

DELWOOD COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

DELWOOD COMMUNITY SCHOOL DISTRICT

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DELWOOD COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September 2003 Election)		
Steve Kinrade	Board President	2004
Angie Rickels	Board Member	2003
Ron Filloon	Board Member	2004
Ronda Denger	Board Member	2005
Paul Miller	Board Member	2005
(After September 2003 Election)		
Steve Kinrade	Board President	2004
Ron Filloon	Board Member	2004
Ronda Denger	Board Member	2005
Paul Miller	Board Member	2005
Scott Wirth	Board Member	2006
School Officials		
Mary Hainstock	Superintendent	2004
Jane Goodenow	Board Secretary/Treasurer	2004
Brian Gruhn	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscataine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Delwood Community School District
Delmar, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Delwood Community School District, Delmar, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. 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, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Delwood Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Delwood 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 10, 2004 on my consideration of Delwood Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 14 and 42 through 43 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 Delwood 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 2, 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 10, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Delwood 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 \$1,975,906 in fiscal 2003 to \$2,068,498 in fiscal 2004, and General Fund expenditures decreased from \$1,989,176 in fiscal 2003 to \$1,938,054 in fiscal 2004. The District's General Fund balance increased from \$716,743 in fiscal 2003 to \$848,253 in fiscal 2004, an 18% increase.
- The increase in General Fund revenues was attributable to an increase in property tax, income surtax, and open enrollment tuition in fiscal 2004. State funding decreased because it is figured on per pupil funding and the Delwood District experienced a drop in enrollment. The decrease in expenditures was mainly attributed to a reduction in costs for the Whole Grade Sharing with Maquoketa Community School District (fewer secondary students reducing the tuition our by \$52,000). Phasing out a 21st Century Grant reduced expenses by \$10,000, and costing computers and other expenditures to the Physical Plant and Equipment Fund also decreased general fund expenditures. In other areas there were normal increases due to negotiated salaries and benefits and general rising maintenance costs. The decrease in the expenses for the whole grade sharing agreement was probably the main reason the General Fund balance increased. As a result, the District was able to reduce the levy required for fiscal 2005 using some of carryover fund balance.
- A decline in interest rates during the past three fiscal years resulted in interest earnings in the General Fund alone decreasing from \$13,010 in fiscal 2003 to \$10,337.98 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 Delwood 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 Delwood 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 Delwood 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.

