

GILBERT COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Gilbert Community School District in Gilbert, Iowa.

The District has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the District as a whole and present a longer-term view of the District's finances. Also included is Management's Discussion and Analysis of the District's financial statements.

The District's revenues for the governmental funds totaled \$8,906,525 for the year ended June 30, 2004 and included \$3,960,802 in local tax, \$3,548,507 from the state, \$167,216 from the federal government and \$13,196 in interest on investments.

Governmental fund expenditures for the year totaled \$8,527,197 and included \$5,395,897 for instruction, \$1,877,577 for support services and \$1,248,100 for other expenditures.

A copy of the audit report is available for review in the office of the Auditor of State and the District Secretary's office.

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Gilbert Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Jim McKean	President	2005
Cathy Strohbehn	Vice President	2003
Marcia DeZonia	Board Member	2003
Janet Warg	Board Member	2004
Chris Benda	Board Member	2005
Board of Education (After September 2003 Election)		
Jim McKean	President	2005
Marcia DeZonia	Vice President	2006
Mary Zimmerman	Board Member	2006
Janet Warg	Board Member	2004
Chris Benda	Board Member	2005
School Officials		
Douglas C. Williams	Superintendent	2004
Johna Clancy	District Secretary/Treasurer and Business Manager	2004
Belin, Lamson, McCormick, Zumbach P.C.	Attorney	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

To the Board of Education of the
Gilbert 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 Gilbert 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 Gilbert 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.

As described in Note 10 to the financial statements, during the year ended June 30, 2004, Gilbert Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our report dated August 11, 2004 on our consideration of the Gilbert Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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laws, regulations, contracts and grants. That report is 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 36 through 39 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 Gilbert 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 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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, P.C.

August 11, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,802,495 in fiscal 2003 to \$7,161,125 in fiscal 2004, while General Fund expenditures increased from \$6,708,770 in fiscal 2003 to \$7,021,416 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$183,452 in fiscal 2003 to a balance of \$293,683 in fiscal 2004, a 60% increase from the prior year.
- The increase in General Fund revenues was attributable to a increase in state (2% allowable growth from the state) and federal grant revenue in fiscal 2004. During the year, the state had a 2.5% across the board budget cut, which resulted in approximately \$85,000 of lost revenue. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the District's General Fund revenue for fiscal 2004.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$27,071 in fiscal year 2003 to \$11,948 in fiscal year 2004.
- The District began to receive local option sales and service tax from Story and Boone County. The District will receive approximately \$640,000, and \$12,000 per year respectively.
- In April 2004, the District had an 85% passage of a bond issue of \$8,275,000 for middle school and high school renovations.
- During the year, the District had a 4.01% increase in the salary and benefit package for all staff.
- The District during the year applied for an Iowa Demonstration Grant, but was denied.
- Doug Williams, long time superintendent, resigned after 29 years with the District.

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 Gilbert 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 Gilbert 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 Gilbert 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.

