FORT MADISON COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Fort Madison Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2003 election)	
Kitty Garner	President	2003
Gary McVey	Vice President	2003
Judy Gerdes	Board Member	2005
Linda Fischer	Board Member	2004
Dan Davis	Board Member	2005
Gary Steflik	Board Member	2004
Lori Meierotto	Board Member	2003
	Board of Education (After September 2003 election)	
Gary Steflik	President	2004
Dan Davis	Vice President	2005
Judy Gerdes	Board Member	2005
Linda Fischer	Board Member	2004
Denise Gray	Board Member	2006
Steve Martin	Board Member	2006
Peggy Booten	Board Member	2006
	School Officials	
Linda Brock	Superintendent	2004
Craig Cornick	Director of Student Services	2004
Sandra K. Elmore	District Secretary/Treasurer and Business Manager	2004
Gruhn Law Firm	Attorney	2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Fort Madison 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 Fort Madison Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Fort Madison Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 20, 2004 on our consideration of the Fort Madison 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 4 through 13 and 33 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and

presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Fort Madison 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 three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, 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 basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 20, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fort Madison 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.

2004 FINANCIAL HIGHLIGHTS

- The District's total combined net assets were $14,245,778 as of June 30, 2004 compared to $13,203,110 as of June 30, 2003, an increase of 7.90%.
- General Fund revenues decreased from $17,149,987 in fiscal 2003 to $17,071,884 in fiscal 2004, while General Fund expenditures increased from $16,389,418 in fiscal 2003 to $17,401,676 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from $4,507,516 in fiscal 2003 to $4,177,724 in fiscal 2004.
- The increase in the total combined net assets resulted primarily from major construction in progress efforts at the high school.
- The increase in General Fund expenditures was due primarily to an increase in the salary and benefit expenses. Purchased services in the area of plant operation and maintenance also increased.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

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

Figure A-1
Fort Madison Community School District Annual Financial Report

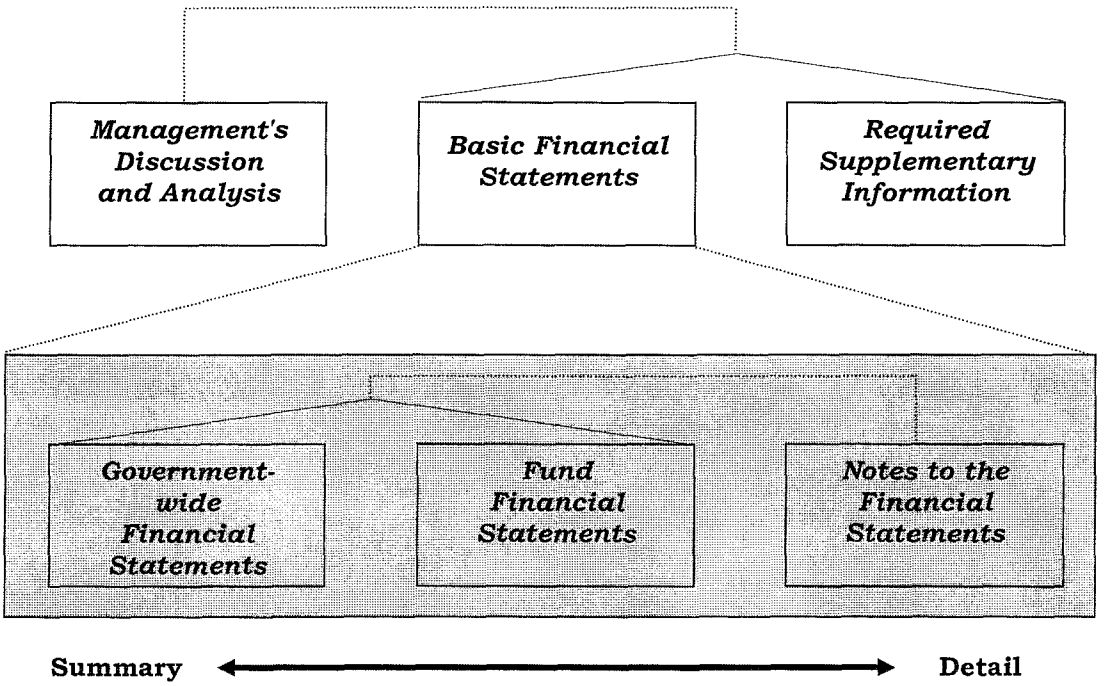

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain

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

	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	• Statement of net assets • Statement of activities	• 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
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities*: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.

