

**DENISON COMMUNITY SCHOOL DISTRICT**

**Independent Auditor's Reports**

**Basic Financial Statements  
And Supplemental Information**

**Schedule of Findings and Questioned Costs**

**June 30, 2004**

**DENISON COMMUNITY SCHOOL DISTRICT**

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**DENISON COMMUNITY SCHOOL DISTRICT**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> (Before September, 2003 Election)		
Rod Bradley	President	2003
Craig Dozark	Vice-President	2003
Brenda Martens	Board Member	2004
Kris Rowedder	Board Member	2005
Mark Johnson	Board Member	2005

**Board of Education**  
(After September, 2003 Election)

Rod Bradley	President	2006
Craig Dozark	Vice-President	2006
Brenda Martens	Board Member	2004
Kris Rowedder	Board Member	2005
Mark Johnson	Board Member	2005

**School Officials**

Mike Pardun	Superintendent	June, 2004
Larry Struck	Business Manager	June, 2004
Ruth Frazier	District Secretary	June, 2004
Terry Prickett	District Treasurer	June, 2004
Derrick R. Franck	Attorney	Indefinite

**Denison Community School District**

## Independent Auditor's Report

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

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

We conducted our audit in accordance with auditing standards, generally accepted in the United States, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Denison Community School District at June 30, 2004 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with generally accepted accounting principles of the United States. Also, the Comparison of Revenues, Expenditures and Changes in Balances – Actual to Budget (GAAP Basis) presents fairly, in all material respects, the cash transactions and the legally adopted budget for the General and each major special Revenue Fund of Denison Community School District for the year ended June 30, 2004.

During the year ended June 30, 2003, Denison 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; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – perspective differences, and Interpretation Number 6, Recognition and Measurement of certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated September 15 , 2004 on our consideration of Denison Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 17 and 44 through 46 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise Denison Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedule 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MAHONEY & ASSOCIATES, L.L.P.  
Certified Public Accountants

September 15, 2004  
Denison, Iowa

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Denison 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.

### **FINANCIAL HIGHLIGHTS**

- Denison Community School District General Fund revenues increased from \$12,285,000 in fiscal 2003 to \$12,965,835 in fiscal year 2004 while General Fund expenditures increased from \$12,178,907 to \$13,129,027. This resulted in a decrease in the District's General Fund balance from \$560,395 in FY03 to \$401,977 in FY04, a \$158,418 or 28.3% decrease from the prior year.
- The increase in General Fund revenues and expenditures is due to an increase in student population served (47.3 students, 175 students in the past three years) and a 2% increase in allowable spending per student (\$91) approved by the State of Iowa plus a cash reserve asking used to improve the fund balance.
- The negotiated settlement of 4.09% for salaries and benefits was at the state average. In order to accommodate our increase in student population additional teachers were also hired.
- One of the indicators of a district's financial health is a ratio derived by dividing the fund balance by the total revenues for the year. For Denison Community School District for FY04 the ratio is 3.1%, which is a decrease from FY03 4.6%. The Board has an arbitrary goal of 10% which, if met, would allow us not to have to borrow money from Iowa Schools Cash Anticipation Program (ISCAP) during the months of September and October to meet our financial obligations.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for governmental funds explain how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- The statements for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for fiduciary funds provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

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

Figure A-1 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-1**  
**Major Features of the District-Wide and Fund Financial Statements**

	District-wide Statements	Fund Statements	Fund Statements	Fund Statements
		Governmental Funds	Propriety Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as Physical Plant & Equipment and Management Fund	Activities the district operates similar to private businesses: e.g. School Nutrition Program	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows	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 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 year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## District-wide Statements

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

The two District-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure that District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-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 as well as tuition received from other districts or individuals.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program would be included here.

## Fund Financial Statements

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

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

The District has three kinds of funds:

- *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets

that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements.

- The District's governmental funds include the General Fund; Special Revenue Funds; Debt Service Fund and the Capital Projects Funds.
- *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
  - The Districts' 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.
- *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.
  - Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
  - Agency Fund – These are funds for which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures. Another example would be the Iowa Academic Decathlon.

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

## Financial Analysis of the District as a Whole

Net assets – Figure A-2 below provides a summary of the District’s net assets for the year ended June 30, 2004 compared to 2003.

**Figure A-2**  
**Condensed Statement of Net Assets**  
*(expressed in thousands)*

	Governmental Activities		Business Activities		Total School District		Change
	2004	2003	2004	2003	2004	2003	
Cash and other assets	7,319	6,602	255	245	7,574	6,847	727
Capital assets	4,866	4,866	71	59	4,937	4,925	12
<b>Total assets</b>	<b>14,189</b>	<b>13,471</b>	<b>2,330</b>	<b>2,307</b>	<b>14,515</b>	<b>13,775</b>	<b>739</b>
Long-term obligations	-	-	-	-	-	-	-
Other liabilities	6,224	5,656	8	16	6,232	5,672	560
<b>Total liabilities</b>	<b>6,224</b>	<b>5,656</b>	<b>8</b>	<b>16</b>	<b>6,232</b>	<b>5,672</b>	<b>560</b>
Net assets:							
Invested in capital assets, net of debt	5,186	5,152	71	60	5,257	5,212	45
Restricted	10	11	-	-	10	11	(1)
Unrestricted	765	648	247	228	1,012	876	136
<b>Total net assets</b>	<b>5,961</b>	<b>5,811</b>	<b>318</b>	<b>288</b>	<b>6,279</b>	<b>6,099</b>	<b>180</b>

The District’s combined net assets were greater at June 30, 2004 than June 30, 2003 by \$180,000. 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 decreased approximately \$1,000 over the prior year. The decrease was primarily a result of increased expenditures in the federal Title I program.

Unrestricted net assets – the part of the 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 approximately \$136,000. This increase in unrestricted net assets was a result of the passage of a local option sales tax of 1¢.