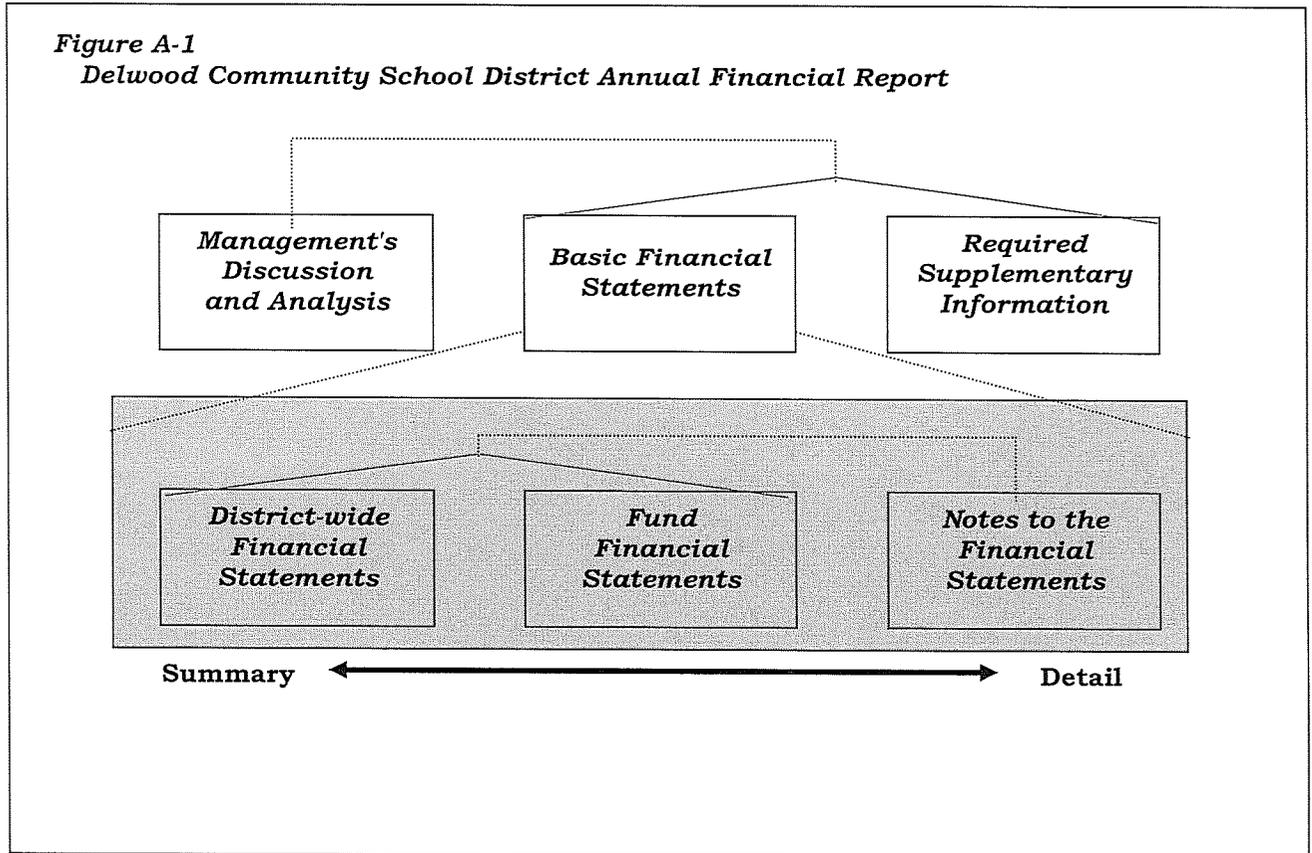


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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 include the 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.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 2,722,886	\$ 2,480,205	\$ 424	\$ 4,084	\$ 2,723,310	\$ 2,484,289	9.62%
Capital assets	<u>793,911</u>	<u>432,128</u>	<u>7,540</u>	<u>6,216</u>	<u>801,451</u>	<u>438,344</u>	82.84%
Total assets	<u>3,516,797</u>	<u>2,912,333</u>	<u>7,964</u>	<u>10,300</u>	<u>3,524,761</u>	<u>2,922,633</u>	20.60%
Long-term obligations	484,722	-	-	-	484,722	-	0.00%
Other liabilities	<u>878,155</u>	<u>868,615</u>	<u>3,301</u>	<u>7,961</u>	<u>881,456</u>	<u>876,576</u>	0.56%
Total liabilities	<u>1,362,877</u>	<u>868,615</u>	<u>3,301</u>	<u>7,961</u>	<u>1,366,178</u>	<u>876,576</u>	55.85%
Net assets							
Invested in capital assets, net of related debt	348,911	432,128	7,540	6,216	356,451	438,344	-18.68%
Restricted	960,005	894,847	-	-	960,005	894,847	7.28%
Unrestricted	<u>845,004</u>	<u>716,743</u>	<u>(2,877)</u>	<u>(3,877)</u>	<u>842,127</u>	<u>712,866</u>	18.13%
Total net assets	<u>\$ 2,153,920</u>	<u>\$ 2,043,718</u>	<u>\$ 4,663</u>	<u>\$ 2,339</u>	<u>\$ 2,158,583</u>	<u>\$ 2,046,057</u>	5.50%

The District's combined net assets increased by approximately 5.9%, or \$112,526, over the prior year. At the current time the largest portion of the District's net assets is in cash and cash equivalents. 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 \$65,158, or 8.5% over the prior year. The increase was primarily a result of receiving funding for capital projects but the expenditures not happening until after the close of the fiscal year. This would include a 28E agreement for dollars from the Local Option Sales and Service to follow secondary whole grade sharing 7th-12th grade students attending Maquoketa for Maquoketa's infrastructure needs.

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 – increased \$129,261, or 18.1%. This increase in unrestricted net assets was a result of budgeting for higher costs in tuition out as well as classroom needs, but due to the drop in enrollment those expenditures were much less.

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

Figure A-4
Changes in Net Assets

	Governmental Activities	Business-type Activities	Total School District
Revenues			
Program revenues			
Charges for service and sales	\$ 154,435	\$ 31,222	\$ 185,657
Operating grants, contributions and restricted interest	220,804	21,663	242,467
General revenues			
Property tax	985,647	-	985,647
Unrestricted state grants	948,875	-	948,875
Unrestricted investment earnings	24,194	42	24,236
Premium on revenue bonds	27,774	-	27,774
Transfers	(1,624)	1,624	-
Other	3,153	-	3,153
Total revenues	2,363,258	54,551	2,417,809
Program expenses			
Governmental activities			
Instruction	1,362,246	-	1,362,246
Support services	628,645	-	628,645
Non-instructional programs	5,883	52,227	58,110
Other expenses	256,282	-	256,282
Total expenses	2,253,056	52,227	2,305,283
Change in net assets	\$ 110,202	\$ 2,324	\$ 112,526

Property tax and unrestricted state grants account for 80% 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 \$2,363,258 and expenses were \$2,253,056. In a difficult budget year, the District was able to monitor 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	\$ 1,362,246	\$ 1,128,790
Support services	628,645	566,170
Non-instructional programs	5,883	5,883
Other expenses	<u>256,282</u>	<u>176,974</u>
 Total expenses	 <u>\$ 2,253,056</u>	 <u>\$ 1,877,817</u>

- The cost financed by users of the District's programs was \$154,435.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$220,804.
- The net cost of governmental activities was financed with \$985,647 in property and other taxes and \$948,875 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$54,551 and expenses were \$52,227. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District modestly increased meal prices five cents per meal. The increased revenue off set increased expenses in food and labor costs. The program continued to have a small deficit.

INDIVIDUAL FUND ANALYSIS

As previously noted, Delwood 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 \$1,716,542, greater than last year's ending fund balances of \$1,481,590.

Governmental Fund Highlights

- The General Fund balance increased from \$716,743 to \$848,253. The District's stable General Fund financial position is the result of many factors. Growth during the year in property tax, income surtax, open enrollment tuition and grants resulted in an increase in revenues. Decreases in expenditures were due primarily to the decreased enrollment which impacted the whole grade sharing agreement with

Maquoketa Community School District and reduced our tuition-out by \$52,000. The phasing out of the 21st Century Grant reduced expenses by \$10,000. Also costing computers and other expenditures to the Physical Plant and Equipment Fund decreased our General Fund expenditures. Together the added revenues and the reduction in expenses demonstrate the increase of \$131, 510 to the General Fund fund balance.

