June 20, 2002, these bonds were refinanced. The new bonds for \$1,185,000 were issued on July 11, 2001 and will be repaid over a six year period. School Bus Notes in the amount of \$155,000 were issued in 1999/2000 and final payment on the obligation was made July 1, 2003.

Figure A-7

Outstanding Long-term Obligations

	Total		Total
	School District		Change
	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
General obligation bonds	\$ 1,885,000	\$ 1,995,000	-5.51%
Revenue bonds	630,000	825,000	-23.64%
ISEPP loan	-	27,512	-100.00%
Early retirement	<u>50,409</u>	<u>74,757</u>	-32.57%
Total	<u>\$ 2,565,409</u>	<u>\$ 2,922,269</u>	-12.21%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District will negotiate a new agreement with the Danville Education Association during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The 2004/2005 budget includes a cash reserve levy in the amount of \$36,307 for SBRC approved modified allowable growth for 2003/2004 increased enrollment and special education deficit plus a cash reserve levy in the amount of \$50,000.
- The 2004/2005 budget reflects a one dollar buy down from local option sales tax revenues to pay bond debt. The one dollar buy down has come from the instructional support levy in past years. This will provide an additional \$79,535 in the General Fund.
- Many school districts in Iowa, including Danville Comm. School, saw a significant reduction in agricultural valuations which affected the 2004/2005 budget. Residential property was subject to a rollback in taxable valuation from 51.39 percent to 48.46 percent of a home's value. Valuation for the Danville Comm. School in Des Moines and Henry Counties fell from \$87,977,666 for budget year 2003//2004 to \$79,534,753 for budget year 2004/2005 or a decrease of approximately 10 percent.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Nancy House, District Secretary/Treasurer and Business Manager, Danville Community School District, 419 South Main Street, Danville, Iowa, 52623.