- *Business-type activities*: The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	$ 14,614,883	16,698,828	319,009	231,058	14,933,892	16,929,886	-11.8%
Capital assets	8,160,426	5,966,515	38,533	37,916	8,198,959	6,004,431	36.5%
Total assets	22,775,309	22,665,343	357,542	268,974	23,132,851	22,934,317	0.9%
Long-term obligations	399,998	382,424	0	0	399,998	382,424	4.6%
Other liabilities	8,443,855	9,309,046	43,220	39,737	8,487,075	9,348,783	-9.2%
Total liabilities	8,843,853	9,691,470	43,220	39,737	8,887,073	9,731,207	-8.7%
Net assets:							
Invested in capital assets, net of related debt	8,160,426	5,946,081	38,533	37,916	8,198,959	5,983,997	37.0%
Restricted	1,922,006	2,876,948	0	0	1,922,006	2,876,948	-33.2%
Unrestricted	3,849,024	4,150,844	275,789	191,321	4,124,813	4,342,165	-5.0%
Total net assets	$ 13,931,456	12,973,873	314,322	229,237	14,245,778	13,203,110	7.9%

The District's combined net assets increased by 7.9%, or $1,042,668, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents 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 $954,942, or 33.2% over the prior year. The decrease was primarily a result of increased expenditures in the Capital Projects Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements –decreased $217,352, or 5.0%. This decrease in unrestricted net assets was a result of the District increased expenditures in the General Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2004 compared to June 30, 2003.

Figure A-4
Changes of Net Assets

	Governmental Activities June 30,		Business-type Activities June 30,		Total District June 30,		Total Change June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Revenues:							
Program revenues:							
Charges for services	$ 749,640	762,104	380,065	414,565	1,129,705	1,176,669	-4.0%
Operating grants and contributions and restricted interest	2,365,863	2,284,388	398,324	372,427	2,764,187	2,656,815	4.0%
Capital grants and contributions and restricted interest	146,285	100,000	0	0	146,285	100,000	46.3%
General revenues:							
Local tax	7,232,611	7,123,944	0	0	7,232,611	7,123,944	1.5%
Unrestricted state grants	9,178,607	9,318,365	0	0	9,178,607	9,318,365	-1.5%
Other	70,842	71,373	2,089	848	72,931	72,221	1.0%
Total revenues	19,743,848	19,660,174	780,478	787,840	20,524,326	20,448,014	0.4%
Program expenses:							
Governmental activities:							
Instructional	12,925,430	12,289,042	0	0	12,925,430	12,289,042	5.2%
Support services	4,526,255	3,926,330	0	0	4,526,255	3,926,330	15.3%
Non-instructional programs	5,578	21,874	695,393	666,767	700,971	688,641	1.8%
Other expenses	1,329,002	1,222,011	0	0	1,329,002	1,222,011	8.8%
Total expenses	18,786,265	17,459,257	695,393	666,767	19,481,658	18,126,024	7.5%
Changes in net assets	957,583	2,200,917	85,085	121,073	1,042,668	2,321,990	-55.1%
Beginning net assets	12,973,873	10,772,956	229,237	108,164	13,203,110	10,881,120	21.3%
Ending net assets	$ 13,931,456	12,973,873	314,322	229,237	14,245,778	13,203,110	7.9%

Property tax and unrestricted state grants account for 83% of the total revenue. The District's expenses primarily relate to instruction and support services and account for 93% of the total expenses.

Governmental Activities

Revenues for governmental activities were $19,743,848 and expenses were $18,786,265.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	$ 12,925,430	10,661,476
Support services	4,526,255	4,432,578
Non-instructional programs	5,578	5,578
Other expenses	1,329,002	424,845
Totals	$ 18,786,265	15,524,477

- The cost financed by users of the District's programs was $749,640.
- Federal and state governments subsidized certain programs with grants and contributions totaling $2,512,148.
- The net cost of governmental activities was financed with $7,232,611 in local tax, $9,178,607 in state foundation aid and $70,842 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were $780,478 and expenses were $695,393. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements, and investment income.

During the year ended June 30, 2004, the District increased expenses in the School Nutrition Fund. The Nutrition Fund balance experienced an increase due to the greater lunch participation. The District has obligated some of the fund balance for replacement of obsolete kitchen equipment in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of $6,171,028, below last year's ending fund balances of $7,410,216. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to increased capital outlay expenditures during the 2003-04 school year.

Governmental Fund Highlights

- The District's General Fund financial position is the product of many factors. Declining growth during the year in tax and grants resulted in a decrease in revenues. The decrease in revenues was compounded by the District's increase in General Fund expenditures reducing the District's fund balance.
- The General Fund balance decreased from $4,507,516 to $4,177,724, due in part to increased expenditures during the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from $229,237 at June 30, 2003 to $314,322 at June 30, 2003, representing an increase of approximately 37%.

BUDGETARY HIGHLIGHTS

The District's revenues were $416,258 less than budgeted revenues, a variance of 2.0%. The most significant variance resulted from the District receiving less in state and federal sources than originally anticipated.