- The Physical Plant and Equipment Levy (PEEL) Fund balance increased from \$493,345 in fiscal 2003 to \$537,327 in fiscal 2004, while Revenues remained approximately the same. The district expects some increased equipment expenses associated with the new kitchen, cafeteria, and media center. It was difficult to predict if the expenses would be a part of FY04 or FY05.
- The Capital Projects Fund balance increased due to the sale of \$500,000 in revenue bonds during fiscal 2004. The District ended fiscal 2003 with a balance of \$234,651. Fiscal 2004 ended with a balance of \$282,307, consisting primarily of unexpended bond proceeds which will be expended as the project is completed.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$2,339 at June 30, 2003 to \$4,663 at June 30, 2004, representing an increase of approximately 100%. For fiscal 2004, the District increased meal prices, resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, Delwood Community School District did not amend its annual budget.

The District's receipts were \$59,441 less than budgeted receipts, a variance of 6%. The most significant variance resulted from the District receiving less in state aid and state grants than originally anticipated. Over estimating revenues from participation in a 21st Century Grant with Maquoketa was also a significant variance.

Total expenditures were less than budgeted, due partially to the District's budget for the General Fund. It is the District's practice to budget expenditures to provide enough authority to cover unexpected costs that could occur during the year. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year. The expenditures were less in the Physical Plant and Equipment Fund due to budgeted equipment costs for our cafeteria/kitchen and media addition which were not incurred until FY05.

In spite of the District's budgetary practice, the certified budget was exceeded by \$74,451 in the other expenditures area due to the timing of disbursements paid to the neighboring district for a 28E agreement for Local Option Sales and Service dollars that follow the secondary student for infrastructure. The expenditures were expected but after the new fiscal year began. At that time there was not sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$801,451, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. This represents a net increase of 83% from last year. More detailed information about the District's capital assets is presented in Note 5 to the financial statements. Depreciation expense for the year was \$83,018.

The original cost of the District's capital assets was \$1,709,211. Governmental funds account for \$1,695,340, with the remainder of \$13,871 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$416,886 at June 30, 2004, compared to \$14,650 reported at June 30, 2003. This significant increase resulted from construction activity to remodel for office space and an addition for a media center, cafeteria and kitchen financed by the issuance of revenue bonds totaling \$500,000 in fiscal 2004.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2003-2004</u>
Land	\$ 600	\$ 600	\$ -	\$ -	\$ 600	\$ 600	0.00%
Construction in progress	416,886	14,650	-	-	416,886	14,650	2745.64%
Buildings and improvements	229,741	233,922	-	-	229,741	233,922	-1.79%
Improvements, other than buildings	15,736	16,811	-	-	15,736	16,811	-6.39%
Furniture and equipment	<u>130,948</u>	<u>166,145</u>	<u>7,540</u>	<u>6,216</u>	<u>138,488</u>	<u>172,361</u>	-19.65%
Totals	<u>\$ 793,911</u>	<u>\$ 432,128</u>	<u>\$ 7,540</u>	<u>\$ 6,216</u>	<u>\$ 801,451</u>	<u>\$ 438,344</u>	82.84%

Long-Term Debt

At June 30, 2004, the District had \$484,722 in revenue bonds and early retirement debt outstanding. This represents an increase of 100% from last year. Additional information about the District's long-term debt is presented in Note 6 to the financial statements.

In August 2003, the District's Board of Education authorized the issuance of \$500,000 in local option sales and service tax revenue bonds to pay for a construction project for a new addition for a kitchen, cafeteria and media center. Planning for the project started in fiscal 2003 and the bonds were sold during fiscal 2004.

The District also offered a voluntary early retirement plan for the first time in many years to any employee who met the guidelines. Eligible employees must have been at least age fifty-five and have completed fifteen years of service to the District, completed a timely application and approved by the Board of Education. Two

employees submitted applications and were approved to receive benefits in four semi-annual payments beginning in fiscal year 2005. The payments are made to the District's special pay deferral plan. The total retirement liability was \$39,722, but it is hoped to be a saving to the district for future budgeting of salaries and benefits.

Figure A-7
Outstanding Long-term Obligations

	Total		Total Change
	School District		
	<u>2004</u>	<u>2003</u>	
Revenue bonds	\$ 445,000	\$ -	100.00%
Early retirement	39,722	-	100.00%
Total	\$ 484,722	\$ -	100.00%

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 Districts enrollment dropped from 268.2 in the fall of 2002 to 243 in the fall of 2003 (-9%). Since much of the district's revenue is determined by the number of students, this will be an adverse effect on the FY05 budget.
- Clinton and Jackson county property tax valuations have been recalculated so that FY04's were \$6,477,110 but will drop to \$59,957,480 (-9%) for FY05.
- Iowa's legislature continue to under fund education, setting allowable growth for FY04 at 2% and then legislating an across-the-board cut in all state funding of 2.5%. Again, for FY 2005 the allowable growth was set at 2%.
- The 21st Century grant, that provided funding for the after-school and summer programs, was completed May 31, 2004. There are no new funds to replace the grant dollars and so the district will need to determine if and how the programming will be continued.
- Insurance costs are continuing to increase including health insurance, property, casualty and vehicles.
- In May of 2004, a new two-year settlement was reached with the Delwood Education Association setting increases at 3.99% total package for FY05 and 4.1% for FY06. While there was no "new money" for FY05 the acceptance of the retirements for two certified staff will almost cover the settlement with the teachers.