Basic Financial Statements

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

ASSETS	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Cash and cash equivalents			
ISCAP	\$ 1,620,641	\$ -	\$ 1,620,641
Other	400,554	13,379	413,933
Receivables			
Property tax			
Delinquent	9,512	-	9,512
Succeeding year	1,296,902	-	1,296,902
Accrued interest			
ISCAP	3,582	-	3,582
Accounts receivable	59	-	59
Due from other governments	60,040	-	60,040
Due from other funds	40,451	-	40,451
Inventories	-	3,252	3,252
Capital assets, net of accumulated depreciation	<u>5,171,821</u>	<u>2,216</u>	<u>5,174,037</u>
Total assets	<u>8,603,562</u>	<u>18,847</u>	<u>8,622,409</u>
LIABILITIES			
Accounts payable	7,953	-	7,953
Salaries and benefits payable	316,237	10,159	326,396
Due to other funds	-	40,451	40,451
Due to other governments	5,917	-	5,917
Accrued interest payable	18,132	-	18,132
Deferred revenue - succeeding year property tax	1,296,902	-	1,296,902
ISCAP warrants payable	1,611,000	-	1,611,000
ISCAP accrued interest payable	5,432	-	5,432
ISCAP unamortized premium	16,426	-	16,426
Long-term liabilities			
Portion due within one year			
Bonds payable	115,000	-	115,000
Revenue bonds payable	200,000	-	200,000
Early retirement	21,370	-	21,370
Portion due after one year			
Bonds payable	1,770,000	-	1,770,000
Revenue bonds payable	430,000	-	430,000
Early retirement	<u>29,039</u>	<u>-</u>	<u>29,039</u>
Total liabilities	<u>5,843,408</u>	<u>50,610</u>	<u>5,894,018</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 2,656,821	\$ 2,216	\$ 2,659,037
Restricted for			
Iowa Early Intervention Block Grant	3,163	-	3,163
Phase III	21,340	-	21,340
Other special revenue purposes	95,115	-	95,115
Debt service	346,380	-	346,380
Unrestricted	<u>(362,665)</u>	<u>(33,979)</u>	<u>(396,644)</u>
 Total net assets	 <u>\$ 2,760,154</u>	 <u>\$ (31,763)</u>	 <u>\$ 2,728,391</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Governmental activities							
Instruction							
Regular instruction	\$ 1,922,517	\$ 762,364	\$ 208,469	\$ -	\$ (951,684)	\$ -	\$ (951,684)
Special instruction	434,091	88,161	45,865	-	(300,065)	-	(300,065)
Other instruction	486,043	4,985	7,671	-	(473,387)	-	(473,387)
	<u>2,842,651</u>	<u>855,510</u>	<u>262,005</u>	<u>-</u>	<u>(1,725,136)</u>	<u>-</u>	<u>(1,725,136)</u>
Support services							
Student services	27,439	-	-	-	(27,439)	-	(27,439)
Instructional staff services	61,000	-	-	-	(61,000)	-	(61,000)
Administration services	470,638	-	-	-	(470,638)	-	(470,638)
Operation and maintenance of plant services	318,173	86	-	-	(318,087)	-	(318,087)
Transportation services	232,510	-	4	-	(232,506)	-	(232,506)
Central support services	479	-	-	-	(479)	-	(479)
	<u>1,110,239</u>	<u>86</u>	<u>4</u>	<u>-</u>	<u>(1,110,149)</u>	<u>-</u>	<u>(1,110,149)</u>
Non-instructional programs	<u>4,968</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,968)</u>	<u>-</u>	<u>(4,968)</u>
Other expenditures							
Long-term debt interest	135,545	-	-	-	(135,545)	-	(135,545)
AEA flowthrough	126,589	-	126,589	-	-	-	-
Depreciation (unallocated) *	130,691	-	-	-	(130,691)	-	(130,691)
	<u>392,825</u>	<u>-</u>	<u>126,589</u>	<u>-</u>	<u>(266,236)</u>	<u>-</u>	<u>(266,236)</u>
Total governmental activities	<u>4,350,683</u>	<u>855,596</u>	<u>388,598</u>	<u>-</u>	<u>(3,106,489)</u>	<u>-</u>	<u>(3,106,489)</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Business type activities							
Non-instructional programs							
Nutrition services	\$ 252,882	\$ 164,830	\$ 76,502	\$ -	\$ -	\$ (11,550)	\$ (11,550)
Total business type activities	<u>252,882</u>	<u>164,830</u>	<u>76,502</u>	<u>-</u>	<u>-</u>	<u>(11,550)</u>	<u>(11,550)</u>
Total	<u>\$ 4,603,565</u>	<u>\$ 1,020,426</u>	<u>\$ 465,100</u>	<u>\$ -</u>	<u>(3,106,489)</u>	<u>(11,550)</u>	<u>(3,118,039)</u>
 <u>General Revenues</u>							
Property tax levied for							
General purposes					1,202,127	-	1,202,127
Capital projects					386,571	-	386,571
Debt service					205,911	-	205,911
Unrestricted state grants					1,469,656	-	1,469,656
Unrestricted investment earnings					20,569	252	20,821
Other					15,817	-	15,817
Total general revenues					<u>3,300,651</u>	<u>252</u>	<u>3,300,903</u>
Change in net assets					194,162	(11,298)	182,864
Net assets, beginning of year, as restated					<u>2,565,992</u>	<u>(20,465)</u>	<u>2,545,527</u>
Net assets, end of year					<u>\$ 2,760,154</u>	<u>\$ (31,763)</u>	<u>\$ 2,728,391</u>