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

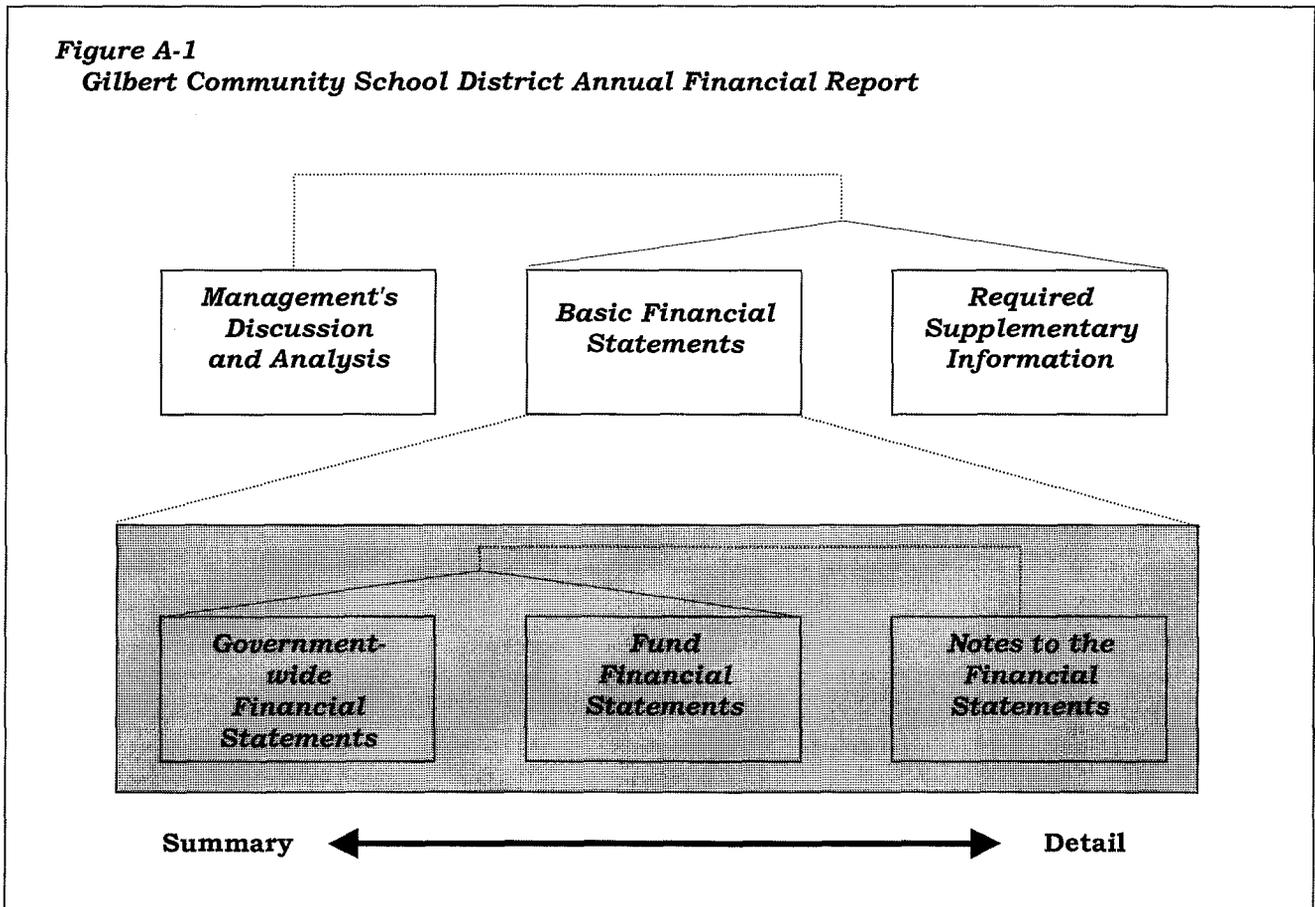


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
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	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in 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, Capital Projects, and Debt Service 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 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.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 5,631,485	28,449	5,659,934
Capital assets	5,205,934	39,532	5,245,466
Total assets	<u>10,837,419</u>	<u>67,981</u>	<u>10,905,400</u>
Long-term obligations	2,370,118	0	2,370,118
Other liabilities	4,941,591	10,282	4,951,873
Total liabilities	<u>7,311,709</u>	<u>10,282</u>	<u>7,321,991</u>
Net assets:			
Invested in capital assets, net of related debt	2,835,816	39,532	2,875,348
Restricted	515,062	0	515,062
Unrestricted	174,832	18,167	192,999
Total net assets	<u>\$ 3,525,710</u>	<u>57,699</u>	<u>3,583,409</u>

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 1,216,804	222,357	1,439,161
Operating grants and contributions and restricted interest	662,400	73,072	735,472
General revenues:			
Local tax	3,960,802	0	3,960,802
Unrestricted state grants	3,053,323	0	3,053,323
Other	13,196	264	13,460
Total revenues	<u>8,906,525</u>	<u>295,693</u>	<u>9,202,218</u>
Program expenses:			
Governmental activities:			
Instructional	5,409,857	0	5,409,857
Support services	1,795,139	0	1,795,139
Non-instructional programs	5,623	298,828	304,451
Other expenses	726,241	0	726,241
Total expenses	<u>7,936,860</u>	<u>298,828</u>	<u>8,235,688</u>
Changes in net assets	<u>\$ 969,665</u>	<u>(3,135)</u>	<u>966,530</u>

Property tax and unrestricted state grants account for 79% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$8,906,525 and expenses were \$7,936,860. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 5,409,857	3,796,330
Support services	1,795,139	1,774,079
Non-instructional	5,623	5,623
Other expenses	726,241	481,624
Totals	<u>\$ 7,936,860</u>	<u>6,057,656</u>

- The cost financed by users of the District's programs was \$1,216,804.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$662,400.

-
- The net cost of governmental activities was financed with \$3,960,802 in local tax, \$3,053,323 in unrestricted state grants, and \$13,196 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$295,693 and expenses were \$298,828. 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.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Gilbert 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 balance of \$768,979, above last year's ending fund balances of a \$379,328. However, the primary reason for the increase was the increase in Local Option Sales and Service Tax.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in state and federal grant money in an increase in revenues. However, the increase in expenditures was more than offset by the District's increase in General Fund revenues ensuring the financial position of the District increase.
- The Management, and Activity Fund combined balance increased from \$152,836 in 2003, to \$175,616 in 2004, due to the increase in revenues in the Activity Fund and a decrease in expenditures in the Management Fund.
- The Physical Plant and Equipment Levy (PPEL) fund balance decreased from \$48,730 to \$34,292, due to an increase in total expenditures for the year.
- The Debt Service fund balance decreased from \$4,633 in 2003, to \$1,771 in 2004, due to an increase in total expenditures.
- The District started a Capital Projects fund during the current year, at year end it had a balance of \$263,617.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$60,834 at June 30, 2003 to \$57,699 at June 30, 2004, representing a decrease of approximately 5%.

BUDGETARY HIGHLIGHTS

Over the course of the year, Gilbert Community School District amended its annual budget one time to reflect additional expenditures associated with special education activities.