- The district has remained financially stable during the legislative cut back's of the past few years and have projected to remain independent for years to come. While the Delwood District has one of the lowest levy rates of the state, Delwood has the ability to levy more because of its \$2,500,000 carry over "spending authority".
- The district continues to offer a strong education as evidenced by student achievement data.
- The district has a very experienced teaching staff that supports student learning and a very supportive non-certified staff.
- The District maintains reliable transportation vehicles, modern equipment and technology, modern media center and retains their building in quality condition.

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 Jane L. Goodenow, District Secretary/Treasurer and Business Manager or Superintendent Mary Jo Hainstock, Delwood Community School District, 311 Delmar Avenue, P.O. Box 292, Delmar, Iowa 52037 (Phone 563-674-4164).

Basic Financial Statements

DELWOOD 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	\$ 1,869,108	\$ 345	\$ 1,869,453
Receivables			
Property tax			
Delinquent	29,557	-	29,557
Succeeding year	779,447	-	779,447
Accrued interest	1,966	-	1,966
Accounts receivable	9,899	-	9,899
Due from other funds	3,301	-	3,301
Due from other governments	29,608	-	29,608
Inventories	-	79	79
Capital assets, net of accumulated depreciation	<u>793,911</u>	<u>7,540</u>	<u>801,451</u>
Total assets	<u>3,516,797</u>	<u>7,964</u>	<u>3,524,761</u>
 LIABILITIES			
Accounts payable	3,361	-	3,361
Salaries and benefits payable	93,536	-	93,536
Due to other funds	-	3,301	3,301
Accrued interest payable	1,811	-	1,811
Deferred revenue - succeeding year property tax	779,447	-	779,447
Long-term liabilities			
Portion due within one year			
Bonds payable	55,000	-	55,000
Early retirement	9,931	-	9,931
Portion due after one year			
Notes payable	390,000	-	390,000
Early retirement	<u>29,791</u>	<u>-</u>	<u>29,791</u>
Total liabilities	<u>1,362,877</u>	<u>3,301</u>	<u>1,366,178</u>
 NET ASSETS			
Invested in capital assets, net of related debt	348,911	7,540	356,451
Restricted for			
Scholarships	130,000	-	130,000
Capital projects	282,307	-	282,307
Debt service	2,424	-	2,424
Physical plant and equipment levy	537,327	-	537,327
Other special revenue purposes	7,947	-	7,947
Unrestricted	<u>845,004</u>	<u>(2,877)</u>	<u>842,127</u>
Total net assets	<u>\$ 2,153,920</u>	<u>\$ 4,663</u>	<u>\$ 2,158,583</u>

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

DELWOOD 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	\$ 1,219,820	\$ 104,882	\$ 86,133	\$ -	\$ (1,028,805)	\$ -	\$ (1,028,805)
Special instruction	136,344	1,352	35,904	-	(99,088)	-	(99,088)
Other instruction	6,082	1,285	3,900	-	(897)	-	(897)
	<u>1,362,246</u>	<u>107,519</u>	<u>125,937</u>	<u>-</u>	<u>(1,128,790)</u>	<u>-</u>	<u>(1,128,790)</u>
Support services							
Student services	68,414	45,205	1,160	-	(22,049)	-	(22,049)
Instructional staff services	96,925	-	14,399	-	(82,526)	-	(82,526)
Administration services	219,593	-	-	-	(219,593)	-	(219,593)
Operation and maintenance of plant services	126,384	690	-	-	(125,694)	-	(125,694)
Transportation services	117,329	1,021	-	-	(116,308)	-	(116,308)
	<u>628,645</u>	<u>46,916</u>	<u>15,559</u>	<u>-</u>	<u>(566,170)</u>	<u>-</u>	<u>(566,170)</u>
Non-instructional programs	<u>5,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,883)</u>	<u>-</u>	<u>(5,883)</u>
Other expenditures							
Facilities acquisition	147,670	-	-	-	(147,670)	-	(147,670)
Long-term debt interest	20,681	-	-	-	(20,681)	-	(20,681)
AEA flowthrough	79,308	-	79,308	-	-	-	-
Depreciation (unallocated) *	8,623	-	-	-	(8,623)	-	(8,623)
	<u>256,282</u>	<u>-</u>	<u>79,308</u>	<u>-</u>	<u>(176,974)</u>	<u>-</u>	<u>(176,974)</u>
Total governmental activities	<u>2,253,056</u>	<u>154,435</u>	<u>220,804</u>	<u>-</u>	<u>(1,877,817)</u>	<u>-</u>	<u>(1,877,817)</u>