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

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2004

Exhibit C

ASSETS	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Cash and pooled investments				
ISCAP	\$ 1,620,641	\$ -	\$ -	\$ 1,620,641
Other	48,732	256,182	95,640	400,554
Receivables				
Property tax				
Delinquent	7,261	-	2,251	9,512
Succeeding year	1,056,831	-	240,071	1,296,902
Accounts receivable	59	-	-	59
Accrued interest				
ISCAP	3,582	-	-	3,582
Due from other funds	40,451	38,000	-	78,451
Due from other governments	6,181	53,859	-	60,040
Total assets and other debits	<u>\$ 2,783,738</u>	<u>\$ 348,041</u>	<u>\$ 337,962</u>	<u>\$ 3,469,741</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 5,767	\$ 1,661	\$ 525	\$ 7,953
Salaries and benefits payable	316,237	-	-	316,237
Due to other funds	-	-	38,000	38,000
Due to other governments	5,917	-	-	5,917
ISCAP warrants payable	1,611,000	-	-	1,611,000
ISCAP accrued interest payable	5,432	-	-	5,432
ISCAP unamortized premium	16,426	-	-	16,426
Deferred revenue				
Succeeding year property tax	1,056,831	-	240,071	1,296,902
Total liabilities	<u>3,017,610</u>	<u>1,661</u>	<u>278,596</u>	<u>3,297,867</u>
Fund balances				
Reserved for				
Phase III	21,340	-	-	21,340
Iowa Early Intervention Block Grant	3,163	-	-	3,163
Debt service	-	-	316	316
Capital projects	-	346,380	-	346,380
Unreserved, undesignated				
Special revenue	-	-	59,050	
Other governmental	(258,375)	-	-	(258,375)
Total fund balances	<u>(233,872)</u>	<u>346,380</u>	<u>59,366</u>	<u>112,824</u>
Total liabilities and fund balances	<u>\$ 2,783,738</u>	<u>\$ 348,041</u>	<u>\$ 337,962</u>	<u>\$ 3,469,741</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 171,874
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	5,171,821
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.	(18,132)
Long-term liabilities, including bonds payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,565,409)</u>
Net assets of governmental activities	<u>\$2,760,154</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 1,129,577	\$ 357,746	\$ 305,699	\$ 1,793,022
Tuition	630,644	-	-	630,644
Other	34,084	3,178	223,827	261,089
Intermediate sources	14,812	-	-	14,812
State sources	1,737,107	-	364	1,737,471
Federal sources	107,508	-	-	107,508
Total revenues	<u>3,653,732</u>	<u>360,924</u>	<u>529,890</u>	<u>4,544,546</u>
Expenditures				
Current				
Instruction				
Regular instruction	1,845,785	-	41,616	1,887,401
Special instruction	434,193	-	-	434,193
Other instruction	283,867	-	190,943	474,810
	<u>2,563,845</u>	<u>-</u>	<u>232,559</u>	<u>2,796,404</u>
Support services				
Student services	60,321	-	94	60,415
Instructional staff services	66,646	-	362	67,008
Administration services	464,184	-	656	464,840
Operation and maintenance of plant services	334,184	-	24,990	359,174
Transportation services	189,601	-	12,157	201,758
Central support services	479	-	-	479
	<u>1,115,415</u>	<u>-</u>	<u>38,259</u>	<u>1,153,674</u>
Non-instructional programs	<u>1,709</u>	<u>-</u>	<u>3,259</u>	<u>4,968</u>
Other expenditures				
Facilities acquisition	-	152,193	-	152,193
Long-term debt				
Principal	-	-	332,512	332,512
Interest and fiscal charges	-	-	137,185	137,185
AEA flowthrough	126,589	-	-	126,589
	<u>126,589</u>	<u>152,193</u>	<u>469,697</u>	<u>748,479</u>
Total expenditures	<u>3,807,558</u>	<u>152,193</u>	<u>743,774</u>	<u>4,703,525</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (153,826)	\$ 208,731	\$ (213,884)	\$ (158,979)
Other financing sources (uses)				
Sale of equipment and materials	300	-	-	300
Interfund operating transfers	-	(232,992)	232,992	-
Total other financing sources (uses)	<u>300</u>	<u>(232,992)</u>	<u>232,992</u>	<u>300</u>
Net change in fund balances	(153,526)	(24,261)	19,108	(158,679)
Fund balance, beginning of year, as restated	<u>(80,346)</u>	<u>370,641</u>	<u>40,258</u>	<u>330,553</u>
Fund balance, end of year	<u>\$ (233,872)</u>	<u>\$ 346,380</u>	<u>\$ 59,366</u>	<u>\$ 171,874</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances-
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$ (158,679)

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

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

Capital outlays	\$ 218,894	
Depreciation expense	(224,552)	(5,658)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 332,512

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Early retirement	24,347
------------------	--------

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. 1,640

Change in net assets of governmental activities \$ 194,162

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Fund
June 30, 2004

Exhibit G

	<u>Nonmajor Enterprise</u>
ASSETS	
Cash and pooled investments	\$ 13,379
Inventories	3,252
Capital assets, net of accumulated depreciation	<u>2,216</u>
Total assets	<u>18,847</u>
 LIABILITIES	
Due to other fund	40,451
Accrued salaries and benefits payable	<u>10,159</u>
Total liabilities	<u>50,610</u>
 NET ASSETS	
Invested in capital assets, net of related debt	2,216
Unreserved retained earnings	<u>(33,979)</u>
Total net assets	<u><u>\$ (31,763)</u></u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2004