The District's revenues were \$118,112 less than budgeted revenues, a variance of 1%. The most significant variance resulted from the District receiving less in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is 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 actual expenditures for the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$5.2 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 3.7% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$254,446.

The original cost of the District's capital assets was \$8.5 million. Governmental funds account for \$8.4 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 building category. The District's buildings totaled \$4,004,694 at June 30, 2004, compared to \$4,115,737 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 458,445	0	458,445
Buildings	4,004,694	0	4,004,694
Land improvements	303,835	0	303,835
Machinery and equipment	438,960	39,532	478,492
Total	\$ 5,205,934	39,532	5,245,466

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$2,439,626 in general obligation bonds, early retirement, and loans. This represents a decrease of approximately 14.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$1,795,000 at June 30, 2004.

The District has a Capital loan note payable of \$470,000, at June 30, 2004.

The District has an Energy loan payable of \$105,118, at June 30, 2004.

The District also had total outstanding early retirement payable of \$69,508 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 1,795,000	2,100,000	-14.5%
Capital loan note	470,000	575,000	-18.3%
Energy loan	105,118	128,166	-18.0%
Early retirement	69,508	39,000	78.2%
Total	<u>\$ 2,439,626</u>	<u>2,842,166</u>	<u>-14.2%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced stable enrollment for a few years, last year the District went up 53 students and expects a steady increase.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.
- During the year, the District purchased land from Upstill Farms for \$229,474 for the middle school.

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 Johna Clancy, District Board Secretary, Gilbert Community School District, 103 Mathews Drive, Gilbert, Iowa, 50105.

BASIC FINANCIAL STATEMENTS

GILBERT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP (Note 4)	\$ 1,302,212	0	1,302,212
Other	712,146	20,178	732,324
Receivables:			
Property tax:			
Delinquent	6,899	0	6,899
Succeeding year	3,550,125	0	3,550,125
Accounts	1,544	617	2,161
Accrued interest			
ISCAP (Note 4)	2,246	0	2,246
Due from other governments	56,313	0	56,313
Inventories	0	7,654	7,654
Capital assets, net of accumulated depreciation (Note 5)	5,205,934	39,532	5,245,466
TOTAL ASSETS	10,837,419	67,981	10,905,400
LIABILITIES			
Interest payable	9,577	0	9,577
ISCAP warrants payable (Note 4)	1,307,000	0	1,307,000
ISCAP accrued interest payable (Note 4)	3,405	0	3,405
ISCAP premiums payable	1,976	0	1,976
Deferred revenue:			
Succeeding year property tax	3,550,125	0	3,550,125
Other	0	10,282	10,282
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	325,000	0	325,000
Energy loan	24,273	0	24,273
Capital loan	110,000	0	110,000
Early retirement	47,050	0	47,050
Portion due after one year:			
General obligation bonds	1,470,000	0	1,470,000
Energy loan	80,845	0	80,845
Capital loan	360,000	0	360,000
Early retirement	22,458	0	22,458
TOTAL LIABILITIES	7,311,709	10,282	7,321,991
NET ASSETS			
Investment in capital assets, net of related debt	2,835,816	39,532	2,875,348
Restricted for:			
Teacher quality	434	0	434
Phase III	39,332	0	39,332
Physical plant & equipment levy	34,292	0	34,292
Management levy	69,710	0	69,710
Capital projects	263,617	0	263,617
Debt service	1,771	0	1,771
Other special revenue purposes	105,906	0	105,906
Unrestricted	174,832	18,167	192,999
TOTAL NET ASSETS	\$ 3,525,710	57,699	3,583,409

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Governmental activities:			
Instruction:			
Regular instruction	\$ 3,201,257	686,490	417,783
Special instruction	1,334,596	92,796	0
Other instruction	874,004	416,458	0
	<u>5,409,857</u>	<u>1,195,744</u>	<u>417,783</u>
Support services:			
Student services	94,973	0	0
Instructional staff services	290,551	0	0
Administration services	640,802	0	0
Operation and maintenance of plant services	494,666	0	0
Transportation services	228,952	21,060	0
Other	45,195	0	0
	<u>1,795,139</u>	<u>21,060</u>	<u>0</u>
Non-Instructional:			
Community service & education operations	5,623	0	0
Other expenditures:			
Facilities acquisitions	206,032	0	0
Long-term debt interest	133,271	0	0
AEA flowthrough	244,617	0	244,617
Depreciation(unallocated)*	142,321	0	0
	<u>726,241</u>	<u>0</u>	<u>244,617</u>
Total governmental activities	7,936,860	1,216,804	662,400
Business-Type activities:			
Non-instructional programs:			
Nutrition services	298,828	222,357	73,072
Total business-type activities	298,828	222,357	73,072
Total	\$ 8,235,688	1,439,161	735,472

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 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, as restated (Note 10)