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

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

Exhibit B

<u>Functions/Programs (continued)</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	<u>Expenses</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>
Business-type activities							
Non-instructional programs							
Nutrition services	\$ 52,227	\$ 31,222	\$ 21,663	\$ -	\$ -	\$ 658	\$ 658
Total	<u>\$ 2,305,283</u>	<u>\$ 185,657</u>	<u>\$ 242,467</u>	<u>\$ -</u>	<u>(1,877,817)</u>	<u>658</u>	<u>(1,877,159)</u>
<u>General Revenues</u>							
Taxes levied for							
General purposes					772,532	-	772,532
Capital projects					213,115	-	213,115
Unrestricted state grants					948,875	-	948,875
Unrestricted investment earnings					24,194	42	24,236
Premium on revenue bonds					27,774	-	27,774
Transfers					(1,624)	1,624	-
Other					3,153	-	3,153
Total general revenues					<u>1,988,019</u>	<u>1,666</u>	<u>1,989,685</u>
Change in net assets					110,202	2,324	112,526
Net assets, beginning of year, as restated					2,043,718	2,339	2,046,057
Net assets, end of year					<u>\$ 2,153,920</u>	<u>\$ 4,663</u>	<u>\$ 2,158,583</u>

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

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

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

Exhibit C

	<u>General</u>	<u>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
ASSETS					
Cash and pooled investments	\$ 898,174	\$ 533,244	\$ 260,524	\$ 47,166	\$ 1,739,108
Receivables					
Property tax					
Delinquent	25,741	2,351	-	1,465	29,557
Succeeding year	679,489	59,958	-	40,000	779,447
Accounts receivable	9,899	-	-	-	9,899
Accrued interest	-	1,732	210	24	1,966
Due from other funds	3,301	-	-	-	3,301
Due from other governments	7,862	-	21,746	-	29,608
	<u>1,624,466</u>	<u>597,285</u>	<u>282,480</u>	<u>88,655</u>	<u>2,592,886</u>
Total assets and other debits	<u>\$ 1,624,466</u>	<u>\$ 597,285</u>	<u>\$ 282,480</u>	<u>\$ 88,655</u>	<u>\$ 2,592,886</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 3,361	\$ -	\$ -	\$ -	\$ 3,361
Salaries and benefits payable	93,363	-	173	-	93,536
Deferred revenue					
Succeeding year property tax	679,489	59,958	-	40,000	779,447
Total liabilities	<u>776,213</u>	<u>59,958</u>	<u>173</u>	<u>40,000</u>	<u>876,344</u>
Fund balances					
Reserved for					
Talented and gifted program	14,722	-	-	-	14,722
Phase III	116	-	-	-	116
Debt sevice	-	-	-	4,235	4,235
Unreserved - Special revenue funds	-	537,327	-	44,420	581,747
Other governmental	833,415	-	282,307	-	1,115,722
Total fund balances	<u>848,253</u>	<u>537,327</u>	<u>282,307</u>	<u>48,655</u>	<u>1,716,542</u>
Total liabilities and fund balances	<u>\$ 1,624,466</u>	<u>\$ 597,285</u>	<u>\$ 282,480</u>	<u>\$ 88,655</u>	<u>\$ 2,592,886</u>

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

DELWOOD 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	\$ 1,716,542
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.	793,911
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.	(1,811)
Long-term liabilities, including early retirement, bonds payable and notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(484,722)</u>
Net assets of governmental activities	<u>\$ 2,023,920</u>

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

DELWOOD 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>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 736,330	\$ 67,488	\$ 145,587	\$ 35,759	\$ 985,164
Tuition	87,935	-	-	-	87,935
Other	75,320	7,277	2,120	9,915	94,632
State sources	1,089,252	41	-	22	1,089,315
Federal sources	79,661	-	-	-	79,661
Total revenues	<u>2,068,498</u>	<u>74,806</u>	<u>147,707</u>	<u>45,696</u>	<u>2,336,707</u>
Expenditures					
Current					
Instruction					
Regular instruction	1,173,080	-	-	1,562	1,174,642
Special instruction	142,863	-	-	-	142,863
Other instruction	-	-	-	6,082	6,082
	<u>1,315,943</u>	<u>-</u>	<u>-</u>	<u>7,644</u>	<u>1,323,587</u>

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

DELWOOD 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>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Expenditures (continued)					
Current (continued)					
Support services					
Student services	\$ 68,414	\$ -	\$ -	\$ -	\$ 68,414
Instructional staff services	73,261	5,616	-	-	78,877
Administration services	197,748	4,397	-	6,885	209,030
Operation and maintenance of plant services	105,020	14,807	-	11,400	131,227
Transportation services	93,300	-	-	7,140	100,440
	<u>537,743</u>	<u>24,820</u>	<u>-</u>	<u>25,425</u>	<u>587,988</u>
Non-instructional programs	<u>5,060</u>	<u>-</u>	<u>-</u>	<u>823</u>	<u>5,883</u>
Other expenditures					
Facilities acquisition	-	3,715	553,955	-	557,670
Long-term debt					
Principal	-	-	-	55,000	55,000
Interest and fiscal charges	-	-	-	18,870	18,870
AEA flowthrough	79,308	-	-	-	79,308
	<u>79,308</u>	<u>3,715</u>	<u>553,955</u>	<u>73,870</u>	<u>710,848</u>
Total expenditures	<u>1,938,054</u>	<u>28,535</u>	<u>553,955</u>	<u>107,762</u>	<u>2,628,306</u>