Exhibit H

	<u>Nonmajor Enterprise</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 164,830</u>
Operating expenses	
Non-instructional programs	
Salaries	82,128
Benefits	26,466
Purchased services	1,801
Supplies	141,491
Depreciation	<u>996</u>
Total operating expenses	<u>252,882</u>
Operating loss	<u>(88,052)</u>
Non-operating revenues	
Interest income	252
State sources	3,372
Federal sources	<u>73,130</u>
Total non-operating revenues	<u>76,754</u>
Change in net assets	(11,298)
Net assets, beginning of year	<u>(20,465)</u>
Net assets, end of year	<u>\$ (31,763)</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of meals	\$ 164,830
Cash payments to employees for services	(95,232)
Cash payments to suppliers for goods and services	<u>(131,239)</u>
Net cash used in operating activities	<u>(61,641)</u>
Cash flows from non-capital financing activities	
State grants received	3,372
Federal grants received	<u>62,981</u>
Net cash provided by non-capital financing activities	<u>66,353</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>252</u>
Net increase in cash and cash equivalents	4,964
Cash and cash equivalents, beginning of year	<u>8,415</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,379</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (88,052)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	996
Commodities used	10,149
Decrease in inventories	1,904
Increase in due to other funds	3,203
Increase in salaries and benefits payable	<u>10,159</u>
Net cash used in operating activities	<u><u>\$ (61,641)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$10,149 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Fund
June 30, 2004

Exhibit J

	<u>Private Purpose Trust Scholarships</u>
Assets	
Cash and pooled investments	\$10,528
Liabilities	<u> -</u>
Net assets	
Reserved for scholarships	<u><u>\$10,528</u></u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended June 30, 2004

Exhibit K

	Private Purpose Trust <u>Scholarships</u>
Additions	
Local sources	
Interest	\$ 103
Deductions	
Instruction, other	
Scholarships	<u>250</u>
Change in net assets	(147)
Net assets, beginning of year	<u>10,675</u>
Net assets, end of year	<u>\$ 10,528</u>

See notes to financial statements and Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The Danville 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 City of Danville, Iowa, and the agricultural territory in Des Moines and Henry 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, Danville 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 Danville Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organization - 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 imposed by management which 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 other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other 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 Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports no major proprietary funds.

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and early retirement benefits 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 non-operating 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 non-operating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

Property Tax Receivable - Property tax in 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 that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-

wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$1,000
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$1,000

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

<u>Asset Class</u>	<u>Useful Life</u>
Buildings & Improvements	50 years
Improvements other than buildings	20 years
Furniture and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenses for services performed by hourly employees prior to June 30, 2004 and payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

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 represents 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 property tax receivables not collected within sixty days after year end.

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

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

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

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

E. Budgeting and Budgetary Accounting

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, nor did disbursements exceed the General Fund unspent authorized budget.

Note 2. Cash and Pooled Investments

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

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

The District had investments in the Iowa Schools Joint Investment Trust, which are valued at an amortized cost of \$4,728 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

Note 3. Due From and Due to Other Funds

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Nutrition Fund	\$ 40,451
Capital Projects Fund	Management Fund	14,557
Capital Projects Fund	Physical Plant & Equipment Levy	22,245
Capital Projects Fund	Debt Service Fund	<u>1,198</u>
Totals		<u>\$ 78,451</u>

The School Nutrition Fund is repaying the General Fund for salaries and benefits which were originally paid from General Fund. The Management Fund, PPEL Fund and Debt Service Fund owe Capital Projects Fund for monies borrowed from a shared bank account to cover disbursements.

Note 4. Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service Fund	Physical Plant and Equipment Levy	\$ 28,133
Debt Service Fund	Capital Projects	<u>232,992</u>
Total		<u>\$ 261,125</u>

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

Note 5. Iowa Schools Cash Anticipation Program (ISCAP)

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

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investments</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>	<u>Unamortized Premium</u>
2003-04B	1/30/04	1/28/05	\$ 658,454	\$ 3,582	\$ 654,000	\$ 5,432	\$ 3,152
2004-05A	6/30/04	6/30/05	<u>962,187</u>	<u>-</u>	<u>957,000</u>	<u>-</u>	<u>13,274</u>
			<u>\$ 1,620,641</u>	<u>\$ 3,582</u>	<u>\$ 1,611,000</u>	<u>\$ 5,432</u>	<u>\$ 16,426</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 additions, 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:

<u>Series</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2003-04B	\$ -	\$ 275,000	\$ 275,000	\$ -

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

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2003-04A	2.000%	2.6030%
2003-04B	2.000%	1.3920%
2004-05A	3.000%	2.4600%