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.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(2,096,984)	0	(2,096,984)
(1,241,800)	0	(1,241,800)
(457,546)	0	(457,546)
(3,796,330)	0	(3,796,330)
(94,973)	0	(94,973)
(290,551)	0	(290,551)
(640,802)	0	(640,802)
(494,666)	0	(494,666)
(207,892)	0	(207,892)
(45,195)	0	(45,195)
(1,774,079)	0	(1,774,079)
(5,623)	0	(5,623)
(206,032)	0	(206,032)
(133,271)	0	(133,271)
0	0	0
(142,321)	0	(142,321)
(481,624)	0	(481,624)
(6,057,656)	0	(6,057,656)
0	(3,399)	(3,399)
0	(3,399)	(3,399)
(6,057,656)	(3,399)	(6,061,055)
\$ 2,637,498	0	2,637,498
407,219	0	407,219
313,101	0	313,101
602,984	0	602,984
3,053,323	0	3,053,323
13,196	264	13,460
7,027,321	264	7,027,585
969,665	(3,135)	966,530
2,556,045	60,834	2,616,879
\$ 3,525,710	57,699	3,583,409

GILBERT COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Capital Projects	Other Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP (Note 4)	\$ 1,302,212	0	0	1,302,212
Other	289,863	212,377	209,906	712,146
Receivables:				
Property tax				
Delinquent	5,126	0	1,773	6,899
Succeeding year	2,432,141	0	1,117,984	3,550,125
Accounts	1,544	0	0	1,544
Accrued interest				
ISCAP (Note 4)	2,246	0	0	2,246
Due from other governments	5,073	51,240	0	56,313
TOTAL ASSETS	\$ 4,038,205	263,617	1,329,663	5,631,485
LIABILITIES AND FUND BALANCES				
Liabilities:				
ISCAP warrants payable (Note 4)	1,307,000	0	0	1,307,000
ISCAP accrued interest payable (Note 4)	3,405	0	0	3,405
ISCAP premiums payable	1,976	0	0	1,976
Deferred revenue:				
Succeeding year property tax	2,432,141	0	1,117,984	3,550,125
Total liabilities	3,744,522	0	1,117,984	4,862,506
Fund balances:				
Reserved for:				
Teacher quality	434	0	0	434
Phase III	39,332	0	0	39,332
Unreserved:				
Undesignated	253,917	263,617	211,679	729,213
Total fund balances	293,683	263,617	211,679	768,979
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,038,205	263,617	1,329,663	5,631,485

SEE NOTES TO FINANCIAL STATEMENTS.

GILBERT 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)	\$ 768,979
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	5,205,934
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(9,577)
Long-term liabilities, including bonds payable, capital loan note payable, energy loan payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(2,439,626)</u>
Net assets of governmental activites (page 14)	<u>\$ 3,525,710</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 2,537,584	0	820,234	3,357,818
LOSST	0	602,984	0	602,984
Tuition	779,286	0	0	779,286
Other	129,057	161	321,496	450,714
State sources	3,547,982	0	525	3,548,507
Federal sources	167,216	0	0	167,216
Total revenues	7,161,125	603,145	1,142,255	8,906,525
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	3,165,465	0	18,666	3,184,131
Special instruction	1,337,762	0	0	1,337,762
Other instruction	554,439	0	319,565	874,004
	5,057,666	0	338,231	5,395,897
Support services:				
Student services	94,973	0	0	94,973
Instructional staff services	290,551	0	0	290,551
Administration services	643,275	0	0	643,275
Operation and maintenance of plant services	449,185	0	43,902	493,087
Transportation services	235,526	0	74,970	310,496
Central support services	0	0	45,195	45,195
	1,713,510	0	164,067	1,877,577
Non-instructional:				
Community service & education operations	5,623	0	0	5,623
Other expenditures:				
Facilities acquisitions	0	339,528	95,978	435,506
Long-term debt:				
Principal	0	0	433,048	433,048
Interest and fiscal charges	0	0	134,929	134,929
AEA flowthrough	244,617	0	0	244,617
	244,617	339,528	663,955	1,248,100
Total expenditures	7,021,416	339,528	1,166,253	8,527,197
Excess (deficiency) of revenues over (under) expenditures	139,709	263,617	(23,998)	379,328
Other financing sources (uses):				
Transfers in	0	0	157,635	157,635
Transfers out	(29,478)	0	(128,157)	(157,635)
Total other financing sources (uses)	(29,478)	0	29,478	0
Net change in fund balances	110,231	263,617	5,480	379,328
Fund balance beginning of year	183,452	0	206,199	389,651
Fund balance end of year	\$ 293,683	263,617	211,679	768,979

SEE NOTES TO FINANCIAL STATEMENTS.

GILBERT 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 19) \$ 379,328

*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	\$	434,660	
Depreciation expense		(248,521)	186,139

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. 433,048

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,658

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 fund.

Early retirement (30,508)

Changes in net assets of governmental activities (page 16) \$ 969,665

GILBERT COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2004

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 20,178
Accounts receivable	617
Inventories	7,654
Capital assets, net of accumulated depreciation	39,532
TOTAL ASSETS	<u>67,981</u>
LIABILITIES	
Deferred revenues	10,282
TOTAL LIABILITES	<u>10,282</u>
NET ASSETS	
Invested in capital assets, net of related debt	39,532
Unrestricted	18,167
TOTAL NET ASSETS	<u>\$ 57,699</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 221,810
Miscellaneous	547
TOTAL OPERATING REVENUES	222,357
OPERATING EXPENSES:	
Food service operations:	
Salaries	99,200
Benefits	47,849
Services	1,916
Supplies	143,938
Depreciation	5,925
TOTAL OPERATING EXPENSES	298,828
OPERATING LOSS	(76,471)
NON-OPERATING REVENUES:	
Interest	264
State sources	4,357
Federal sources	68,715
TOTAL NON-OPERATING REVENUES	73,336
Net loss	(3,135)
Retained earnings at beginning of year	60,834
Retained earnings end of year	\$ 57,699

SEE NOTES TO FINANCIAL STATEMENTS.

GILBERT 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	\$ 221,144
Cash received from miscellaneous operating activities	547
Cash payments to employees for services	(147,049)
Cash payments to suppliers for goods or services	(122,490)
Net cash used in operating activities	(47,848)
Cash flows from non-capital financing activities:	
State grants received	4,357
Federal grants received	48,427
Net cash provided by non-capital financing activities	52,784
Cash flows from investing activities:	
Interest on investments	264
Net cash provided by investing activities	264
Cash flows from capital financing activities:	
Purchase of assets	(608)
Net cash used by financing activities	(608)
Net increase in cash and cash equivalents	4,592
Cash and cash equivalents at beginning of year	15,586
Cash and cash equivalents at end of year	\$ 20,178
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (76,471)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	20,288
Depreciation	5,925
Decrease in inventories	3,076
Increase in accounts receivable	(617)
Decrease in deferred revenue	(49)
Net cash used in operating activities	\$ (47,848)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 20,178
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$20,288.

SEE NOTES TO FINANCIAL STATEMENTS.

GILBERT COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

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

The Gilbert 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 Gilbert, Iowa, and the predominate agricultural territory in Boone and Story 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, Gilbert 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 Gilbert 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 Boone and Story County 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 used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds is the 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 financial statements and the 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	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Live (In Years)
Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-12 years

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.

Long-term obligations - 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, no disbursements exceeded the amount 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 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 \$71,135 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Interfund Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 29,478
Debt Service	PPEL	128,157
Total		<u>\$ 157,635</u>

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

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

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a

semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Accrued		Accrued	
			Investments	Interest Receivable	Warrants Payable	Interest Payable
2003-04B	1/30/04	1/28/05	412,792	2,246	410,000	3,405
2004-05A	6/30/04	6/30/05	889,420	0	897,000	0
Total			\$ 1,302,212	2,246	1,307,000	3,405

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.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2003-04A	2.000%	1.050%
2003-04B	2.000%	1.310%
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance			Balance End of Year
	Beginning of Year	Increases	Decreases	
Business-type activities:				
Machinery and equipment	\$ 115,540	608	10,482	105,666
Less accumulated depreciation	70,691	5,925	10,482	66,134
Business-type activities capital assets, net	\$ 44,849	(5,317)	0	39,532

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 228,971	229,474	0	458,445
Total capital assets not being depreciated	228,971	229,474	0	458,445
Capital assets being depreciated:				
Buildings	6,196,393	0	0	6,196,393
Land improvements	656,265	0	0	656,265
Machinery and equipment	1,418,805	205,186	50,884	1,573,107
Total capital assets being depreciated	8,271,463	205,186	50,884	8,425,765
Less accumulated depreciation for:				
Buildings	2,080,656	111,043	0	2,191,699
Land improvements	321,152	31,278	0	352,430
Machinery and equipment	1,078,831	106,200	50,884	1,134,147
Total accumulated depreciation	3,480,639	248,521	50,884	3,678,276
Total capital assets being depreciated, net	4,790,824	(43,335)	0	4,747,489
Governmental activities capital assets, net	\$ 5,019,795	186,139	0	5,205,934

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 50,804
Special		791
Support services:		
Administration services		506
Operation and maintenance of plant services		1,579
Transportation		52,520
		106,200
Unallocated depreciation		142,321
Total governmental activities depreciation expense		\$ 248,521
Business-type activities:		
Food services		\$ 5,925

(6) 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
General obligation bonds	\$ 2,100,000	0	305,000	1,795,000	325,000
Capital loan note	575,000	0	105,000	470,000	110,000
Energy loan	128,166	0	23,048	105,118	24,273
Early retirement	39,000	41,008	10,500	69,508	47,050
Total	\$ 2,842,166	41,008	443,548	2,439,626	506,323

Capital Loan Notes

On December 1, 1998, the District issued capital loan notes of \$1,080,000. Details of the District's capital loan indebtedness are as follows:

Year	Ending June 30,	Interest Rate	Principal	Interest	Total
2005		3.90 %	\$ 110,000	18,816	128,816
2006		4.00	115,000	14,526	129,526
2007		4.00	120,000	9,926	129,926
2008		4.00	125,000	5,126	130,126
Total			\$ 470,000	48,394	518,394