**Changes in net assets** – Figure A-3 shows the changes in net assets for the year ended June 30, 2004.

**Figure A-3**  
**Changes in Net Assets**

	FY2004	FY2003	Change
<b>Receipts</b>			
Property taxes	3,647,468	3,219,707	427,761
Other local sources	2,101,091	2,084,824	16,267
Intermediate sources	3,400	-	3,400
State aid	6,576,401	6,412,761	163,640
Other state sources	1,056,129	1,096,587	(40,458)
Federal sources	1,343,518	1,084,918	258,600
<b>Total Receipts</b>	<b>14,728,007</b>	<b>13,898,797</b>	<b>829,210</b>
<b>Disbursements</b>			
Instruction	9,349,090	8,797,838	551,252
Support services	3,855,747	3,448,961	406,786
Non-instructional programs	722,349	757,789	(35,440)
Other	700,380	686,584	13,796
<b>Total Disbursements</b>	<b>14,627,566</b>	<b>13,691,172</b>	<b>936,394</b>
<b>Changes in net assets</b>	<b>100,441</b>	<b>207,625</b>	<b>(107,184)</b>

Property tax (25%) and unrestricted state grants (45%) account for 70% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 95.8% of expenditures.

### **Governmental Activities**

Revenues for governmental activities were \$13,975,234, and expenses were \$13,905,217. As a result of the passage of a local option sales tax for school infra-structure, our fund balance showed a small increase. A negative factor was the across the board cut by the Governor which amounted to approximately \$160,000 less in state revenue.

### **Business-Type Activities**

Revenues of the District's business-type activities were \$752,773 and expenses were \$722,349. The District's business-type activities include only the School Nutrition Fund at this time. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income. This District has not increased the price of meals to students for the past four years.

## **Financial Analysis of the District's Funds**

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

The strong 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 (General Fund, Management Fund, PPEL Fund and Student Activity Fund) reported combined fund balances of \$1,094,853. This compares to \$945,062 for the prior year. The Business-type fund (School Nutrition Fund) increased \$30,424 from \$287,556 June 30, 2003 to \$317,980 June 30, 2004.

### **Governmental Fund Highlights**

- The General Fund balance decreased from \$560,395 to \$401,977 due to the across-the-board budget cut imposed by the State of Iowa equaling approximately \$160,000.
- The Physical Plant & Equipment Levy (PPEL) Fund balance increased because no capital projects were begun during the year. However, plans were in place to add classroom space by purchasing portable units that will add for classrooms and two storage rooms to our elementary school setting.
- Crawford County approved the local option 1¢ sales tax for school infra-structure. The closing balance was \$193,379. Anticipated annual revenue should be approximately \$560,000 for the Denison Community School District.

### **Proprietary Fund Highlights**

- The School Nutrition fund net assets increased from \$287,556 to \$317,980 June 30, 2004. The increase is due to an increased student enrollment and a high percentage of students participating in our food service program. An increase in the number of free/reduced qualifying students also means a greater percentage of funding is provided by federal dollars.

## **Budgetary Highlights**

In accordance with the Code of Iowa the Board of Education annually adopts a budget following required public notice and hearing for all funds, except its private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis. Over the course of the year, the District did not amend its budget. A schedule showing the original and final

budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented on the budgetary comparisons.

### **Legal Budgetary Highlights**

- The District's total actual receipts were approximately \$800,000 less than the total budgeted receipts, a variance of 7%. The most significant change resulted in the District receiving less in various components of miscellaneous income from tuition paid to the District. A second reason is that a planned renovation and asbestos removal at the Elementary School has been pushed back a year. This project is funded to a large extent, by a grant from the Federal government. This revenue stream is a reimbursable grant, which means we must make expenditures prior to receiving the grant funds.
- Total expenditures were less than budgeted due primarily for two reasons; (1) the District's budget for the Physical Plant & Equipment Fund delaying the proposed improvements to the Elementary School and (2) the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

### **Capital Asset and Debt Administration**

- At June 30, 2004, the District had invested \$4.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings athletic facilities, computers and audio-visual equipment and transportation equipment. This amount represents a net decrease of \$329 from last year. Depreciation expense for the year exceeded \$320,000.
- Excluding depreciation, the District has \$11.6 million in capital assets in Governmental funds and an additional \$.6 million in the Nutrition Fund.
- Significant capital assets activity was at the elementary school. Because of the increase in student population, a set of four portable classrooms were purchased during the summer of 2004 and completed just before the beginning of school. The total cost of that project was just under \$180,000.

**Figure A-4**  
**Capital Assets, net of depreciation**

	FY2004	FY2003	Change
<b>Land</b>	113,780	113,780	-
<b>Buildings</b>	3,957,441	4,085,040	(127,599)
<b>Land Improvements</b>	332,188	351,971	(19,783)
<b>Machinery &amp; Equipment</b>	107,526	67,817	39,709
<b>Licensed Vehicles</b>	355,192	247,848	107,344
<b>Capital assets, net</b>	4,866,127	4,866,456	(329)

### Long-Term Debt

- At June 30, 2004, the District was free from long-term debt.
- The District participates in Iowa Schools Cash Anticipation Program (ISCAP) which allows districts to borrow from a pool to meet short term cash flow shortages and repay when property tax becomes available.

### 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:

- As with most rural districts in the state, Denison experienced a decrease in farmland value of 20% which resulted in a net decrease of 7.5% in total district valuation.
- The sale of the largest employer has helped stabilize their future. There is also exists expansion plans for current packing plants and the possibility of a new plant locating here as well as the construction of an ethanol plant. Our community is poised to see growth in our economy. Bold steps by the city have been undertaken to rejuvenate our downtown area and plans for a community center along with another motel are also in place.
- The District has been experiencing a growth cycle and indicators show this to continue for the near future. All the three buildings of the District are full. The District is developing a building plan to help space needs at 20<sup>th</sup> Street Elementary and a replacement for the Middle School, which is an aging facility that has safety concerns as well as inadequate classroom space.

- The District must continue to replace an aging transportation fleet at the rate of two-three vehicles per year totaling an annual contribution of up to \$150,000.
- The economy of the State of Iowa continues to be a concern and the lack of adequate funding to meet the needs of all students in the state will present challenges for all schools. The legislature has approved an allowable growth of 2% for FY05 and set a 4% figure for FY06.

### **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 Larry Struck, District Business Manager, Denison Community School District, 819 North 16<sup>th</sup> Street, Denison, Iowa, 51442, telephone: 712-263-2176. Mr. Struck's email address: [lstruck@denison.k12.ia.us](mailto:lstruck@denison.k12.ia.us).