Note 6. Capital Assets

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

	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 24,715	\$ -	\$ -	\$ 24,715
Capital assets being depreciated:				
Buildings and improvements	6,036,178	118,394	-	6,154,572
Improvements other than buildings	231,200	4,885	-	236,085
Furniture and equipment	<u>1,180,053</u>	<u>95,615</u>	-	<u>1,275,668</u>
Total capital assets being depreciated	<u>7,447,431</u>	<u>218,894</u>	-	<u>7,666,325</u>
Less accumulated depreciation for:				
Buildings and improvements	1,225,360	121,534	-	1,346,894
Improvements other than buildings	213,598	9,159	-	222,757
Furniture and equipment	<u>855,709</u>	<u>93,859</u>	-	<u>949,568</u>
Total accumulated depreciation	<u>2,294,667</u>	<u>224,552</u>	-	<u>2,519,219</u>
Total capital assets being depreciated, net	<u>5,152,764</u>	<u>(5,658)</u>	-	<u>5,147,106</u>
Governmental activities capital assets, net	<u>\$ 5,177,479</u>	<u>\$ (5,658)</u>	<u>\$ -</u>	<u>\$ 5,171,821</u>
 <u>Business type activities</u>				
Furniture and equipment	\$ 15,346	\$ -	\$ -	\$ 15,346
Less accumulated depreciation	<u>12,134</u>	<u>996</u>	-	<u>13,130</u>
Business type activities capital assets, net	<u>\$ 3,212</u>	<u>\$ (996)</u>	<u>\$ -</u>	<u>\$ 2,216</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 27,438
Special	1,376
Other	11,233
Support services	
Student	538
Instructional staff	2,902
Administration	8,451
Operation and maintenance of plant	11,171
Transportation	30,752
Unallocated depreciation	<u>130,691</u>
Total governmental activities depreciation expense	<u>\$ 224,552</u>

Business type activities

Food services	<u>\$ 996</u>
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Note 7. 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	\$ 1,995,000	\$ -	\$(110,000)	\$ 1,885,000	\$ 115,000
Revenue bonds	825,000	-	(195,000)	630,000	200,000
ISEPP loan	27,512	-	(27,512)	-	-
Early retirement	74,757	8,846	(33,194)	50,409	21,370
Totals	<u>\$ 2,922,269</u>	<u>\$ 8,846</u>	<u>\$(365,706)</u>	<u>\$ 2,565,409</u>	<u>\$ 336,370</u>

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 November 24, 1997			
	Interest Rates	Interest	Principal	Total
2005	4.600	\$ 93,360	\$ 115,000	\$ 208,360
2006	4.800	88,070	120,000	208,070
2007	4.800	82,310	130,000	212,310
2008	4.800	76,070	135,000	211,070
2009	4.900	69,590	145,000	214,590
2010	4.900	62,486	150,000	212,486
2011	4.900	55,136	160,000	215,136
2012	4.900	47,296	170,000	217,296
2013	5.100	38,966	175,000	213,966
2014	5.100	30,040	185,000	215,040
2015	5.100	20,606	195,000	215,606
2016	5.200	10,660	205,000	215,660
Totals		<u>\$ 674,590</u>	<u>\$ 1,885,000</u>	<u>\$ 2,559,590</u>

Revenue Bonds

In June 2001 the District issued revenue anticipation bonds in the amount of \$970,000 to be used for repairs and improvements to the gym. These bonds will be repaid from revenue generated from the local sales and services tax. During the year ended June 30, 2002, these bonds were refinanced. The new bonds for \$1,185,000 were issued on July 11, 2001. Details of the revenue anticipation bonded indebtedness are as follows:

Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2005	4.900	\$ 28,420	\$ 200,000	\$ 228,420
2006	4.900	18,497	210,000	228,497
2007	4.900	<u>8,085</u>	<u>220,000</u>	<u>228,085</u>
Totals		<u>\$ 55,002</u>	<u>\$ 630,000</u>	<u>\$ 685,002</u>

Note 8. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA, 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 contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$132,834, \$128,294 and \$123,926 respectively, equal to the required contributions for each year.

Note 9. Risk Management

The 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.

Note 10. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$126,589 adjusting entry to the cash basis financial statements.