Energy Loan

The District purchased new lighting for the elementary and secondary buildings and installed a geothermal heating/cooling system. The loan payments are as follows:

Year	Ending June 30,	Interest Rate	Principal	Interest	Total
2005		5.25 %	\$ 24,273	5,204	29,477
2006		5.25	25,565	3,913	29,478
2007		5.25	26,924	2,553	29,477
2008		5.25	28,356	1,121	29,477
Total			\$ 105,118	12,791	117,909

General Obligation Bonds

Details of the District's June 30, 2004 General Obligation bonds indebtedness is as follows:

Year	Ending June 30,	Interest Rate	Bond issue of September 1, 1997		
			Principal	Interest	Total
2005		6.50 %	\$ 230,000	61,930	291,930
2006		6.50	240,000	51,120	291,120
2007		6.50	255,000	39,720	294,720
2008		6.50	270,000	27,480	297,480
2009		6.50	285,000	14,250	299,250
Subtotal			\$ 1,280,000	194,500	1,474,500

Year	Ending June 30,	Interest Rate	Bond issue of June 1, 1995		
			Principal	Interest	Total
2005		5.25 %	\$ 95,000	28,052	123,052
2006		5.35	100,000	23,066	123,066
2007		5.40	105,000	17,716	122,716
2008		5.50	105,000	12,046	117,046
2009		5.70	110,000	6,270	116,270
Subtotal			\$ 515,000	87,150	602,150
Total			\$ 1,795,000	281,650	2,076,650

Early Retirement

The District offers a voluntary early retirement plan to its all employees. Eligible employees must be at least age fifty-five and must have completed twelve years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is equal to 45% if the employee's base salary calculated by using the current year regular salary schedule. Early retirement benefits paid during the year ended June 30, 2004, totaled \$10,500.

(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 \$250,485, \$243,100, and \$237,638 respectively, equal to the required contributions for each year.

(8) Risk Management

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

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, ISEBA'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 ISEBA for the year ended June 30, 2004 were \$12,830.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA 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, 2003, 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. ISEBA will pay claims incurred before the termination date.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$244,617 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

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

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No.38, Certain Financial Statement Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statement create new basic financial statements for reporting the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements separate the District's programs between governmental and business type activities. The beginning net assets for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

Beginning capital assets for governmental activities of \$8,623,367 were restated to \$8,271,463. The restatement primarily removed assets below the District's capitalization threshold.

The effects of the accounting change and other restatements in the governmental activities are summarized as follows:

	Fund		Total
	General	Other Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 183,452	206,199	389,651
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 183,452	206,199	389,651
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$3,480,639			5,019,795
Long-term liabilities:			
General obligation bonds		2,100,000	
Capital loan note		575,000	
Energy loan		128,166	
Early retirement		39,000	(2,842,166)
Accrued interest payable			(11,235)
Net assets July 1, 2003, as restated			\$ 2,556,045

REQUIRED SUPPLEMENTAL INFORMATION

GILBERT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN BALANCES -
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS
 AND PROPRIETARY FUNDS
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Receipts:		
Local sources	\$ 5,133,649	222,571
State sources	3,548,504	4,358
Federal sources	173,121	68,098
Total receipts	<u>8,855,274</u>	<u>295,027</u>
Disbursements:		
Instruction	5,416,457	0
Support services	1,848,276	0
Non-instructional programs	5,624	290,435
Other disbursements	1,248,099	0
Total disbursements	<u>8,518,456</u>	<u>290,435</u>
Excess(deficiency) of receipts over(under) disbursements	336,818	4,592
Balance beginning of year	<u>375,328</u>	<u>15,586</u>
Balance end of year	<u>\$ 712,146</u>	<u>20,178</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
5,356,220	5,525,516	5,525,516	(169,296)
3,552,862	3,607,897	3,607,897	(55,035)
241,219	135,000	135,000	106,219
9,150,301	9,268,413	9,268,413	(118,112)
5,416,457	5,360,000	5,560,000	143,543
1,848,276	2,006,055	2,081,055	232,779
296,059	299,399	346,399	50,340
1,248,099	1,365,358	1,425,358	177,259
8,808,891	9,030,812	9,412,812	603,921
341,410	237,601	(144,399)	485,809
390,914	112,399	112,399	278,515
732,324	350,000	(32,000)	764,324

GILBERT COMMUNITY SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE-
 BUDGET TO GAAP RECONCILIATION
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2004

Governmental Fund Types			
Accrual			
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 8,855,274	51,251	8,906,525
Expenses	8,518,456	8,741	8,527,197
Net	336,818	42,510	379,328
Beginning fund balances	375,328	14,323	389,651
Ending fund balances	\$ 712,146	56,833	768,979

Proprietary Fund Type			
Enterprise			
Accrual			
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 295,027	666	295,693
Expenses	290,435	8,393	298,828
Net	4,592	(7,727)	(3,135)
Beginning retained earnings	15,586	45,248	60,834
Ending retained earnings	\$ 20,178	37,521	57,699