**Basic Financial Statements**

Denison Community School District  
Statement of Net Assets  
June 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and cash equivalents:			
ISCAP (note 3)	\$ 1,619,732	-	\$ 1,619,732
Other	2,135,044	240,751	2,375,795
Receivables:			
Property tax:			
Delinquent	61,915	-	61,915
Succeeding year	3,108,568	-	3,108,568
Other Assets	-	10	10
Accrued interest	672	-	672
Due from other governments	383,026	-	383,026
Inventories	9,997	14,093	24,090
Capital assets, net of accumulated depreciation (note 4)	4,866,127	71,418	4,937,545
<b>Total assets</b>	<b>12,185,081</b>	<b>326,272</b>	<b>12,511,353</b>
<b>Liabilities</b>			
Accounts payable	378,875	3,483	382,358
Salaries and benefits payable	1,103,313	-	1,103,313
Due to other governments			
Other current liabilities	-	4,809	4,809
Deferred revenue -			
Succeeding year property tax	3,108,568	-	3,108,568
ISCAP warrants payable (note 3)	1,611,000	-	1,611,000
Compensated absences	22,345	-	22,345
<b>Total liabilities</b>	<b>6,224,101</b>	<b>8,292</b>	<b>6,232,393</b>

Denison Community School District  
Statement of Net Assets  
June 30, 2004

	Governmental Activities	Business-type Activities	Total
<b>Net assets</b>			
Invested in capital assets, net of related debt	5,186,267	71,418	5,257,685
Restricted for:			
Inventories	9,997	-	9,997
Unrestricted	764,716	246,562	1,011,278
<b>Total net assets</b>	<b>\$ 5,960,980</b>	<b>317,980</b>	<b>\$ 6,278,960</b>

Denison Community School District  
Statement of Activities  
Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Service	Operating Grants Contributions & Restricted Interest	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
Instruction:						
Regular instruction	\$5,317,454	758,932	1,225,118	(3,333,404)	-	(3,333,404)
Special instruction	1,742,179	504,875	103,497	(1,133,807)	-	(1,133,807)
Other instruction	2,294,581	492,533	73,124	(1,728,924)	-	(1,728,924)
	<u>9,354,214</u>	<u>1,756,340</u>	<u>1,401,739</u>	<u>(6,196,135)</u>	<u>-</u>	<u>(6,196,135)</u>
Support services						
Student services	441,019	-	-	(441,019)	-	(441,019)
Instructional staff services	386,841	-	-	(386,841)	-	(386,841)
Administration services	1,246,872	-	-	(1,246,872)	-	(1,246,872)
Operation and maintenance of plant services	1,326,656	6,652	-	(1,320,004)	-	(1,320,004)
Transportation services	623,472	25,970	43,528	(553,974)	-	(553,974)
	<u>4,024,860</u>	<u>32,622</u>	<u>43,528</u>	<u>(3,948,710)</u>	<u>-</u>	<u>(3,948,710)</u>
Other expenditures:						
AEA flowthrough	499,208	-	499,208	-	-	-
Depreciation (unallocated)*	27,264	-	-	(27,264)	-	(27,264)
	<u>526,472</u>	<u>-</u>	<u>499,208</u>	<u>(27,264)</u>	<u>-</u>	<u>(27,264)</u>
Total governmental activities	13,905,546	1,788,962	1,944,475	(10,172,109)	-	(10,172,109)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	722,349	302,351	448,755	-	28,757	28,757
Total	<u>\$14,627,895</u>	<u>2,091,313</u>	<u>2,393,230</u>	<u>(10,172,109)</u>	<u>28,757</u>	<u>(10,143,352)</u>
<b>General Revenues:</b>						
Property tax levied for:						
General purposes				\$3,647,468	-	\$3,647,468
Unrestricted state grants				6,576,401	-	6,576,401
Unrestricted investment earnings				8,704	1,667	10,371
Other				88,998	-	88,998
Total general revenues				<u>10,321,571</u>	<u>1,667</u>	<u>10,323,238</u>
Change in net assets				149,462	30,424	179,886
Net assets beginning or year				<u>5,811,518</u>	<u>287,556</u>	<u>6,099,074</u>
Net assets end of year				<u>\$5,960,980</u>	<u>317,980</u>	<u>\$6,278,960</u>

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

See notes to financial statements.

Denison Community School District  
Balance Sheet  
Governmental Funds  
June 30, 2004

	General	Capital Projects	Nonmajor Special Revenue	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP (note 3)	\$1,619,732	-	-	\$1,619,732
Other	1,441,126	193,256	500,662	2,135,044
Receivables:				
Property tax:				
Delinquent	58,508	-	3,407	61,915
Succeeding year	2,956,911	-	151,657	3,108,568
Other	672	-	-	672
Due from other governments	383,026	-	-	383,026
Inventories	9,997	-	-	9,997
<b>Total assets</b>	<b>\$6,469,972</b>	<b>\$193,256</b>	<b>\$655,726</b>	<b>\$7,318,954</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts Payable	\$374,426	-	\$4,449	\$378,875
Salaries and benefits payable	1,103,313	-	-	1,103,313
ISCAP warrants payable (note 3)	1,611,000	-	-	1,611,000
Compensated Absences	22,345	-	-	22,345
Deferred revenue:				
Succeeding year property tax	2,956,911	-	151,657	3,108,568
<b>Total liabilities</b>	<b>6,067,995</b>	<b>-</b>	<b>156,106</b>	<b>6,224,101</b>
Fund balances:				
Reserved for:				
Inventories	9,997	-	-	9,997
Unreserved	391,980	193,256	499,620	1,084,856
<b>Total fund balances</b>	<b>401,977</b>	<b>193,256</b>	<b>499,620</b>	<b>1,094,853</b>
<b>Total liabilities and fund balances</b>	<b>\$6,469,972</b>	<b>\$193,256</b>	<b>\$655,726</b>	<b>\$7,318,954</b>

See notes to financial statements.

Denison Community School District  
Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets  
June 30, 2004

**Total fund balances of governmental funds (page 22)** \$1,094,853

*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.