Note 11. Accounting Change and Restatements

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented 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:

	<u>General</u>	Capital <u>Projects</u>	Total Nonmajor	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ (80,346)	\$ 370,643	\$ 7,063	\$297,360
GASB Interpretation 6 adjustments	-	-	33,194	33,194
Net assets July 1, 2003, as restated for governmental funds	<u>\$ (80,346)</u>	<u>\$ 370,643</u>	<u>\$ 40,257</u>	330,554
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$2,294,667				5,177,479
Long-term liabilities:				
General obligation bonds			\$(1,995,000)	
Revenue bonds			(825,000)	
Loans			(27,512)	
Early retirement			<u>(74,757)</u>	(2,922,269)
Accrued interest payable				<u>(19,772)</u>
Net assets July 1, 2003, as restated				<u>\$ 2,565,992</u>

Note 12. Correction of Beginning Balance

During the year ended June 30, 2004 an error in the General Fund beginning balance was noted due to Unamortized Premium on ISCAP not being recorded on the balance sheet for the prior fiscal year. Therefore, the beginning balance of the General Fund was decreased by \$12,330 during the year ended June 30, 2004.

Note 13. Deficit Balances

The District had unreserved undesignated fund deficits in the following funds at June 30, 2004:

General Fund	\$258,375
Management Fund	\$ 14,032
Physical Plant and Equipment Levy	\$ 22,033
School Nutrition Fund	\$ 33,979

Required Supplementary Information

DANVILLE 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
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total <u>Actual</u>	<u>Budgeted Amounts</u>		Final to Actual <u>Variance</u>
	Funds <u>Actual</u>	Fund <u>Actual</u>		<u>Original</u>	<u>Final</u>	
Receipts						
Local sources	\$ 2,713,624	\$ 165,082	\$ 2,878,706	\$ 2,975,174	\$ 3,020,174	\$ (141,468)
Intermediate sources	14,846	-	14,846	1,000	1,000	13,846
State sources	1,733,677	3,060	1,736,737	1,784,745	1,784,745	(48,008)
Federal sources	115,549	63,293	178,842	80,000	80,000	98,842
Total receipts	<u>4,577,696</u>	<u>231,435</u>	<u>4,809,131</u>	<u>4,840,919</u>	<u>4,885,919</u>	<u>(76,788)</u>
Disbursements						
Instruction	2,784,811	-	2,784,811	2,777,300	2,807,300	22,489
Support services	1,144,677	-	1,144,677	1,158,980	1,158,980	14,303
Non-instructional programs	8,966	226,471	235,437	225,000	240,000	4,563
Other expenditures	768,357	-	768,357	1,014,922	1,014,922	246,565
Total disbursements	<u>4,706,811</u>	<u>226,471</u>	<u>4,933,282</u>	<u>5,176,202</u>	<u>5,221,202</u>	<u>287,920</u>
Excess of receipts over disbursements	(129,115)	4,964	(124,151)	(335,283)	(335,283)	211,132
Other financing sources, net	<u>300</u>	<u>-</u>	<u>300</u>	<u>-</u>	<u>-</u>	<u>300</u>
Excess of receipts and other financing sources over disbursements	(128,815)	4,964	(123,851)	(335,283)	(335,283)	211,432
Balance, beginning of year	<u>529,369</u>	<u>8,415</u>	<u>537,784</u>	<u>622,375</u>	<u>622,375</u>	<u>(84,591)</u>
Balance, end of year	<u>\$ 400,554</u>	<u>\$ 13,379</u>	<u>\$ 413,933</u>	<u>\$ 287,092</u>	<u>\$ 287,092</u>	<u>\$ 126,841</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule - Budget to GAAP Reconciliation
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental Fund Types		
	Cash	Accrual	Modified
	<u>Basis</u>	<u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
Revenues	\$ 4,577,696	\$ (33,150)	\$ 4,544,546
Expenditures	<u>4,706,811</u>	<u>(3,286)</u>	<u>4,703,525</u>
Net	(129,115)	(29,864)	(158,979)
Other financing sources	300	-	300
Beginning fund balances	<u>529,369</u>	<u>(198,816)</u>	<u>330,553</u>
Ending fund balances	<u>\$ 400,554</u>	<u>\$ (228,680)</u>	<u>\$ 171,874</u>

	Proprietary Fund Type		
	Enterprise		
	Cash	Accrual	Accrual
	<u>Basis</u>	<u>Adjustments</u>	<u>Basis</u>
Revenues	\$ 231,435	\$ 10,149	\$ 241,584
Expenditures	<u>226,471</u>	<u>26,411</u>	<u>252,882</u>
Net	4,964	(16,262)	(11,298)
Beginning fund balances	<u>8,415</u>	<u>(28,880)</u>	<u>(20,465)</u>
Ending fund balances	<u>\$ 13,379</u>	<u>\$ (45,142)</u>	<u>\$ (31,763)</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$45,000.

During the year ended June 30, 2004, District expenditures did not exceed the amounts budgeted in any of the four functional areas or the General fund unspent authorized budget.

Other Supplementary Information

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Schedule 1

	Special Revenue				
	Management	Student	Physical Plant and Equipment	Debt	Total
	<u>Levy</u>	<u>Activity</u>	<u>Levy</u>	<u>Service</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$ -	\$ 95,640	\$ -	\$ -	\$ 95,640
Receivables					
Property tax					
Current year delinquent	525	-	212	1,514	2,251
Succeeding year	<u>85,000</u>	<u>-</u>	<u>26,246</u>	<u>128,825</u>	<u>240,071</u>
Total assets	<u>\$ 85,525</u>	<u>\$ 95,640</u>	<u>\$ 26,458</u>	<u>\$ 130,339</u>	<u>\$ 337,962</u>
 LIABILITIES AND FUND EQUITY					
Liabilities					
Due to other funds	\$ 14,557	\$ -	\$ 22,245	\$ 1,198	\$ 38,000
Accounts payable	-	525	-	-	525
Deferred revenue					
Succeeding year property tax	<u>85,000</u>	<u>-</u>	<u>26,246</u>	<u>128,825</u>	<u>240,071</u>
Total liabilities	<u>99,557</u>	<u>525</u>	<u>48,491</u>	<u>130,023</u>	<u>278,596</u>
Fund Equity					
Reserved for debt service	-	-	-	316	316
Unreserved fund balances	<u>(14,032)</u>	<u>95,115</u>	<u>(22,033)</u>	<u>-</u>	<u>59,050</u>
Total fund equity	<u>(14,032)</u>	<u>95,115</u>	<u>(22,033)</u>	<u>316</u>	<u>59,366</u>
Total liabilities and fund equity	<u>\$ 85,525</u>	<u>\$ 95,640</u>	<u>\$ 26,458</u>	<u>\$ 130,339</u>	<u>\$ 337,962</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

Schedule 2

Revenues	Special Revenue				<u>Total</u>
	<u>Management Levy</u>	<u>Student Activity</u>	Physical Plant and Equipment <u>Levy</u>	<u>Debt Service</u>	
Local sources					
Local taxes	\$ 71,292	\$ -	\$ 28,741	\$ 205,666	\$ 305,699
Other	-	223,110	50	667	223,827
State sources	<u>85</u>	<u>-</u>	<u>34</u>	<u>245</u>	<u>364</u>
Total revenues	<u>71,377</u>	<u>223,110</u>	<u>28,825</u>	<u>206,578</u>	<u>529,890</u>
Expenditures					
Instruction					
Regular program instruction	41,616	-	-	-	41,616
Other instruction	-	190,943	-	-	190,943
Support services					
Student services	94	-	-	-	94
Instructional staff services	362	-	-	-	362
Administration services	656	-	-	-	656
Operation and maintenance of plant	24,990	-	-	-	24,990
Transportation services	12,157	-	-	-	12,157
Noninstructional programs	3,259	-	-	-	3,259
Other expenditures					
Long-term debt					
Principal	-	-	-	332,512	332,512
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>137,185</u>	<u>137,185</u>
Total expenditures	<u>83,134</u>	<u>190,943</u>	<u>-</u>	<u>469,697</u>	<u>743,774</u>
Excess (deficiency) of revenues over (under) expenditures	(11,757)	32,167	28,825	(263,119)	(213,884)
Other financing sources (uses)					
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(28,133)</u>	<u>261,125</u>	<u>232,992</u>
Excess (deficiency) of revenues and other financing sources over (under)					
expenditures and other financing (uses)	(11,757)	32,167	692	(1,994)	19,108
Fund balances, beginning of year, as restated	<u>(2,275)</u>	<u>62,948</u>	<u>(22,725)</u>	<u>2,310</u>	<u>40,258</u>
Fund balances, end of year	<u>\$ (14,032)</u>	<u>\$ 95,115</u>	<u>\$ (22,033)</u>	<u>\$ 316</u>	<u>\$ 59,366</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Funds, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
Athletics	\$ 434	\$ 63,672	\$ 56,148	\$ 7,958
Activity fees	1,288	6,931	7,631	588
Class of:				
2003	83	41	13	111
2004	3,228	425	3,592	61
2005	1,691	12,928	11,708	2,911
2006	1,548	1,588	724	2,412
2007	277	999	245	1,031
2008	20	-	-	20
2009	144	-	-	144
2010	-	2,450	2,394	56
Playground equipment fund	3,318	-	-	3,318
Book clubs	-	3,552	3,552	-
Book fair	1,948	3,416	2,620	2,744
Parent volunteers	2,605	6,377	6,322	2,660
Jump Rope for Heart	1,207	1,047	1,061	1,193
Kindergarten workshop	62	-	-	62
Elementary school store	271	644	906	9
Speech	-	2,753	2,753	-
Drama	3	2,097	2,100	-
Cheerleaders	-	460	81	379
SCI program	231	-	30	201
Math/Science	217	-	-	217
High school student council	4,282	3,099	5,968	1,413
Jr high student council	6,303	6,900	5,547	7,656
Band	-	1,428	970	458
Vocal music	-	983	983	-
Swing choir	171	30,695	27,743	3,123
Music trip	4	15,901	1,000	14,905
High school pop	1,023	8,893	6,383	3,533