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

DELWOOD 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>Special Revenue Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 130,444	\$ 46,271	\$ (406,248)	\$ (62,066)	\$ (291,599)
Other financing sources (uses)					
Proceeds of long-term debt, net of \$27,774 premium	-	-	527,774	-	527,774
Sale of materials and supplies	401	-	-	-	401
Interfund operating transfers in	665	-	395,370	73,870	469,905
Interfund operating transfers (out)	-	(2,289)	(469,240)	-	(471,529)
Total other financing sources (uses)	<u>1,066</u>	<u>(2,289)</u>	<u>453,904</u>	<u>73,870</u>	<u>526,551</u>
Net change in fund balances	131,510	43,982	47,656	11,804	234,952
Fund balance, beginning of year	<u>716,743</u>	<u>493,345</u>	<u>234,651</u>	<u>36,851</u>	<u>1,481,590</u>
Fund balance, end of year	<u>\$ 848,253</u>	<u>\$ 537,327</u>	<u>\$ 282,307</u>	<u>\$ 48,655</u>	<u>\$ 1,716,542</u>

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

DELWOOD 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 \$ 234,952

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	\$ 443,836	
Depreciation expense	<u>(82,053)</u>	361,783

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 55,000

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

Early retirement	(39,722)
------------------	----------

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets. (500,000)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

<u>(1,811)</u>

Change in net assets of governmental activities \$ 110,202

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

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

Exhibit G

	<u>Nonmajor Enterprise</u>
ASSETS	
Cash and pooled investments	\$ 345
Inventories	79
Capital assets, net of accumulated depreciation	<u>7,540</u>
Total assets	<u>7,964</u>
 LIABILITIES	
Due to other funds	<u>3,301</u>
 NET ASSETS	
Invested in capital assets, net of related debt	7,540
Unreserved retained earnings	<u>(2,877)</u>
Total net assets	<u><u>\$ 4,663</u></u>

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

DELWOOD 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>\$ 31,222</u>
Operating expenses	
Non-instructional programs	
Salaries	21,768
Benefits	2,787
Purchased services	2,611
Supplies	24,096
Depreciation	<u>965</u>
Total operating expenses	<u>52,227</u>
Operating loss	<u>(21,005)</u>
Non-operating revenue	
Interest income	42
Interfund operating transfers, net	1,624
State sources	799
Federal sources	<u>20,864</u>
Total non-operating revenue	<u>23,329</u>
Change in net assets	2,324
Net assets, beginning of year	<u>2,339</u>
Net assets, end of year	<u>\$ 4,663</u>

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

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

Exhibit I

	<u>Nonmajor Enterprise</u>
Cash flows from operating activities	
Cash received from sale of lunches and breakfasts	\$ 31,222
Cash payments to employees for services	(29,215)
Cash payments to suppliers for goods and services	<u>(22,227)</u>
Net cash used in operating activities	<u>(20,220)</u>
Cash flows from non-capital financing activities	
State grants received	799
Federal grants received	<u>16,705</u>
Net cash provided by non-capital financing activities	<u>17,504</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(2,289)</u>
Cash flows from investing activities	
Interfund operating transfers, net	1,624
Interest on investments	<u>42</u>
Net cash provided by investing activities	<u>1,666</u>
Net decrease in cash and cash equivalents	(3,339)
Cash and cash equivalents, beginning of year	<u>3,684</u>
Cash and cash equivalents, end of year	<u><u>\$ 345</u></u>
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$(21,005)
Adjustments to reconcile operating loss to net cash used in operating activities	
Depreciation	965
Commodities used	4,159
Decrease in inventories	321
(Decrease) in due to other funds	<u>(4,660)</u>
Net cash used in operating activities	<u><u>\$(20,220)</u></u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$4,159 of federal commodities.

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

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

Exhibit J

	Private Purpose <u>Trust</u> <u>Scholarships</u>
Assets	
Cash and pooled investments	\$ 1,793
Accrued interest receivable	<u>568</u>
Total assets	2,361
Liabilities	
	<u>-</u>
Net assets	
Reserved for scholarships	<u><u>\$ 2,361</u></u>

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

DELWOOD 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	\$ 2,539
Deductions	
Support services	
Scholarships	<u>5,725</u>
Change in net assets	(3,186)
Net assets, beginning of year	<u>5,547</u>
Net assets, end of year	<u><u>\$ 2,361</u></u>

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

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

Note 1. Summary of Significant Accounting Policies

The Delwood Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the Cities of Delmar and Elwood, Iowa, and the agricultural territory in Clinton and Jackson 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, Delwood 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 Delwood Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

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 fund:

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 Physical Plant & Equipment Levy (PPEL) Fund is a special revenue fund used to account for all financial transactions from the levy authorized, whether regular or voter-approved, by Iowa Code section 298.2. This fund is created to deposit and expend money from the PPEL levy. The purpose of the fund is to pay the costs of specified major expenditures related to real property and equipment.

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 include the following:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, early retirement and claims and judgments 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	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

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 and improvements	5-40 years
Improvements other than buildings	15-20 years
Furniture and equipment	3-20 years

Salaries and Benefits Payable - 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.

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 unspent grant proceeds and property tax receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of unspent grant proceeds and 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, expenditures in the Other Expenditures function exceeded the amount budgeted. However, the District did not exceed its 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 no investments at June 30, 2004.