The District manages or controls General Fund spending through its line-item budget. The certified budget exceeded in the other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget. In the future, the District's certified budget should be amended to reflect increases in expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $8.2 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 36.5% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was $406,724.

The original cost of the District's capital assets was $14.3 million. Governmental funds account for $14.2 million with the remainder of $0.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $2,383,117 at June 30, 2004, compared to $0 reported at June 30, 2003. This increase resulted from fiscal 2004 construction from a $1.5 million Harkin Grant and district match.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2004	2003	2004	2003	2004	2003	2003-2004
Land	$ 173,854	173,854	0	0	173,854	173,854	0.0%
Construction in progress	2,383,117	0	0	0	2,383,117	0	100.0%
Buildings	4,887,650	5,066,169	0	0	4,887,650	5,066,169	-3.5%
Improvements other than buildings	189,717	113,560	0	0	189,717	113,560	67.1%
Machinery and equipment	526,088	612,932	38,533	37,916	564,621	650,848	-13.2%
Total	$ 8,160,426	5,966,515	38,533	37,916	8,198,959	6,004,431	36.5%

Long-Term Debt

At June 30, 2004, the District had $399,998 in other long-term debt outstanding. This represents a decrease of .6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

Figure A-7
Outstanding Long-Term Obligations

	Total District June 30, 2004	Total District June 30, 2003	Total Change June 30, 2003-2004
Telephone loan	$ 0	20,000	-100.0%
Early retirement	344,325	367,748	-6.4%
Compensated absences	55,673	14,676	279.3%
Totals	$ 399,998	402,424	-0.6%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The state's economy is showing limited signs of economic recovery. The weak economy has adversely impacted the State of Iowa's budget and has translated into reduced levels of state aid funding for education. State funding growth for public schools was reduced to 1% during the legislative session. This is the lowest level of state funding growth to schools in over ten years.

- The District continues to face declining enrollment. The District has experienced a cumulative loss of 376 students over the past 10 years. Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation.

- The District will negotiate a new agreement with the Fort Madison Education Association, (FMEA), during fiscal 2005. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.

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 Sandra K. Elmore, District Secretary/Treasurer, Fort Madison Community School District, P.O. Box 1423, Fort Madison, Iowa, 52627.

BASIC FINANCIAL STATEMENTS

Exhibit A

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 8,374,802	301,611	8,676,413
Receivables:			
Property tax:			
Delinquent	105,926	0	105,926
Succeeding year	5,712,722	0	5,712,722
Accounts	2,091	0	2,091
Accrued interest	5,359	0	5,359
Due from other governments	413,983	0	413,983
Inventories	0	17,398	17,398
Capital assets, net of accumulated depreciation(Note 4)	8,160,426	38,533	8,198,959
TOTAL ASSETS	22,775,309	357,542	23,132,851
LIABILITIES			
Accounts payable	990,634	0	990,634
Salaries and benefits payable	1,740,499	38,339	1,778,838
Deferred revenue:			
Succeeding year property tax	5,712,722	0	5,712,722
Other	0	4,881	4,881
Long-term liabilities(Note 5):			
Portion due within one year:			
Early retirement payable	212,690	0	212,690
Compensated absences payable	55,673	0	55,673
Portion due after one year:			
Early retirement payable	131,635	0	131,635
TOTAL LIABILITIES	8,843,853	43,220	8,887,073
NET ASSETS			
Investment in capital assets, net of related debt	8,160,426	38,533	8,198,959
Restricted for:			
Talented and gifted	72,001	0	72,001
Capital projects	1,672,407	0	1,672,407
Physical plant and equipment levy	46,911	0	46,911
Other special revenue purposes	130,687	0	130,687
Unrestricted	3,849,024	275,789	4,124,813
TOTAL NET ASSETS	$ 13,931,456	314,322	14,245,778

SEE NOTES TO FINANCIAL STATEMENTS.

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

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	$ 7,470,210	69,880	1,398,376	0
Special instruction	4,092,904	35,922	115,938	0
Other instruction	1,362,316	643,838	0	0
	12,925,430	749,640	1,514,314	0
Support services:				
Student services	736,506	0	0	0
Instructional staff services	256,149	0	0	0
Adminstration services	1,215,526	0	0	0
Operation and maintenance of plant services	1,619,607	0	0	0
Transportation services	698,467	0	93,677	0
	4,526,255	0	93,677	0
Non-instructional programs:				
Community service and education operations	5,578	0	0	0
	5,578	0	0	0
Other expenditures:				
Facilities acquisitions	315,987	0	0	146,285
Long-term debt interest	4,771	0	0	0
AEA flowthrough	757,872	0	757,872	0
Depreciation(unallocated)*	250,372	0	0	0
	1,329,002	0	757,872	146,285
Total governmental activities	18,786,265	749,640	2,365,863	146,285
Business-Type activities:				
Non-instructional programs:				
Nutrition services	695,393	380,065	398,324	0
Total business-type activities	695,393	380,065	398,324	0
Total	$ 19,481,658	1,129,705	2,764,187	146,285