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Funds, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
School store	\$ 1,048	\$ 4,558	\$ 4,536	\$ 1,070
Seniors, Inc.	173	227	7	393
Shop	532	857	1,312	77
FHA	1,133	1,366	1,603	896
Mass media	383	-	-	383
Yearbook	14,644	15,211	15,021	14,834
Student pictures	10,614	9,325	4,868	15,071
Interest	4,063	1,165	-	5,228
General	<u>-</u>	<u>13,122</u>	<u>13,122</u>	<u>-</u>
Totals	<u>\$ 62,948</u>	<u>\$ 223,110</u>	<u>\$ 190,943</u>	<u>\$ 95,115</u>

See accompanying Independent Auditor's Report.

DANVILLE COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 4

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 1,793,022	\$ 1,758,474	\$ 1,703,867	\$ 1,645,697
Tuition	630,644	631,611	550,352	470,497
Other	261,089	243,038	252,703	306,692
Intermediate sources	14,812	13,872	1,567	500
State sources	1,737,471	1,764,781	1,675,917	1,750,749
Federal sources	107,508	59,029	56,207	37,953
Total revenues	<u>\$ 4,544,546</u>	<u>\$ 4,470,805</u>	<u>\$ 4,240,613</u>	<u>\$ 4,212,088</u>
Expenditures				
Instruction				
Regular instruction	1,887,401	1,803,750	1,767,952	1,668,785
Special instruction	434,193	430,750	373,458	375,014
Other instruction	474,810	445,315	432,722	439,519
Support services				
Student services	60,415	66,523	60,439	106,258
Instructional staff services	67,008	62,973	60,225	50,725
Administration services	464,840	445,837	388,544	369,992
Operation and maintenance of plant services	359,174	354,368	312,359	336,180
Transportation services	201,758	205,957	190,422	184,337
Central support services	479	750	1,581	1,498
Non-instructional programs	4,968	7,668	1,354	3,603
Other expenditures				
Facilities acquisition	152,193	472,516	385,766	1,066,151
Long-term debt				
Principal	332,512	321,000	1,051,000	341,000
Interest and other charges	137,185	152,396	165,171	164,899
AEA flowthrough	126,589	135,192	135,677	142,677
Total expenditures	<u>\$ 4,703,525</u>	<u>\$ 4,904,995</u>	<u>\$ 5,326,670</u>	<u>\$ 5,250,638</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

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Muscatine, Iowa 52761

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education
Danville Community School District
Danville, Iowa

I have audited the financial statements of the Danville Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated September 14, 2004. I conducted my 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 Danville Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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 not been resolved. Current year statutory comments are detailed as follows:

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

2. Certified Budget - Disbursements for the year ended June 30, 2004 did not exceed the amounts budgeted.
3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I 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.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.
11. Financial Condition - The District had unreserved, undesignated deficits in the General Fund of \$258,375, the Management Fund of \$14,032 and in the Physical Plant and Equipment Levy Fund of \$22,033 and an undesignated, unreserved retained earnings deficit of \$33,979 in the School Nutrition Fund at June 30, 2004.

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

Response - We will continue to monitor these accounts.

Conclusions - Response accepted.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Danville Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect Danville Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

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

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

Response - We will investigate available alternatives and implement as deemed necessary.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Danville 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.

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the Danville Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
September 14, 2004

DANVILLE COMMUNITY SCHOOL DISTRICT

Audit Staff

June 30, 2004

This audit was performed by

Kay Chapman, CPA