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	Enterprise Fund School Nutrition	\$ 3,301

The School Nutrition Fund is repaying the General Fund for salaries and benefits paid by the General Fund for food service employees. The balance will be repaid during the fiscal year ending June 30, 2005.

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>
Capital Projects	Capital Projects	\$ 395,370
Debt Service	Capital Projects	73,870
School Nutrition	Physical Plant and Equipment Levy	<u>2,289</u>
Total		<u>\$ 471,529</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. Capital Assets

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

<u>Governmental activities</u>	<u>Balance, Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, End of Year</u>
Capital assets not being depreciated:				
Land	\$ 600	\$ -	\$ -	\$ 600
Construction in progress	<u>14,650</u>	<u>402,236</u>	<u>-</u>	<u>416,886</u>
Total capital assets, not being depreciated	<u>15,250</u>	<u>402,236</u>	<u>-</u>	<u>417,486</u>
Capital assets being depreciated:				
Buildings and improvements	422,508	3,367	-	425,875
Improvements other than buildings	31,348	-	-	31,348
Furniture and equipment	<u>782,398</u>	<u>38,233</u>	<u>-</u>	<u>820,631</u>
Total capital assets being depreciated	<u>1,236,254</u>	<u>41,600</u>	<u>-</u>	<u>1,277,854</u>
Less accumulated depreciation for:				
Buildings and improvements	188,586	7,548	-	196,134
Improvements other than buildings	14,537	1,075	-	15,612
Furniture and equipment	<u>616,253</u>	<u>73,430</u>	<u>-</u>	<u>689,683</u>
Total accumulated depreciation	<u>819,376</u>	<u>82,053</u>	<u>-</u>	<u>901,429</u>
Total capital assets being depreciated, net	<u>416,878</u>	<u>(40,453)</u>	<u>-</u>	<u>376,425</u>
Governmental activities capital assets, net	<u>\$ 432,128</u>	<u>\$ 361,783</u>	<u>\$ -</u>	<u>\$ 793,911</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction		
Regular		\$ 5,456
Support services		
Instructional staff		30,010
Administration		10,563
Operation and maintenance of plant		10,512
Transportation		16,889
Unallocated		<u>8,623</u>
Total governmental activities depreciation expense		<u>\$ 82,053</u>

Business-type activities

Food services		<u>\$ 965</u>
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During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is more than the amounts reported on the financial statements of the prior fiscal year by \$195,826.

Note 6. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Revenue bonds	\$ -	\$ 500,000	\$(55,000)	\$ 445,000	\$ 55,000
Early retirement	-	<u>39,722</u>	-	<u>39,722</u>	<u>19,861</u>
Totals	<u>\$ -</u>	<u>\$ 539,722</u>	<u>\$(55,000)</u>	<u>\$ 484,722</u>	<u>\$ 74,861</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, who meet certain eligibility guidelines. This voluntary early retirement plan is offered annually at the board's discretion. Eligible employees must have been at least age fifty-five and have completed fifteen years of service to the District. Employees must have completed an application, which was required to be approved by the Board of Education. Benefits are received in four semi-annual payments beginning in the year following retirement. The payments are made through the District's special pay deferral plan. There were no early retirement benefits paid during the year ended June 30, 2004 as this was the first year the program was offered.

Revenue Bonds Payable

On September 1, 2003, the District issued School Infrastructure Sales and Services Tax Revenue Bonds. The proceeds of the bonds are to be used for an addition for a media center, cafeteria and kitchen. The bonds will be repaid by the collection of the local option sales and services tax for school infrastructure. The bonds were for \$500,000 and are secured by a Reserve Fund, which was established under the Bond Resolution. A Sinking Fund has been established into which collections of the local option sales and services tax revenues will be deposited. Interest and principal on the bonds will be paid from the Sinking Fund. Details of the District's June 30, 2004 revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of Sept 1, 2003			
	Interest Rates	Interest	Principal	Total
2005	5.50	\$ 21,735	\$ 55,000	\$ 76,735
2006	5.50	18,710	60,000	78,710
2007	5.50	15,410	60,000	75,410
2008	5.25	12,110	65,000	77,110
2009	5.25	8,697	65,000	73,697
2010	3.70	5,285	70,000	75,285
2011	3.85	<u>1,347</u>	<u>70,000</u>	<u>71,347</u>
Totals		<u>\$ 83,294</u>	<u>\$ 445,000</u>	<u>\$ 528,294</u>

Note 7. Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, 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 \$48,386, \$46,114 and \$44,104 respectively, equal to the required contributions for each year.

Note 8. 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 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$79,308 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. 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:

	Fund				
	Physical Plant and Equipment			Total Nonmajor	
	<u>General</u>	<u>Levy</u>	<u>Projects</u>	<u>Governmental</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 716,743	\$ 493,345	\$ 234,651	\$ 36,851	\$ 1,481,590
GASB Interpretation 6 adjustments	-	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 716,743</u>	<u>\$ 493,345</u>	<u>\$ 234,651</u>	36,851	1,481,590
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$819,376					<u>432,128</u>
Net assets July 1, 2003, as restated					<u>\$ 1,913,718</u>

Note 11. Construction Commitment

The District has entered into a contract totaling \$508,000 for the remodeling, renovation and addition to the media center and cafeteria. As of June 30, 2004, costs of \$353,500 had been incurred against the contract. The balance of \$154,500 remaining at June 30, 2004 will be paid as work on the project progresses. The project is expected to be completed in August 2004.