4,866,127

**Net assets of governmental activities (page 20)** \$5,960,980

Denison Community School District  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
Year ended June 30, 2004

	General	Capital Projects	Nonmajor Special Revenue	Total
<b>Revenues:</b>				
Local sources:				
Local tax	\$3,134,383	\$198,771	\$314,314	\$3,647,468
Tuition	1,176,857	-	-	1,176,857
Other	124,056	362	495,798	620,216
Intermediate Source	3,400	-	-	3,400
State sources	7,616,816	-	154	7,616,970
Federal sources	910,323	-	-	910,323
Total revenues	<u>12,965,835</u>	<u>199,133</u>	<u>810,266</u>	<u>13,975,234</u>
<b>Expenditures:</b>				
Current				
Instruction:				
Regular instruction	5,312,309	-	-	5,312,309
Special instruction	1,742,179	-	-	1,742,179
Other instruction	1,772,829	-	521,773	2,294,602
	<u>8,827,317</u>	<u>-</u>	<u>521,773</u>	<u>9,349,090</u>
Support services:				
Student services	410,391	-	-	410,391
Instructional staff services	359,976	-	-	359,976
Administration services	1,157,814	-	1,950	1,159,764
Operation and maintenance of plant services	1,178,860	-	42,995	1,221,855
Other support services	16,244	-	-	16,244
Transportation services	679,217	-	8,300	687,517
	<u>3,802,502</u>	<u>-</u>	<u>53,245</u>	<u>3,855,747</u>
Other expenditures:				
Facilities acquisition	-	5,877	195,295	201,172
AEA flowthrough	499,208	-	-	499,208
	<u>499,208</u>	<u>5,877</u>	<u>195,295</u>	<u>700,380</u>
Total expenditures	<u>13,129,027</u>	<u>5,877</u>	<u>770,313</u>	<u>13,905,217</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(163,192)</u>	<u>193,256</u>	<u>39,953</u>	<u>70,017</u>
<b>Other financing sources:</b>				
Sale of Property (Note 5)	-	-	75,000	75,000
Sales of equipment	4,774	-	-	4,774
Total other financing sources	<u>4,774</u>	<u>-</u>	<u>75,000</u>	<u>79,774</u>
Net change in fund balances	(158,418)	193,256	114,953	149,791
Fund balances beginning of year	560,395	-	384,667	945,062
Fund balances end of year	<u>\$401,977</u>	<u>\$193,256</u>	<u>\$499,620</u>	<u>\$1,094,853</u>

See notes to financial statements.

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Denison Community School District  
Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities  
Year ended June 30, 2004

**Net change in fund balances - total governmental funds (page 24)** \$ 149,791

*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	\$ 319,811	
Depreciation expense	<u>(320,140)</u>	
		<u>(329)</u>

**Change in net assets of governmental activities (page 21)** \$ 149,462

Denison Community School District  
Statement of Net Assets  
Proprietary Fund  
June 30, 2004

	School Nutrition
<b>Assets</b>	
Cash and cash equivalents	\$ 240,751
Other current assets	10
Inventories	14,093
Capital assets, net of accumulated depreciation	71,418
<b>Total assets</b>	<b>\$ 326,272</b>
 <b>Liabilities</b>	
Accounts payable	\$ 3,483
Other current liabilities	4,809
<b>Total liabilities</b>	<b>8,292</b>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	71,418
Unrestricted	246,562
<b>Total net assets</b>	<b>\$ 317,980</b>

See notes to financial statements.

Denison Community School District  
 Statement of Revenues, Expenses and Changes in Net Assets  
 Proprietary Fund  
 Year ended June 30, 2004

	School Nutrition
Operating revenue:	
Local sources:	
Charges for service	\$ 302,351
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries and benefits	252,635
Benefits	37,414
Purchased services	4,819
Supplies	413,720
Depreciation	10,484
Other	3,277
Total operating expenses	722,349
(Loss) from operations	(419,998)
Non-operating revenue:	
State sources	15,560
Federal sources	433,195
Interest on investments	1,667
Total non-operating revenue	450,422
Change in net assets	30,424
Net assets beginning of year	287,556
Net assets end of year	\$ 317,980

See notes to financial statements.

Denison Community School District  
 Statement of Cash Flows  
 Proprietary Fund  
 Year Ended June 30, 2004

	School Nutrition
Cash flows from operating activities:	
Cash received from sale of lunches and breakfast	\$ 248,470
Cash received from miscellaneous operating activities	53,881
Cash payments to employees for services	(290,049)
Cash payments to suppliers for goods or services	<u>(367,152)</u>
Net cash (used) in operating activities	<u><u>(354,850)</u></u>
 Cash flows from non-capital financing activities:	
State grants received	15,560
Federal grants received	<u>381,154</u>
Net cash provided by non-capital financing activities	<u>396,714</u>
 Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(19,647)</u>
Net cash (used) in capital and related financing activities	<u>(19,647)</u>
 Cash flows from investing activities:	
Interest on investments	<u>1,667</u>
 Net increase in cash and cash equivalents	23,884
 Cash and cash equivalents at beginning of year	<u>216,867</u>
Cash and cash equivalents at end of year	<u><u>\$ 240,751</u></u>

Denison Community School District  
 Statement of Cash Flows  
 Proprietary Fund  
 Year Ended June 30, 2004

	School Nutrition
<b>Reconciliation of operating (loss) to net cash (used) in operating activities:</b>	
(Loss) from operations	\$ (419,998)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities used	62,514
Depreciation	7,756
Decrease in inventories	1,007
Decrease in other assets	2,060
(Decrease) in due to other governments	(7,513)
(Decrease) in deferred revenue	(676)
Net cash (used) in operating activities	\$ (354,850)

Non-cash investing, capital and financing activities:  
 During the year ended June 30, 2004, the District received \$52,041 of federal commodities.

See notes to financial statements.

Denison Community School District  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2004

	<u>Private Purpose Trusts</u>	
	<u>Scholarships</u>	<u>Agency</u>
<b>Assets</b>		
Cash and pooled investments	\$ 33,408	\$ 2,823
Total assets	<u>33,408</u>	<u>2,823</u>
<b>Liabilities</b>		
Accounts payable	-	2,823
Due to other governments	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>2,823</u>
<b>Net assets</b>		
Reserved for scholarships	<u>\$ 33,408</u>	<u>\$ -</u>

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See notes to financial statements.