General Revenues:
Property tax levied for:
General purposes
Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(6,001,954)	0	(6,001,954)
(3,941,044)	0	(3,941,044)
(718,478)	0	(718,478)
(10,661,476)	0	(10,661,476)
(736,506)	0	(736,506)
(256,149)	0	(256,149)
(1,215,526)	0	(1,215,526)
(1,619,607)	0	(1,619,607)
(604,790)	0	(604,790)
(4,432,578)	0	(4,432,578)
(5,578)	0	(5,578)
(5,578)	0	(5,578)
(169,702)	0	(169,702)
(4,771)	0	(4,771)
0	0	0
(250,372)	0	(250,372)
(424,845)	0	(424,845)
(15,524,477)	0	(15,524,477)
0	82,996	82,996
0	82,996	82,996
(15,524,477)	82,996	(15,441,481)
$ 5,508,445	0	5,508,445
151,002	0	151,002
1,573,164	0	1,573,164
9,178,607	0	9,178,607
70,842	2,089	72,931
16,482,060	2,089	16,484,149
957,583	85,085	1,042,668
12,973,873	229,237	13,203,110
$ 13,931,456	314,322	14,245,778

Exhibit C

FORT MADISON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	$ 5,825,610	2,186,389	362,803	8,374,802
Receivables:				
Property tax:				
Delinquent	96,074	0	9,852	105,926
Succeeding year	5,175,445	0	537,277	5,712,722
Accounts	2,091	0	0	2,091
Accrued interest	3,384	1,921	54	5,359
Due from other governments	310,400	103,583	0	413,983
TOTAL ASSETS	$ 11,413,004	2,291,893	909,986	14,614,883
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 319,336	619,486	51,812	990,634
Salaries and benefits payable	1,740,499	0	0	1,740,499
Deferred revenue:				
Succeeding year property tax	5,175,445	0	537,277	5,712,722
Total liabilities	7,235,280	619,486	589,089	8,443,855
Fund balances:				
Reserved for:				
Talented and gifted	72,001	0	0	72,001
Unreserved:				
Undesignated	4,105,723	1,672,407	320,897	6,099,027
Total fund balances	4,177,724	1,672,407	320,897	6,171,028
TOTAL LIABILITIES AND FUND BALANCES	$ 11,413,004	2,291,893	909,986	14,614,883

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

FORT MADISON 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 17)	$ 6,171,028
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 report as assets in in the governmental funds.	8,160,426
Long-term liabilities, including compensated absences and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(399,998)
Net assets of governmental activites (page 14)	$ 13,931,456

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 5,132,407	1,573,164	527,040	7,232,611
Tuition	105,802	0	0	105,802
Other	291,895	28,209	394,576	714,680
State sources	10,696,627	0	2,690	10,699,317
Federal sources	845,153	0	146,285	991,438
Total revenues	17,071,884	1,601,373	1,070,591	19,743,848
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	7,265,121	0	221,850	7,486,971
Special instruction	4,088,149	0	0	4,088,149
Other instruction	968,794	0	389,508	1,358,302
	12,322,064	0	611,358	12,933,422
Support services:				
Student services	756,033	0	0	756,033
Instructional staff services	247,578	0	8,571	256,149
Administration services	1,145,646	0	51,222	1,196,868
Operation and maintenance of plant services	1,543,890	0	33,645	1,577,535
Transportation services	597,810	0	29,450	627,260
	4,290,957	0	122,888	4,413,845
Non-instructional programs:				
Community service and education operations	5,578	0	0	5,578
Other expenditures:				
Facilities acquisitions	0	2,468,924	378,190	2,847,114
Long-term debt:				
Principal	0	0	20,000	20,000
Interest and fiscal charges	0	0	5,205	5,205
AEA flowthrough	757,872	0	0	757,872
	757,872	2,468,924	403,395	3,630,191
Total expenditures	17,376,471	2,468,924	1,137,641	20,983,036
Deficiency of revenues under expenditures	(304,587)	(867,551)	(67,050)	(1,239,188)
Other financing sources(uses):				
Transfers in	0	0	25,205	25,205
Transfers out	(25,205)	0	0	(25,205)
Total other financing sources(uses)	(25,205)	0	25,205	0
Net change in fund balances	(329,792)	(867,551)	(41,845)	(1,239,188)
Fund balance beginning of year	4,507,516	2,539,958	362,742	7,410,216
Fund balance end of year	$ 4,177,724	1,672,407	320,897	6,171,028

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

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

Net change in fund balances - total governmental funds (page 19)		$ (1,239,188)
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	$ 2,594,214	
Depreciation expense	(400,303)	2,193,911
Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.		20,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.		434
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.		
Early Retirement	$ 23,423	
Compensated Absences	(40,997)	(17,574)
Changes in net assets of governmental activities (page 16)		$ 957,583

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and pooled investments	$ 301,611
Inventories	17,398
Capital assets, net of accumulated depreciation(Note 4)	38,533
TOTAL ASSETS	357,542
LIABILITIES	
Salaries and benefits payable	38,339
Deferred revenue:	
Other	4,881
TOTAL LIABILITIES	43,220
NET ASSETS	
Investment in capital assets, net of related debt	38,533
Unrestricted	275,789
TOTAL NET ASSETS	$ 314,322

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

FORT MADISON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	$ 380,065
TOTAL OPERATING REVENUES	380,065
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	244,197
Benefits	52,105
Services	9,489
Supplies	381,236
Depreciation	6,421
Other	1,945
TOTAL OPERATING EXPENSES	695,393
OPERATING LOSS	(315,328)
NON-OPERATING REVENUES:	
State sources	10,865
Federal sources	387,459
Interest income	2,089
TOTAL NON-OPERATING REVENUES	400,413
Change in net assets	85,085
Net assets beginning of year	229,237
Net assets end of year	$ 314,322

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

FORT MADISON 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 breakfasts	$ 380,327
Cash received from miscellaneous operating activities	1,497
Cash payments to employees for services	(293,773)
Cash payments to suppliers for goods or services	(348,553)
Net cash used in operating activities	(260,502)
Cash flows from non-capital financing activities:	
State grants received	10,865
Federal grants received	343,142
Net cash provided by non-capital financing activities	354,007
Cash flows from capital and related financing activities:	
Purchase of capital assets	(7,038)
Net cash used in capital and related financing activities	(7,038)
Cash flows from investing activities:	
Interest on investments	2,089
Net cash provided by investing activities	2,089
Net increase in cash and cash equivalents	88,556
Cash and cash equivalents at beginning of year	213,055
Cash and cash equivalents at end of year	$ 301,611
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (315,328)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	44,317
Depreciation	6,421
Increase in inventories	(200)
Decrease in accounts receivable	805
Increase in salaries and benefits payable	2,529
Increase in deferred revenue	954
Net cash used in operating activities	$ (260,502)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 301,611

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at $44,317.

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Fort Madison Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Fort Madison, Iowa, and the predominate agricultural territory in Lee, Des Moines and Henry Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Fort Madison 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 Fort Madison Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Lee, Des Moines and Henry Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

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

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources

measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	$ 3,000
Buildings	3,000
Improvements other than buildings	3,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	3,000

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years

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

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

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

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 government-wide

financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

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

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

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

E. Budgeting and Budgetary Control

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

(2) Cash and Pooled Investments

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $7,970,360 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	General Fund	$ 25,205

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

(4) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 173,854	0	0	173,854
Construction in progress	0	2,383,117	0	2,383,117
Total capital assets not being depreciated	173,854	2,383,117	0	2,556,971
Capital assets being depreciated:				
Buildings	9,012,951	61,871	0	9,074,822
Improvements other than buildings	297,246	86,139	0	383,385
Machinery and equipment	2,443,553	63,087	282,160	2,224,480
Total capital assets being depreciated	11,753,750	211,097	282,160	11,682,687
Less accumulated depreciation for:				
Buildings	3,946,782	240,390	0	4,187,172
Improvements other than buildings	183,686	9,982	0	193,668
Machinery and equipment	1,830,621	149,931	282,160	1,698,392
Total accumulated depreciation	5,961,089	400,303	282,160	6,079,232
Total capital assets being depreciated, net	5,792,661	(189,206)	0	5,603,455
Governmental activities capital assets, net	$ 5,966,515	2,193,911	0	8,160,426

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 103,164	7,038	406	109,796
Less accumulated depreciation	65,248	6,421	406	71,263
Business-type activities capital assets, net	$ 37,916	617	0	38,533

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 16,023
Special	1,089
Other	4,014
Support services:	
Student	2,099
Administration	11,460
Operation and maintenance of plant	7,490
Transportation	107,756
	149,931
Unallocated depreciation	250,372
Total governmental activities depreciation expense	$ 400,303
Business-type activities:	
Food services	$ 6,421
Total business-type activities depreciation expense	$ 6,421

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Telephone Loan	$ 20,000	0	20,000	0	0
Early Retirement	367,748	161,521	184,944	344,325	212,690
Compensated Absences	14,676	55,673	14,676	55,673	55,673
Total	$ 402,424	217,194	219,620	399,998	268,363

Early Retirement

The District offers a voluntary early retirement plan to its certified employees, classified employees and administrative staff. Eligible employees must have completed ten years of continuous service to the District in order to qualify for supplemental benefits. Employees desiring to elect early retirement under this program must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is based on their current employment classification. The supplemental benefit for administrators will be $25,000 and licensed employees will be $20,000. The supplemental benefit for classified employees will be 50% of the current contract at the time of retirement. Early retirement benefits paid during the year ended June 30, 2004, totaled $184,944. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were $629,817, $610,922 and $625,055 respectively, equal to the required contributions for each year.

(7) Risk Management

Fort Madison Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, and Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. SEISHP was for the purpose of

managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP'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. District contributions to SEISHP for the year ended June 30, 2004 were $1,251,039.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most 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. SEISHP will pay claims incurred before the termination date.

Fort Madison Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) 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 $757,872 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2004, disbursements in the other expenditures functional program area exceeded the amount budgeted.

REQUIRED SUPPLEMENTAL INFORMATION

FORT MADISON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL (GAAP BASIS) - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenues:		
Local sources	$ 8,053,093	382,154
State sources	10,699,317	10,865
Federal sources	991,438	387,459
Total revenues	19,743,848	780,478
Expenditures:		
Instruction	12,933,422	0
Support services	4,413,845	0
Non-instructional programs	5,578	695,393
Other expenditures	3,630,191	0
Total expenditures	20,983,036	695,393
Excess(deficiency) of revenues over(under) expenditures	(1,239,188)	85,085
Balance beginning of year	7,410,216	229,237
Balance end of year	$ 6,171,028	314,322

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
8,435,247	8,161,963	8,161,963	273,284
10,710,182	11,039,603	11,039,603	(329,421)
1,378,897	1,739,018	1,739,018	(360,121)
20,524,326	20,940,584	20,940,584	(416,258)
12,933,422	13,780,691	13,780,691	847,269
4,413,845	4,473,474	4,473,474	59,629
700,971	835,820	835,820	134,849
3,630,191	2,658,405	2,658,405	(971,786)
21,678,429	21,748,390	21,748,390	69,961
(1,154,103)	(807,806)	(807,806)	(346,297)
7,639,453	5,332,909	5,332,909	2,306,544
6,485,350	4,525,103	4,525,103	1,960,247

FORT MADISON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

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

During the year ended June 30, 2004, expenditures in the other expenditures functional program area exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

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

	Special Revenue Funds			
	Management	Student Activity	Physical Plant and Equipment Levy	Total
ASSETS				
Cash and pooled investments	$ 136,260	135,309	91,234	362,803
Receivables:				
Property tax:				
Current year delinquent	7,039	0	2,813	9,852
Succeeding year	394,675	0	142,602	537,277
Accrued interest	0	39	15	54
TOTAL ASSETS	$ 537,974	135,348	236,664	909,986
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	$ 0	4,661	47,151	51,812
Deferred revenue:				
Succeeding year property tax	394,675	0	142,602	537,277
	394,675	4,661	189,753	589,089
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	143,299	130,687	46,911	320,897
Total fund balances	143,299	130,687	46,911	320,897
TOTAL LIABILITIES AND FUND EQUITY	$ 537,974	135,348	236,664	909,986

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

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

	Special Revenue Funds					Total
	Manage-ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	$ 376,038	0	151,002	527,040	0	527,040
Other	1,095	392,533	948	394,576	0	394,576
State sources	1,923	0	767	2,690	0	2,690
Federal sources	0	0	146,285	146,285	0	146,285
TOTAL REVENUES	379,056	392,533	299,002	1,070,591	0	1,070,591
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	221,850	0	0	221,850	0	221,850
Other instruction	0	389,508	0	389,508	0	389,508
Support services:						
Instructional staff services	8,571	0	0	8,571	0	8,571
Administration services	51,222	0	0	51,222	0	51,222
Operation and maintenance of plant services	33,645	0	0	33,645	0	33,645
Student transportation	29,450	0	0	29,450	0	29,450
Other expenditures:						
Facilities acquisitions	0	0	378,190	378,190	0	378,190
Long-term debt:						
Principal	0	0	0	0	20,000	20,000
Interest and fiscal charges	0	0	0	0	5,205	5,205
TOTAL EXPENDITURES	344,738	389,508	378,190	1,112,436	25,205	1,137,641
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	34,318	3,025	(79,188)	(41,845)	(25,205)	(67,050)
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	25,205	25,205
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	34,318	3,025	(79,188)	(41,845)	0	(41,845)
FUND BALANCE BEGINNING OF YEAR	108,981	127,662	126,099	362,742	0	362,742
FUND BALANCE END OF YEAR	$ 143,299	130,687	46,911	320,897	0	320,897

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi-tures	Balance End of Year
Special Education Club	$ 104	0	0	104
Child Health Fund	8,035	4,442	2,506	9,971
Activity Account	679	377	621	435
Undistributed Funds	33,940	1,191	8,519	26,612
Vocal Music	5,026	11,447	9,696	6,777
Instrumental Music	(2,643)	16,771	14,264	(136)
DMS Club	423	2,005	2,257	171
History Day Fund	471	0	0	471
Mixed 7th & 8 Grade Team	162	2,187	1,600	749
6th Grade Team	76	0	0	76
7th Grade Team	226	0	180	46
8th Grade Team	304	0	0	304
Industrial Tech	2,218	2,963	3,094	2,087
Family and Consumer	(8)	594	574	12
Football	1,416	0	1,416	0
Boys Track	0	40	40	0
Girls Track	0	80	80	0
Student Activity	4,594	4,784	4,722	4,656
Employee Activity Account	617	1,683	1,760	540
Student Council	(89)	38,052	36,058	1,905
Cheerleaders	277	0	0	277
Library Club	1,989	1,702	1,919	1,772
Terrier Pride	10	0	0	10
Block Beautification Project	105	0	122	(17)
Speech - Large Group	0	75	75	0
Vocal Music	0	0	176	(176)
Instrumental Music	596	2,132	2,445	283
Co-Curricular Act - H.S.	(6,875)	10,288	(208)	3,621
Gate Receipts	(1,588)	68,748	61,555	5,605
Soccer Coed	0	528	528	0
Soccer - Fund Raiser	(745)	0	(656)	(89)
Cross Country	0	756	655	101
Boys Basketball	0	310	66	244
Boys Basketball-Fund Raiser	45	1,533	1,817	(239)
Football	771	1,455	2,175	51
Football - Fund Raiser	573	8,835	6,201	3,207
Baseball - Fund Raiser	371	4,080	5,159	(708)
Boys Track	0	462	462	0
Boys Golf	0	383	383	0
Wrestling	0	621	621	0
Wrestling - Fund Raiser	2,316	2,732	3,273	1,775
Girls Basetball	0	1,742	1,742	0
Girls Basetball-Fund Raiser	169	50	162	57
Volleyball	0	856	808	48
Volleyball - Fund Raiser	(1,424)	3,045	1,464	157
Softball	0	324	414	(90)

Schedule 3

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

Account	Balance Beginning of Year	Revenues	Expendi-tures	Balance End of Year
Softball - Fund Raiser	(83)	3,738	5,180	(1,525)
Girls Track	0	1,044	1,044	0
GTR/BTR/CC Fund Raiser	2,343	6,821	7,495	1,669
Girls Tennis	0	45	45	0
Crimson & Black	203	2,519	1,310	1,412
Art Club	940	2,390	1,249	2,081
Student Activity Account	4,633	3,314	3,755	4,192
Foreign Language Club	876	158	(101)	1,135
FFA	(16)	731	565	150
Employee Activity Account	1,564	10	316	1,258
FCCLA	4,157	1,120	436	4,841
Business Pros of America	1,216	190	1,007	399
HS Student Government	586	300	782	104
Bus. Pros of Am. Jr Class	(24)	3,636	4,043	(431)
Key Club	1,904	5,016	2,722	4,198
Madisonian	3,779	21,949	23,002	2,726
Dist. Educ. Club	12	5,086	4,762	336
Machine Shop Vica	154	0	0	154
Auto Shop Vica	1,782	3,672	3,956	1,498
National Honor Society	509	3,149	3,367	291
Science Club	507	507	96	918
Renaissance Committee	2,015	0	1,000	1,015
Varsity Club	551	262	813	0
Athletic Concessions	1,000	1,523	2,523	0
Student Concessions	4,155	47,904	50,559	1,500
Dance & Drill Team	843	5,940	4,565	2,218
Library Club	648	202	104	746
Class of 2004	6,707	1,387	8,094	0
Class of 2005	1,348	8,089	2,013	7,424
Class of 2006	922	976	(619)	2,517
Class of 2007	0	597	493	104
Cheerleaders - Varsity	4,108	4,937	8,851	194
Student Equity Committee	357	0	70	287
MDT Fundraising	119	0	(195)	314
CLC	179	0	179	0
Student Activity Account	15,091	24,955	27,461	12,585
Student Council Account	0	196	0	196
Special Education Club	2,008	3,566	3,407	2,167
Student Activity Account	5,967	5,392	4,675	6,684
Student Council	2,071	0	2,071	0
Richardson PTO	576	20,296	25,226	(4,354)
Student Activity Account	1,814	3,643	4,442	1,015
Total	$ 127,662	392,533	389,508	130,687