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GILBERT 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 cash basis. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as 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.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds					
	Physical Plant & Management	Equipment Levy	Student Activity	Total Special Revenue	Debt Service	Total Nonmajor Governmental Funds
ASSETS						
Cash and pooled investments	\$ 69,495	33,617	105,906	209,018	888	209,906
Receivables:						
Property tax:						
Current year delinquent	215	675	0	890	883	1,773
Succeeding year	125,000	315,102	0	440,102	677,882	1,117,984
TOTAL ASSETS	\$ 194,710	349,394	105,906	650,010	679,653	1,329,663
LIABILITIES AND FUND EQUITY						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 125,000	315,102	0	440,102	677,882	1,117,984
	125,000	315,102	0	440,102	677,882	1,117,984
Fund equity:						
Fund balances:						
Unreserved:						
Undesignated	69,710	34,292	105,906	209,908	1,771	211,679
Total fund balances	69,710	34,292	105,906	209,908	1,771	211,679
TOTAL LIABILITIES AND FUND EQUITY	\$ 194,710	349,394	105,906	650,010	679,653	1,329,663

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue					Total Nonmajor Governmental Funds
	Management	Physical Plant & Equipment Levy	Student Activity	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 99,914	313,101	0	413,015	407,219	820,234
Other	376	1,232	319,888	321,496	0	321,496
State sources	64	200	0	264	261	525
TOTAL REVENUES	100,354	314,533	319,888	734,775	407,480	1,142,255
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	8,376	10,290	0	18,666	0	18,666
Other instruction	0	0	319,565	319,565	0	319,565
	8,376	10,290	319,565	338,231	0	338,231
Support services:						
Operation and maintenance of plant services	15,988	27,914	0	43,902	0	43,902
Transportation services	8,338	66,632	0	74,970	0	74,970
Central support services	45,195	0	0	45,195	0	45,195
	69,521	94,546	0	164,067	0	164,067
Other expenditures:						
Facility acquisition	0	95,978	0	95,978	0	95,978
Long-term debt:						
Principle	0	0	0	0	433,083	433,083
Interest and fiscal charges	0	0	0	0	134,894	134,894
	0	95,978	0	95,978	567,977	663,955
TOTAL EXPENDITURES	77,897	200,814	319,565	598,276	567,977	1,166,253
Other financing sources:						
Operating transfers in	0	0	0	0	157,635	157,635
Operating transfers out	0	(128,157)	0	(128,157)	0	(128,157)
Total other financing sources	0	(128,157)	0	(128,157)	157,635	29,478
Net change in fund balances	22,457	(14,438)	323	8,342	(2,862)	5,480
Fund balance beginning of year	47,253	48,730	105,583	201,566	4,633	206,199
Fund balance end of year	\$ 69,710	34,292	105,906	209,908	1,771	211,679

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GILBERT 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
Boys basketball	\$ 2,193	10,702	10,425	2,470
Girls basketball	0	12,587	8,630	3,957
Football	3,283	11,155	12,791	1,647
Soccer	1,329	14,154	14,763	720
Baseball	0	5,274	5,274	0
Softball	0	3,719	3,578	141
Boys track/CC	0	9,656	9,574	82
Girls track/CC	5,928	14,346	13,131	7,143
Golf	2,537	1,291	1,296	2,532
Wrestling	0	4,689	4,689	0
Volleball	4,189	4,717	4,434	4,472
Cheerleading I	1,098	9,549	10,647	0
G club	6,760	5,802	6,064	6,498
Fitness club	1,053	4,757	3,460	2,350
Annual	1,432	13,747	14,066	1,113
Business club	467	922	322	1,067
Drama	1,293	3,643	3,062	1,874
After prom	601	6,942	6,704	839
FCCLA	1	48,017	48,009	9
District XI FHA	0	2,608	2,608	0
History club	3	105	94	14
HS student council	193	3,513	3,314	392
JH student council	26	1,280	1,306	0
Spanish club	3,438	4,182	4,938	2,682
Art club	654	3,463	3,825	292
Secondary student pop	2,603	1,892	1,427	3,068
Secondary teachers pop	114	251	146	219
Secondary LMC	232	141	30	343
National honor society	0	2,054	1,670	384
Science club	8	0	0	8
FFA	2,955	7,964	9,584	1,335
Student ctivity	4,329	8,620	8,134	4,815
Elementary TAG	3	0	0	3
Elementary book fair	5,656	100	2,431	3,325
GESS	33,355	35,692	38,647	30,400
Elementary pop	489	463	284	668
Elementary principal	4,131	300	1,189	3,242
Elem 6th grade carnival	1,106	1,262	1,053	1,315
Instrumental music	5,079	15,616	13,477	7,218
Elementary band	575	583	609	549
Vocal music	0	27,635	27,635	0
Adult education	462	0	(1)	463
Elementar health club	219	250	184	285
General activity	3,031	2,231	3,174	2,088
Industrial education projects	60	393	453	0
Agriculture education	0	1,663	1,491	172
Alumni	946	0	0	946
Class of 03	96	0	0	96
Class of 04	1,875	868	2,590	153
Class of 05	427	9,737	7,924	2,240
Class of 06	0	613	227	386
Miscellaneous registration	1,310	740	203	1,847
Towel service	44	0	0	44
	\$ 105,583	319,888	319,565	105,906

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

GILBERT 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	\$ 3,960,802	3,157,622	2,928,913	2,667,522
Tuition	779,286	752,732	683,023	691,682
Other	450,714	413,524	431,562	417,268
State sources	3,548,507	3,510,642	3,380,812	3,424,483
Federal sources	167,216	70,730	59,113	48,942
Total	\$ 8,906,525	7,905,250	7,483,423	7,249,897
Expenditures:				
Instruction:				
Regular instruction	\$ 3,184,131	3,089,308	2,990,343	2,752,574
Special instruction	1,337,762	1,139,223	1,189,562	984,556
Other instruction	874,004	786,766	771,859	767,203
Support services:				
Student services	94,973	132,030	126,014	126,759
Instructional staff services	290,551	288,456	281,738	260,165
Administration services	643,275	595,973	755,582	528,051
Operation and maintenance of plant services	493,087	554,503	498,741	543,718
Transportation services	310,496	272,912	213,182	306,322
Central support services	45,195	39,193	32,969	25,137
Non-instructional:				
Community service & education operations	5,623	10,081	11,350	12,861
Other expenditures:				
Facilities acquisitions	435,506	35,748	137,582	55,951
Long Term Debt:				
Principal	433,083	416,884	400,788	384,731
Interest	134,894	153,806	171,724	188,532
AEA flow-through	244,617	252,761	246,893	248,107
Total	\$ 8,527,197	7,767,644	7,828,327	7,184,667

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
Gilbert Community School District:

We have audited the financial statements of Gilbert Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated August 11, 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 Gilbert 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.

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.

Internal Control Over Financial Reporting

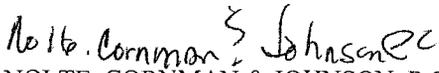
In planning and performing our audit, we considered Gilbert Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over 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.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have all been resolved, except for I-A-04, I-B-04, and I-F-04.

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

August 11, 2004

GILBERT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-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. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

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.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

I-B-04 Checks Outstanding - We noted during our audit that the District had checks included in the Activity Fund bank reconciliation which have been outstanding for over a year.

Recommendation - The District needs to forward these checks to the Treasurer of Iowa after a reasonable length of time.

Response - We will comply.

Conclusion - Response accepted.

I-C-04 Gate Admissions - The gate admissions were not reconciled to pre-numbered tickets.

Recommendation - The District should establish reconciliation procedures for gate admissions. The reconciliation should include the issuance of pre-numbered tickets and the reconciling of the admissions to the number of tickets issued.

Response - We will review our procedures.

Conclusion - Response accepted.

I-D-04 Grants - We noted during our audit, that when expenditures for specific projects were posted; it appeared that the expenses were not always properly posted to those projects.

Recommendation - The District should review the coding of bills, to ensure that all bills paid for a specific grant or project are properly coded. The project numbers may be obtained from the Uniform Financial Accounting for Iowa LEAs and AEAs. The proper coding also allows the district to maintain accountability of the grants by matching the revenues to the expenditures.

Response - We will comply.

Conclusion - Response accepted.

I-E-04 Student Activity Fund - We noted during our audit that the Student Activity fund included a towel service, misc. registration, elementary principal accounts.

Recommendation - The receipts and expenditures made from these accounts appear to be more appropriately accounted for in the General fund. The District should review the transactions in this account and make the necessary transfers.

Response - We will make the necessary changes.

Conclusion - Response accepted.

I-F-04 Interest in Student Activity Fund - We noted during our audit that the District did not record interest in the Student Activity Fund.

Recommendation - Interest should be recorded and allocated out among the Student Activity accounts at year end.

Response - We will make the necessary changes.

Conclusion - Response accepted.

GILBERT COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part II: Other Findings Related to Statutory Reporting

II-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.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2003, did not exceed the amount budgeted.

II-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.

II-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.

II-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
Marcia DeZonia, Board Member Consultant	Assessment consulting	\$1,100

In accordance with Chapter 279.7A of the Code of Iowa, the transactions with the Board Member does not appear to be a conflict of interest.

II-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.

II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

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

II-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.

II-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.

II-K-04 PPEL Expenditures - We noted during our audit that the District had expenditures of less than \$500 in the PPEL Fund, details as follows:

Invoice Number	Vendor Name	Transaction Description	Amount
17719	Movin' Music Pro Sound	Audio Wireless System	\$ 185.00
18021	Office Depot	Printer	235.85
18492	Office Depot	Shredder	179.99
Total			<u>\$ 600.84</u>

Recommendation - The District should have paid the expenditures out of the General Fund, to stay in accordance with Chapter 298.3 of the Code of Iowa. There needs to be a corrective transfer made from the General Fund to the PPEL fund for the expenditures.

Response - We will comply.

Conclusion - Response accepted.