Denison Community School District  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds  
Year ended June 30, 2004

	<u>Private Purpose Trusts</u>
	<u>Scholarships</u>
Additions:	
Local sources:	
Gifts and contributions	\$ 2,500
Interest	174
Total additions	<u>2,674</u>
Deductions:	
Support services:	
Scholarships awarded	<u>4,750</u>
Change in net assets	(2,076)
Net assets beginning of year	<u>23,103</u>
Net assets end of year	<u><u>\$ 21,027</u></u>

See notes to financial statements.

Denison Community School District

Notes to Financial Statements

June 30, 2004

(1) **Summary of Significant Accounting Policies**

The Denison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the Cities of Denison, Kiron, Deloit, Schleswig and a small portion of rural Ida County and the predominate agricultural territory in Crawford County. 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, Denison Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Denison Community School District has no component units, which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations – The District participates in a jointly governed organization that provided 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 Crawford County Assessor's Conference Board.

B. Basis of Presentation

District-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.

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.

B. Basis of Presentation, continued

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expense of a given function are offset by program revenues. Direct expenses are those that are 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 and contributions that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements – Separate financial statements are provided for governmental funds, proprietary funds, 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. Paid from the fund are the general operating expenditures and fixed charges that are not paid from other funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and Construction of capital facilities.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

Fiduciary Funds

Trust Funds – The Trust Funds are used to account for assets held by the District in a trustee capacity. These include Expendable Trust Funds which are accounted for in essentially the same manner as Governmental Funds.

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

C. Measurement Focus and Basis of Accounting

The District-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The District-wide and proprietary fund financial statements are reported using 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 District considers revenues to be available if they are collected within 60 days after year end.

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

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

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

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

The assets and liabilities of the Agency Fund are accounted for using the modified accrual basis of accounting.

C. Measurement Focus and Basis of Accounting, continued

The District maintains its financial records on the modified accrual basis and the accrual basis, depending upon the fund as described above.

D. Budgets, Budgetary Accounting and Budgetary Commitments

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 blended component units, internal service, non-expendable trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the modified accrual basis of accounting for all funds except for the Proprietary Fund which is prepared on the accrual basis of accounting.

Encumbrances pertain to commitments related to unperformed contracts for goods or services. Used in budgeting, encumbrances are not expenditures or liabilities. Encumbrances represent the estimated amount of expenditures which may result if the unperformed contracts in process are completed. The District is not required to use encumbrance accounting, and, accordingly, commitments related to unperformed contracts for goods or services have not been recorded by the District.

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.

Exhibit E is a comparison of modified accrual and accrual basis revenues, expenditures or expenses and changes in balance with the GAAP basis budget, which is legally controlled by functional areas, not fund type.

E. Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the combined 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.

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. Cash investments not meeting the definition of cash equivalents at June 30, 2004 included certificates of deposit with maturity dates longer than three months.

Property Tax Receivable

Property tax in Governmental funds are accounted for using the modified accrual basis of accounting. Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education to the County Board of Supervisors. Delinquent property taxes receivable represents unpaid taxes from 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 Board of Education is required to certify its budget to the County Auditor by April 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred 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 11/2% 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 and Due to Other Funds – During the course of its operations, the District may have certain transactions between funds. To the extent that these transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded.

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 contributed value for government commodities.

Capital Assets – Capital assets, which include property, site improvements, equipment and vehicles, are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. 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. Reportable capital assets are defined by the District as assets with initial, individual costs in excess of the following thresholds and estimated useful lives greater than one reporting period.

Equipment and vehicles \$ 2,500

Property and equipment of the District is depreciated using the straight line method with a full month over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (in years)</u>
School Buildings	50
Site Improvements	25
Equipment	5
Licensed Vehicles	7

Proprietary Fund Assets or Business-Type

Enterprise fund type property and equipment is accounted for at historical cost for assets with a useful life greater than one reporting period and with a value of at least \$500. Depreciation is recorded over 12 years, using the straight-line method.

During the year ended June 30, 2004, no interest costs were capitalized since the District's policy is not to capitalize interest costs on assets constructed or acquired with tax-exempt debt paid for from annual debt service tax levies.

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

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collectible 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, the succeeding year property tax receivable, as well as delinquent property tax receivable and other receivables not collected within sixty days after year end.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2003. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Estimates - The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Long-term liabilities - In the District-wide financial statements and the proprietary fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets.

Fund Balances - 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. The District has designated a portion of its fund balance for cash flow as well as providing for a potential emergency.

Restricted Net Assets – In the District-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.

Budgets 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.

F. Total (Memorandum Only)

The total columns of the financial statements are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles of the United States. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$1,221 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 lever of risk assumed by the District at year end. The District’s investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Iowa School Cash Anticipation Program (ISCAP)**

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004B	1/30/04	1/28/05	\$ -0-	-0-	-0-	-0-
2004A	6/20/03	6/18/04	\$ -0-	-0-	-0-	-0-
2005A	6/30/04	6/30/05	\$1,619,732	22,345	1,611,000	48,330
			<u>\$1,619,732</u>	<u>22,345</u>	<u>1,611,000</u>	<u>48,330</u>

**(3) Iowa School Cash Anticipation Program (ISCAP) continued**

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

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-2004A	\$ 0	520,000	520,000	0

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

Series	Interest Rates on Warrants	Interest Rates On Investments
2003-2004A	2.0%	1.0501%
2003-2004B	2.0%	1.3100%
2004-2005A	3.0 %	2.4630%

(4) **Capital Assets**

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

	Balance Beginning of year	Additions	Deletions/ Reclasses	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 113,780	-	-	113,780
Total capital assets not being depreciated	<u>113,780</u>	-	-	<u>113,780</u>
Capital assets being depreciated:				
Buildings	7,546,669	42,162	-	7,588,831
Land Improvements	494,583	-	-	494,583
Machinery and equipment	2,117,475	90,749	87,462	2,120,762
Licensed Vehicles	<u>1,119,374</u>	<u>186,900</u>	-	<u>1,306,274</u>
Total capital assets being depreciated	<u>11,278,101</u>	<u>319,811</u>	<u>87,462</u>	<u>11,510,450</u>
Less accumulated depreciation for:				
Buildings	3,461,629	169,761	-	3,631,390
Land Improvement	142,612	19,783	-	162,395
Machinery and equipment	2,049,658	51,040	87,462	2,013,236
Licensed Vehicles	<u>871,526</u>	<u>79,556</u>	-	<u>951,082</u>
Total accumulated depreciation	<u>6,525,425</u>	<u>320,140</u>	<u>87,462</u>	<u>6,758,103</u>
Total capital assets being depreciated, net	<u>4,752,676</u>	<u>( 329)</u>	-	<u>4,752,347</u>
Governmental activities capital assets, net	<u>4,866,456</u>	<u>( 329)</u>	-	<u>4,866,127</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:	
Instruction	\$ 5,145
Operations-Plant Maintenance	200,333
Transportation	79,556
Support-Administration	515
Support-Instruction	7,327
Unallocated	<u>27,264</u>
Total depreciation expense – governmental activities	\$ <u>320,140</u>

**(5) Sale of Properties**

During the 1998-1999 fiscal year, the District sold two certain properties to two separate entities. The first property was sold for \$125,000 and had a historical cost of \$751. The total sale proceeds of \$125,000 was received and deposited into the PPEL Fund during such fiscal year. This was reported as an other financing source of the Statement of Revenues, Expenditures and Changes in Fund Balance for Special Revenue Funds. The second property was sold for a total of \$200,000 and had a historical cost of \$20,000. The amount of funds that the District received during such fiscal year totaled \$125,000 which was promptly deposited into the PPEL Fund. This was also reported as an other financing source as noted above. The remaining balance due to the District of \$75,000 was payable at the end of five years. The outstanding balance due had been reported on the Balance Sheet under Special Revenue Funds as a Contract Receivable and been offset with the liability account Deferred Revenues. The District has received the remaining funds, these accounts were decreased accordingly.

**(6) Early Retirement**

The District offers a voluntary early retirement plan to any full-time District employee who is presently covered by the District's insurance program, is presently under contract, has been with the District for ten or more years, and who on July 1 of the retirement year is 55 years of age or older and less than 64 years of age. Employers must complete an application which is required to be approved by the Board of Education. The District provides a minimum benefit of \$75 per month for the monthly premium for single or family health and major medical insurance coverage. Early retirement benefits paid during the year ended June 30, 2004 totaled \$33,703.

**(7) Pension and Retirement Benefits**

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$481,943, \$460,520 and \$448,055 respectively, equal to the required contributions for each year.

**(8) Risk Management**

The District is a member in the Iowa School Employees Benefits Association, an Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (the Association) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. There were no District contributions to the Association for the year ended June 30, 2004.

Payments from participating members are the sole source for paying claims and establishing reserves for the Association self-funded programs. Stop loss insurance is purchased by the Association to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2004 no liability has been recorded in the District's financial statements. As of June 30, 2004 settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. The Association will pay claims incurred before the termination date.

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.

**(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 \$ 499,208 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the financial statements.

**Required Supplementary Information**

Denison Community School District  
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
 Budget and Actual (GAAP Basis) - All Governmental Funds and Proprietary Fund  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual	Total Actual	Budgeted Original	Amounts Final	Final to Actual Variance- Positive (Negative)
<b>Receipts:</b>						
Local sources	\$ 5,444,541	\$ 304,018	\$ 5,748,559	\$ 6,242,959	\$ 6,242,959	\$ (494,400)
Intermediate sources	3,400	-	3,400	10,000	10,000	(6,600)
State sources	7,616,970	15,560	7,632,530	7,915,551	7,915,551	(283,021)
Federal sources	910,323	433,195	1,343,518	2,144,000	2,144,000	(800,482)
Total receipts	<u>13,975,234</u>	<u>752,773</u>	<u>14,728,007</u>	<u>16,312,510</u>	<u>16,312,510</u>	<u>(1,584,503)</u>
<b>Disbursements:</b>						
Instruction	9,349,090	-	9,349,090	9,855,000	9,855,000	505,910
Support services	3,855,747	-	3,855,747	4,198,400	4,198,400	342,653
Non-instructional programs	-	722,349	722,349	916,117	916,117	193,768
Other expenditures	700,380	-	700,380	1,915,076	1,915,076	1,214,696
Total disbursements	<u>13,905,217</u>	<u>722,349</u>	<u>14,627,566</u>	<u>16,884,593</u>	<u>16,884,593</u>	<u>2,257,027</u>
Deficiency of receipts under disbursements	70,017	30,424	100,441	(572,083)	(572,083)	672,524
Other financing sources, net	<u>79,774</u>	<u>-</u>	<u>79,774</u>	<u>60,000</u>	<u>60,000</u>	<u>19,774</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	149,791	30,424	180,215	<u>\$ (512,083)</u>	<u>\$ (512,083)</u>	<u>\$ 692,298</u>
Balances beginning of year	<u>945,062</u>	<u>287,556</u>	<u>1,232,618</u>			
Balances end of year	<u>\$ 1,094,853</u>	<u>\$ 317,980</u>	<u>\$ 1,412,833</u>			

See accompanying independent auditor's report.

DENISON COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule – Budget to GAAP Reconciliation

Required Supplementary Information  
Year Ended June 30, 2004

The Denison Community School District prepares its budget on the GAAP basis of accounting. Therefore, there is no reconciliation to prepare.

See accompanying independent auditor's report.

DENISON COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

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 disbursements by fund, the legal level of control is at the aggregated functional level, not at the 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.

The District budget is prepared on the GAAP basis. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

**Other Supplementary Information**

Denison Community School District  
 Combining Balance Sheet  
 Nonmajor Special Revenue Funds  
 June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 77,008	119,240	304,414	500,662
Receivables:				
Property tax				
Succeeding year	75,000	-	76,657	151,657
Current year delinquent	1,399	-	2,008	3,407
<b>Total assets</b>	<b>\$ 153,407</b>	<b>119,240</b>	<b>383,079</b>	<b>655,726</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ -	4,449	-	4,449
Deferred revenues				
Succeeding year property tax	75,000	-	76,657	151,657
Total liabilities	75,000	4,449	76,657	156,106
Fund equity:				
Unreserved, undesignated fund balance	78,407	114,791	306,422	499,620
<b>Total liabilities and fund equity</b>	<b>\$ 153,407</b>	<b>119,240</b>	<b>383,079</b>	<b>655,726</b>

See accompanying independent auditor's report.

## Denison Community School District

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

## Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management Levy	Student Activity	Physical Plant and Equipment Levy	Total
<b>Revenues</b>				
Local sources:				
Local tax	74,853	-	239,461	314,314
Other	631	492,533	2,634	495,798
State sources	64	-	90	154
Total revenues	<u>75,548</u>	<u>492,533</u>	<u>242,185</u>	<u>810,266</u>
<b>Expenditures:</b>				
Current				
Instruction:				
Other instruction	18,571	503,202	-	521,773
Support services:				
Administration services	1,950	-	-	1,950
Operation and maintenance of plant services	42,995	-	-	42,995
Transportation	8,300	-	-	8,300
Other expenditures:				
Facilities acquisition	0	-	195,295	195,295
Total expenditures	<u>71,816</u>	<u>503,202</u>	<u>195,295</u>	<u>770,313</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,732</u>	<u>(10,669)</u>	<u>46,890</u>	<u>39,953</u>
<b>Other financing sources (uses):</b>				
Sale of property	-	-	75,000	75,000
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>75,000</u>	<u>75,000</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>3,732</u>	<u>(10,669)</u>	<u>121,890</u>	<u>114,953</u>
Fund balances beginning of year	<u>74,675</u>	<u>125,460</u>	<u>184,532</u>	<u>384,667</u>
Fund balances end of year	<u>\$78,407</u>	<u>114,791</u>	<u>306,422</u>	<u>499,620</u>

See accompanying independent auditor's report.

## Denison Community School District

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Academic Decathlon	\$ 737	3,854	4,640	(49)
Activity Ticket	-	9,329	9,121	208
All Sport Fitness	(192)	275	-	83
Armory Pop Fund	1,286	1,287	887	1,686
Art Club	900	6,474	4,451	2,923
Athletics	-	76,949	78,698	(1,749)
Band	1,543	3,991	4,538	996
Baseball Club	12,159	41,418	35,903	17,674
Basketball Club	1,139	8,950	9,434	655
Boys Golf Club	2,473	3,441	3,249	2,665
Boys Soccer Club	451	7,337	7,729	59
Boys Tennis Club	202	139	239	102
Builders Club	77	-	-	77
Business 2000	1,878	55	1,848	85
Cheerleaders	3,786	12,018	13,587	2,217
Class of:				
2003	840	-	840	-
2004	1,785	1,925	3,710	-
2005	949	3,450	2,177	2,222
2006	483	633	76	1,040
2007	-	570	93	477
Community Service	50	-	-	50
Concessions	0	16,725	16,725	-
Cross Country	2,138	4,082	4,475	1,645
Dance Team	19	-	19	-
Destination Imagination	4,423	18	3,576	865
Do Something	-	250	-	250
Drama	4,214	2,062	1,758	4,518
Drama Rental	287	-	-	287
Elementary Activity	18,249	26,549	34,286	10,512
Elementary D.I.	170	398	436	132
Elementary Faculty Pop	660	3,707	3,666	701
Elementary Mentor	4,814	10,605	1,234	14,185
FBLA	57	-	57	-
FCA	200	81	151	130
FCCLA	273	3,297	3,034	536
FFA	20,021	48,558	51,851	16,728
FFA Canada Trip	(1,720)	2,621	184	717
Fitness Center	1,832	5,009	4,768	2,073
Football Club	4,635	2,174	9,129	(2,320)
Forensics	-	2,693	4,445	(1,752)
Girls Basketball Camp	2,247	18,213	15,958	4,502
Girls Golf Club	9	305	345	(31)

## Denison Community School District

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
Girls Soccer Club	5,570	9,470	9,246	5,794
Girls Tennis Club	38	1,719	1,413	344
Girls Track	811	1,342	2,312	(159)
Health Careers Club	2,331	393	513	2,211
High School D.I.	424	395	176	643
High School Faculty Pop	384	3,330	3,400	314
High School Pop Fund	-	18,298	18,298	-
Industrial Arts Club	392	60	30	422
Insufficient Checks	(400)	156	188	(432)
Interest	-	1,331	1,331	-
Java Den	318	130	26	422
Middle School Activity	3,500	48,043	42,520	9,023
Middle School Athletics	-	6,735	6,735	-
Middle School Band	2,540	1,756	2,493	1,803
Middle School Concessions	432	1,049	1,252	229
Middle School D.I.	427	73	293	207
Middle School Faculty Pop	799	2,609	2,275	1,133
Monarch Athletic Club	58	-	-	58
Musical	4,878	7,498	5,961	6,415
National Honor Society	(430)	260	443	(613)
Peer Mediation	186	-	-	186
Renaissance Fund	1,590	1,009	1,211	1,388
Show Choir	(1,529)	8,614	5,835	1,250
Softball Club	1,255	3,951	4,013	1,193
Student Ambassadors	5,950	1,415	5,531	1,834
Student Senate	2,214	25,653	27,335	532
Students Assistance	1,168	978	727	1,419
Track Club	(607)	2,215	2,192	(584)
Vocal	894	4,481	4,930	445
Volleyball Club	1,180	5,249	5,573	856
World Language Club	603	-	-	603
Wrestling Club	368	730	20	1,078
Yearbook	(2,958)	4,150	9,514	(8,322)
Total	\$ 125,460	492,534	503,203	\$ 114,791

See accompanying independent auditor's report.

Denison Community School District  
 Schedule of Changes in Fiduciary Assets and Liabilities -  
 Agency Fund  
 Year ended June 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 1,374	\$ 99,665	\$ 98,216	\$ 2,823
Due from other governments	45	80,985	81,030	-
<b>Total assets</b>	<b>\$ 1,419</b>	<b>\$ 180,650</b>	<b>\$ 179,246</b>	<b>\$ 2,823</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,419	\$ 99,665	\$ 98,261	\$ 2,823
Due to other governments	-	80,985	80,985	-
<b>Total liabilities</b>	<b>\$ 1,419</b>	<b>\$ 180,650</b>	<b>\$ 179,246</b>	<b>\$ 2,823</b>

See accompanying independent auditor's report.

Denison Community School District  
 Schedule of Revenues by Source and Expenditures by Function  
 All Governmental Fund Types  
 For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$3,647,468	\$3,219,707	\$3,143,524	\$2,989,666
Tuition	1,176,857	1,043,826	1,120,031	1,037,200
Other	620,216	720,347	690,089	802,646
Intermediate sources	3,400	-	-	2,850
State sources	7,616,970	7,494,532	6,969,104	6,744,547
Federal sources	910,323	612,030	485,205	529,026
Total	<u>\$13,975,234</u>	<u>\$13,090,442</u>	<u>\$12,407,953</u>	<u>\$12,105,935</u>
Expenditures:				
Instruction:				
Regular instruction	\$5,312,309	\$5,072,937	\$5,036,267	\$4,912,365
Special instruction	1,742,179	1,578,408	1,496,509	1,410,626
Other instruction	2,294,602	2,146,493	1,983,755	1,815,664
Support services:				
Student services	410,391	383,120	357,956	336,299
Instructional staff services	359,976	315,784	335,958	303,024
Administration services	1,159,764	1,074,188	1,037,675	984,332
Operation and maintenance of plant services	1,221,855	1,103,173	1,072,446	1,035,097
Other support services	16,244	-	-	-
Transportation services	687,517	572,696	410,288	516,011
Other expenditures:				
Facilities acquisition	201,172	177,486	429,326	298,526
Long-term debt:				
Principal	-	-	185,000	175,000
Interest and other charges	-	-	13,435	25,773
AEA flowthrough	499,208	509,098	489,197	485,769
Total	<u>\$13,905,217</u>	<u>\$12,933,383</u>	<u>\$12,847,812</u>	<u>\$12,298,486</u>

See accompanying independent auditor's report.

Denison Community School District  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2004

Grantor/Program	CFDA Number	Grant Number	Expend- itures
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Donation (non-cash)	10.550	FY04	<u>\$52,041</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY04	62,510
National School Lunch Program	10.555	FY04	<u>318,644</u>
			<u>381,154</u>
U.S. Department of Education			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY04	<u>651,846</u>
Vocational Education - Basic Grants to States	84.048	FY04	<u>60,530</u>
Perkins Basic Grant	84.048A	FY04	<u>56,420</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY04	<u>6,278</u>
Special Education - Grants to States	84.027	FY04	<u>74,585</u>
Improving Teacher Quality State Grants	84.367	FY04	<u>79,053</u>
Grants for Assessments & Related Activities (Title VI A)	84.369	FY04	<u>8,885</u>
Innovative Education Program Strategies (Title VI Program)	84.298	FY04	<u>15,714</u>
2004 SIG/Career Ladder Grant	84.323	FY04	<u>2,782</u>
Total			<u><u>\$1,389,288</u></u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Sample GASB 34 Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

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

To the Board of Education of  
Denison Community School District

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

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

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Of the reportable conditions described above, we do not believe any of them a material weakness. Prior year reportable conditions have all been resolved except for items II-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Denison Community School District and other parties to whom Denison Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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

MAHONEY & ASSOCIATES, L.L.P.  
Certified Public Accountants

September 15 , 2004  
Denison, Iowa

**Independent Auditor's Report on Compliance with  
Requirements Applicable to Each  
Major Program and Internal Control over Compliance**

**Denison Community School District**

Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance

To the Board of Education of  
Denison Community School District

Compliance

We have audited the compliance of Denison Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Denison Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Denison Community School District's management. Our responsibility is to express an opinion on Denison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States, 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 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Denison Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Denison Community School District's compliance with those requirements.

In our opinion, Denison Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Denison Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Denison Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Denison Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

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 non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance 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. Of the reportable conditions described above, we do not believe any of them are 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 Denison Community School District and other parties to whom Denison Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

MAHONEY & ASSOCIATES, L.L.P.  
Certified Public Accountants

September 15, 2004  
Denison, Iowa

Denison Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results:**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which were considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, none of which were considered to be a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 – Title I Grants to Local Educational Agencies
  - Clustered programs:
    - CFDA Number 10.553 – School Breakfast Program
    - CFDA Number 10.555 – National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$500,000.
- (i) Denison Community School District did not qualify as a low-risk auditee.

Denison Community School District  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

- II-A-04 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. It is recognized that the District has made every reasonable effort to segregate these duties. Because of limited staff, the District is not able to segregate all incompatible duties.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances. Supervisory review of financial transactions and reports is extremely important when incompatible responsibilities cannot be segregated.

Response – We are aware of the need to segregate incompatible duties. We will continue to make improvements where feasible.

Conclusion – Response acknowledged. The District could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Financial Procedures and Reporting – We noted certain transactions including payroll, that were incorrectly posted, both by account and date, or were changed after the fact with the help of Software's Technical Support. These procedures should have been authorized and reviewed by supervisory personnel before changes were performed.

Recommendation – We recommend supervisory review and authorization of such procedures in order to present accurate and complete financial reports. Supervisory review and assistance functions are of the utmost importance given the changes in the computer system and personnel. Procedures involving the timing and posting of transactions can alter the accuracy and completeness of the financial information.

Response – We will ensure procedures are reviewed with personnel and transactions are authorized and evidenced by the initials of the reviewer.

Conclusion – Response accepted.

Denison Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

**CFDA Number 10.553: School Breakfast Program and  
CFDA Number 10.555: National School Lunch Program  
Federal Award Year: 2004  
U.S. Department of Agriculture  
Passed through the Iowa Department of Education**

**CFDA Number 84.010: Title I Grants to Local Educational Agencies  
Agency Numbers: 9996 and 9997  
Federal Award Year: 2004  
U.S. Department of Education  
Passed through the Iowa Department of Education**

III-A-04 Segregation of Duties over Federal Funds - The District is not able to prevent individual employees from handling tasks which are incompatible, including those related to Federal programs. See audit finding II-A-04.

**Part IV: Other Findings Related to Statutory Reporting:**

- IV-A-04 Official Depositories – The official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- IV-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- IV-D-04 Travel Expense – No disbursements 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.

Denison Community School District

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-E-04 Business Transactions – No business transactions between the District and District officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Board Minutes – No transactions requiring Board approval which had not been approved by the Board were noted.
- IV-H-04 Certified Enrollment – No variances in the basic enrollment data certified to the Department of Education were noted.
- IV-I-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
- IV-J-04 Certified Annual Report – The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.