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	$ 7,232,611	7,123,944	7,435,796	6,998,114
Tuition	105,802	185,204	106,954	172,939
Other	714,690	648,273	741,131	812,526
State sources	10,699,317	10,853,131	10,762,590	10,952,436
Federal sources	991,438	849,622	840,912	613,999
Total	$ 19,743,858	19,660,174	19,887,383	19,550,014
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 7,486,971	7,293,921	7,139,586	7,298,697
Special instruction	4,088,149	3,764,288	3,508,692	3,334,876
Other instruction	1,358,302	1,292,622	1,555,262	1,625,878
Support services:				
Student services	756,033	568,909	606,509	549,507
Instructional staff services	256,149	230,300	311,285	350,760
Adminstration services	1,196,868	1,148,429	1,304,076	1,337,217
Operation and maintenance of plant services	1,577,535	1,351,407	1,345,659	1,519,424
Transportation services	627,260	668,093	544,577	462,792
Non-instructional programs	5,578	21,874	24,436	23,425
Other expenditures:				
Facilities acquisitions	2,847,114	343,139	334,620	565,586
Long-term debt:				
Principal	20,000	20,000	1,296,500	358,000
Interest and other charges	5,205	4,471	58,979	71,469
AEA flow-through	757,872	808,963	816,077	835,429
Total	$ 20,983,036	17,516,416	18,846,258	18,333,060

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	$ 44,317
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	50,458
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	292,684
			343,142
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2322-G	282,099
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	2322-GC	99,419
			381,518
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE VI PROGRAM)	84.298	FY 03	1,350
INNOVATIVE EDUCATION PROGRAM STRATEGIES(TITLE V PROGRAM)	84.298	FY 04	16,089
			17,439
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 04	15,763
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES(TITLE VI A)	84.369	FY 03	8,910
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	FY 04	52,488
FUND FOR THE IMPROVEMENT OF EDUCATION	84.215	FY 03	1,314,049
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 03	20,555
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 04	122,942
			143,497

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT(CONTINUED):			
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION - STATE PROGRAM IMPROVEMENT GRANTS FOR CHILDREN WITH DISABILITIES(CAREER LADDER)	84.323	FY 03	6,140
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 03	4,099
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	44,294
			48,393
SPECIAL EDUCATION - GRANTS TO STATES(PART B)	84.027	FY 04	115,938
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)	84.027	FY 03	11,289
SPECIAL EDUCATION - GRANTS TO STATES(SUCCESS 4)	84.027	FY 04	6,368
			17,657
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	84.281	FY 02	645
EISENHOWER PROFESSIONAL DEVELOPMENT STATE GRANTS	84.281	FY 03	58
			703
DEPARTMENT OF HUMAN SERVICES:			
MEDICAL ASSISTANCE PROGRAM	93.778	FY 04	706
TOTAL			$ 2,510,660

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Fort Madison Community School District and is presented in conformity with 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 general-purpose financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

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

To the Board of Education of the
Fort Madison Community School District:

We have audited the financial statements of Fort Madison Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 20, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Fort Madison 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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings 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 IV-G-04.

Internal Control Over Financial Reporting

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

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

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 20, 2004

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

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

To the Board of Education of
Fort Madison Community School District

Compliance

We have audited the compliance of Fort Madison 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. Fort Madison 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 Fort Madison Community School District's management. Our responsibility is to express an opinion on Fort Madison Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States 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 noncompliance 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 Fort Madison 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 Fort Madison Community School District's compliance with those requirements.

In our opinion, Fort Madison 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 Fort Madison 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 Fort Madison 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.

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 Fort Madison Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

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.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Fort Madison Community School District and other parties to whom Fort Madison 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.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

October 20, 2004

FORT MADISON 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) No reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

(d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements.

(e) An unqualified opinion was issued on compliance with requirements applicable to each major program.

(f) The audit did not disclose any 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:

Individual Program:

- CFDA Number 84.215 - Fund for the Improvement of Education

(h) The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

(i) Fort Madison Community School District did not qualify as a low-risk auditee.

FORT MADISON 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:

No matters were reported.

FORT MADISON 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:

No matters were reported.

FORT MADISON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2004

Part IV: Other Findings Related to Statutory Reporting

IV-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the other expenditures functional program area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion - Response accepted.

IV-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-E-04 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Dean Hogan, Teacher Owner of Dean's Stringing Services	String rackets	$19
Bob Norton, Teacher	Purchased Services	$316

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the teachers do not appear to represent a conflict of interest.

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 - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

Recommendation - The District should publish the minutes within two weeks of the Board meeting, as required by 279.35 of the Code of Iowa.

Response - We are providing the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

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

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

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.