Required Supplementary Information

DELWOOD COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 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>		Actual to Final Budget <u>Variance</u>
	Funds <u>Actual</u>	Fund <u>Actual</u>		<u>Original</u>	<u>Final</u>	
Revenues						
Local sources	\$ 1,167,731	\$ 31,264	\$ 1,198,995	\$ 1,151,652	\$ 1,151,652	\$ 47,343
Intermediate sources	-	-	-	63,000	63,000	(63,000)
State sources	1,089,315	799	1,090,114	1,135,208	1,135,208	(45,094)
Federal sources	79,661	20,864	100,525	99,215	99,215	1,310
Total revenues	<u>2,336,707</u>	<u>52,927</u>	<u>2,389,634</u>	<u>2,449,075</u>	<u>2,449,075</u>	<u>(59,441)</u>
Expenditures						
Instruction	1,323,587	-	1,323,587	1,614,500	1,614,500	290,913
Support services	587,988	-	587,988	697,385	697,385	109,397
Non-instructional programs	5,883	52,227	58,110	172,970	172,970	114,860
Other expenditures	710,848	-	710,848	630,006	630,006	(80,842)
Total expenditures	<u>2,628,306</u>	<u>52,227</u>	<u>2,680,533</u>	<u>3,114,861</u>	<u>3,114,861</u>	<u>434,328</u>
Excess (deficiency) of revenues						
over (under) expenditures	(291,599)	700	(290,899)	(665,786)	(665,786)	374,887
Other financing sources, net	<u>526,551</u>	<u>1,624</u>	<u>528,175</u>	-	-	<u>528,175</u>
Excess of revenues and other financing						
sources over expenditures	234,952	2,324	237,276	(665,786)	(665,786)	903,062
Balance, beginning of year	<u>1,481,590</u>	<u>2,339</u>	<u>1,483,929</u>	<u>1,304,540</u>	<u>1,304,540</u>	<u>179,389</u>
Balance, end of year	<u>\$ 1,716,542</u>	<u>\$ 4,663</u>	<u>\$ 1,721,205</u>	<u>\$ 638,754</u>	<u>\$ 638,754</u>	<u>\$ 1,082,451</u>

See accompanying Independent Auditor's Report.

DELWOOD 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 and Agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not amend the budget.

During the year ended June 30, 2004, District expenditures exceeded the amount budgeted in the Other Expenditures function. However, the General Fund expenditures did not exceed the unspent authorized budget.

Other Supplementary Information

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

Schedule 1

	Special Revenue			
	Management	Student Activity	Debt Service	Total
ASSETS				
Cash and pooled investments	\$ 34,997	\$ 7,934	\$ 4,235	\$ 47,166
Receivables				
Property tax				
Delinquent	1,465	-	-	1,465
Succeeding year	40,000	-	-	40,000
Accrued interest	11	13	-	24
 Total assets	 \$ 76,473	 \$ 7,947	 \$ 4,235	 \$ 88,655
 LIABILITIES AND FUND EQUITY				
Liabilities				
Deferred revenue				
Succeeding year property tax	\$ 40,000	\$ -	\$ -	\$ 40,000
 Fund equity				
Unreserved fund balances	36,473	7,947	4,235	48,655
 Total liabilities and fund equity	 \$ 76,473	 \$ 7,947	 \$ 4,235	 \$ 88,655

See accompanying Independent Auditor's Report.

DELWOOD 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

	Special Revenue			
	Management Levy	Student Activity	Debt Service	Total
Revenues				
Local sources				
Local taxes	\$ 35,759	\$ -	\$ -	\$ 35,759
Other	126	5,554	4,235	9,915
State sources	22	-	-	22
Total revenues	35,907	5,554	4,235	45,696
Expenditures				
Current				
Instruction				
Regular instruction	1,562	-	-	1,562
Other instruction	-	6,082	-	6,082
Support services				
Administration services	6,885	-	-	6,885
Operation and maintenance of plant services	11,400	-	-	11,400
Transportation services	7,140	-	-	7,140
Non-instructional programs	823	-	-	823
Other expenditures				
Long-term debt				
Principal	-	-	55,000	55,000
Interest and fiscal charges	-	-	18,870	18,870
Total expenditures	27,810	6,082	73,870	107,762
Excess (deficiency) of revenues over (under) expenditures	8,097	(528)	(69,635)	(62,066)
Other financing sources				
Interfund operating transfers in	-	-	73,870	73,870
Excess (deficiency) of revenues and other financing sources over (under) expenditures	8,097	(528)	4,235	11,804
Fund balances, beginning of year	28,376	8,475	-	36,851
Fund balances, end of year	\$ 36,473	\$ 7,947	\$ 4,235	\$ 48,655

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscatine, Iowa 52761

563-264-1385

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

To the Board of Education
Delwood Community School District
Delmar, Iowa

I have audited the financial statements of the Delwood Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated September 10, 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 Delwood 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. There were no prior year statutory comments to be 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 - Expenditures for the year ended June 30, 2004 exceeded the amount budgeted in the Other Expenditures function.

Recommendation - The District should have amended the budget in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the amount budgeted.

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

Conclusion - Response accepted.

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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Delwood 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 Delwood 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 Delwood 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 Delwood 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
September 10, 2004

DELWOOD COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA