

HAMBURG COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Hamburg Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
William Barrett	President	2005
Pat Carlock	Vice President	2003
Debora Reeves	Board Member	2004
Mary Ann Gregg	Board Member (Resigned)	2004
Gene Hines	Board Member (Appointed)	2003
Jim Lechner	Board Member	2005
Board of Education (After September 2003 Election)		
Pat Carlock	President	2006
Jim Lechner	Vice President	2005
Debora Reeves	Board Member	2004
Gene Hines	Board Member	2004
William Barrett	Board Member	2005
School Officials		
Sharon Collins	Superintendent	2004
Jane Snodgrass (resigned 12/03)	Board Secretary/ District Treasurer	2004
Colette Rogers (appointed 1/04)	Board Secretary/ District Treasurer (Resigned)	2004
Beverly A. Meyer (appointed 4/04)	Board Secretary/ District Treasurer (Interim)	2004
Carrie Stoner (appointed 5/04)	Board Secretary/ District Treasurer	2004
Gruhn Law Firm	Attorney	2004

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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Hamburg 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 Hamburg 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 Hamburg 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, Hamburg 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 - State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation Number 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

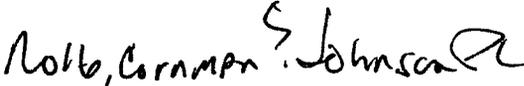
In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2004 on our consideration of the Hamburg Community School District's internal control over financial

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reporting and our tests of its compliance with certain provisions of 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 12 and 34 through 37 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 Hamburg 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 two years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for year ended June 30, 2001 (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.

October 5, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hamburg 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 \$2,292,238 in fiscal 2003 to \$2,496,070 in fiscal 2004, while General Fund expenditures increased from \$2,338,170 in fiscal 2003 to \$2,526,786 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from \$249,646 in fiscal 2003 to a balance of \$226,504 in fiscal 2004, a 9.27% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures.
- 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 \$10,426 in fiscal year 2003 to \$5,340 in fiscal year 2004.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Hamburg 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 Hamburg 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 Hamburg Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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.

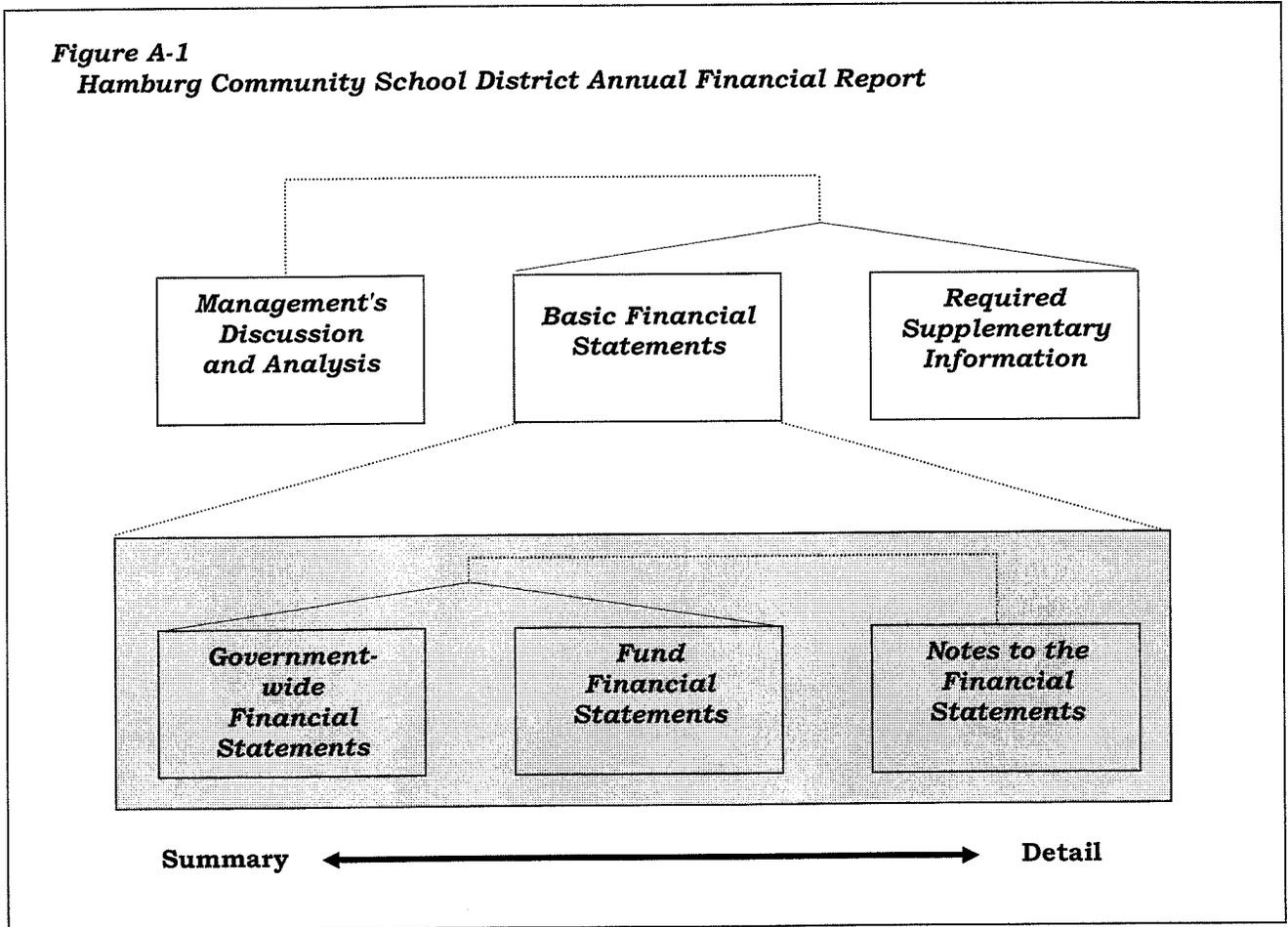


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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 and Special Revenue Funds.

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	\$ 2,427,078	55,700	2,482,778
Capital assets	805,066	10,742	815,808
Total assets	<u>3,232,144</u>	<u>66,442</u>	<u>3,298,586</u>
Long-term obligations	172,665	0	172,665
Other liabilities	1,722,681	5,596	1,728,277
Total liabilities	<u>1,895,346</u>	<u>5,596</u>	<u>1,900,942</u>
Net assets:			
Invested in capital assets, net of related debt	805,066	10,742	815,808
Restricted	384,395	0	384,395
Unrestricted	147,337	50,104	197,441
Total net assets	<u>\$ 1,336,798</u>	<u>60,846</u>	<u>1,397,644</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	\$ 196,480	51,711	248,191
Operating grants and contributions and restricted interest	350,752	94,904	445,656
Capital grants and contributions and restricted interest	56,500	0	56,500
General revenues:			
Property tax	1,185,229	0	1,185,229
Local option sales and services tax	153,223	0	153,223
Unrestricted state grants	1,093,099	0	1,093,099
Other	13,788	55	13,843
Total revenues	<u>3,049,071</u>	<u>146,670</u>	<u>3,195,741</u>
Program expenses:			
Governmental activities:			
Instructional	1,777,071	0	1,777,071
Support services	899,773	0	899,773
Non-instructional programs	7,750	133,866	141,616
Other expenditures	254,902	0	254,902
Total expenses	<u>2,939,496</u>	<u>133,866</u>	<u>3,073,362</u>
Changes in net assets	<u>\$ 109,575</u>	<u>12,804</u>	<u>122,379</u>

Property tax, local option sales and services tax and unrestricted state grants account for 76% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,049,071 and expenses were \$2,939,496.

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	\$ 1,777,071	1,324,514
Support services	899,773	899,773
Non-instructional programs	7,750	7,750
Other expenditures	254,902	103,727
Totals	<u>\$ 2,939,496</u>	<u>2,335,764</u>

- The cost financed by users of the District's programs was \$196,480.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$407,252.
- The net cost of governmental activities was financed with \$1,185,229 in property tax, \$153,223 in local option sales and services tax, \$1,093,099 in state foundation aid, \$6,214 in interest income and \$7,574 as a gain on sale of equipment.

Business-Type Activities

Revenues of the District's business-type activities were \$146,670 and expenses were \$133,866. 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 Hamburg 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 \$670,257, below last year's ending fund balances of a \$721,452. However, the primary reason for the decrease in combined fund balances in fiscal 2004 is due to increased spending in the General Fund.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from \$249,646 to \$226,504 is the product of many factors:
 - Increase in state aid and federal grants and increase in tax levy during the year resulted in an increase in revenues.
 - The increase in negotiated salary and benefits settlement, as well as existing expenditure commitments of the District, resulted in an increase in expenditures.
 - The increase in expenditures was greater than the increase in revenues resulting in a net decrease of \$23,142.
- The Capital Projects Fund balance decreased from \$180,599 in fiscal 2003 to \$157,891 in fiscal 2004. This is due to increased expenditures made during the year due to capital improvements.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$48,042 at June 30, 2003 to \$60,846 at June 30, 2004, representing an increase of 26.65%. In the future, the District plans to use this balance to purchase new food service equipment.

BUDGETARY HIGHLIGHTS

Over the course of the year, Hamburg Community School District amended its annual budget one time to reflect additional expenditures associated with the other expenditures.

The District's revenues were \$47,754 more than budgeted revenues, a variance of 1.57%. The most significant variance resulted from the District receiving more in federal 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 \$815,808, 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$179,233.

The original cost of the District's capital assets was \$2.92 million. Governmental funds account for \$2.88 million with the remainder of \$0.04 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the buildings category. The District's buildings totaled \$594,299 at June 30, 2004, compared to \$389,123

reported at June 30, 2003. This increase resulted from the capitalization of capital construction that occurred which was greater than the current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental	Business-type	Total
	Activities	Activities	School District
	2004	2004	2004
Land	\$ 42,707	0	42,707
Buildings	594,299	0	594,299
Land improvements	92,609	0	92,609
Machinery and equipment	75,451	10,742	86,193
Total	\$ 805,066	10,742	815,808

Long-Term Debt

At June 30, 2004, the District had \$172,665 in other long-term debt outstanding. This represents an increase of 60.5% 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 Early Retirement payable from the Special Revenue - Management Fund of \$116,310 at June 30, 2004.

The District had total outstanding State Aid Overpayment payable from the General Fund of \$56,355 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
Early retirement	\$ 116,310	23,078	404.0%
State aid overpayment	56,355	84,533	-33.3%
Total	\$ 172,665	107,611	60.5%

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:

- 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.
- The budget guarantee (whereby Districts are guaranteed 100% of their current budget for the upcoming year) is being phased out over a ten year period beginning in fiscal year 2005.

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 Carrie Stoner, Board Secretary, Hamburg Community School District, 105 E Street, Hamburg, Iowa, 51640.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 212,192	0	212,192
Other	837,863	52,233	890,096
Receivables:			
Property tax:			
Delinquent	12,486	0	12,486
Succeeding year	1,238,647	0	1,238,647
Income surtax	34,140	0	34,140
Accounts	0	1,395	1,395
Due from other governments	91,750	0	91,750
Inventories	0	2,072	2,072
Capital assets, net of accumulated depreciation (Note 5)	805,066	10,742	815,808
TOTAL ASSETS	3,232,144	66,442	3,298,586
LIABILITIES			
Accounts payable	23,939	1,588	25,527
Salaries and benefits payable	246,095	3,358	249,453
ISCAP warrants payable (Note 4)	214,000	0	214,000
Deferred revenue:			
Succeeding year property tax	1,238,647	0	1,238,647
Other	0	650	650
Long-term liabilities (Note 6):			
Portion due within one year:			
Early retirement payable	20,082	0	20,082
State aid overpayment payable	28,178	0	28,178
Portion due after one year:			
Early retirement payable	96,228	0	96,228
State aid overpayment payable	28,177	0	28,177
TOTAL LIABILITIES	1,895,346	5,596	1,900,942
NET ASSETS			
Investment in capital assets, net of related debt	805,066	10,742	815,808
Restricted for:			
Talented and gifted	21,354	0	21,354
Capital projects	157,891	0	157,891
Physical plant and equipment levy	74,536	0	74,536
Other special revenue purposes	130,614	0	130,614
Unrestricted	147,337	50,104	197,441
TOTAL NET ASSETS	\$ 1,336,798	60,846	1,397,644

SEE NOTES TO FINANCIAL STATEMENTS.

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

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs				
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,268,324	61,384	248,959	0
Special instruction	340,672	150	7,118	0
Other instruction	168,075	134,946	0	0
	<u>1,777,071</u>	<u>196,480</u>	<u>256,077</u>	<u>0</u>
Support services:				
Student services	94,661	0	0	0
Instructional staff services	41,081	0	0	0
Administration services	404,680	0	0	0
Operation and maintenance of plant services	237,256	0	0	0
Transportation services	114,271	0	0	0
Central support services	7,824	0	0	0
	<u>899,773</u>	<u>0</u>	<u>0</u>	<u>0</u>
Non-instructional programs:				
Operations of non-instructional programs	7,750	0	0	0
Other expenditures:				
Facilities acquisitions	95,946	0	0	56,500
AEA flowthrough	94,675	0	94,675	0
Depreciation(unallocated)*	64,281	0	0	0
	<u>254,902</u>	<u>0</u>	<u>94,675</u>	<u>56,500</u>
Total governmental activities	2,939,496	196,480	350,752	56,500
Business-Type activities:				
Non-instructional programs:				
Nutrition services	133,866	51,711	94,904	0
Total business-type activities	<u>133,866</u>	<u>51,711</u>	<u>94,904</u>	<u>0</u>
Total	<u>\$ 3,073,362</u>	<u>248,191</u>	<u>445,656</u>	<u>56,500</u>

General Revenues:

Property tax levied for:
 General purposes
 Capital outlay
Local option sales and services tax
Unrestricted state grants
Unrestricted investment earnings
Gain on sale of capital assets

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.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(957,981)	0	(957,981)
(333,404)	0	(333,404)
(33,129)	0	(33,129)
<u>(1,324,514)</u>	<u>0</u>	<u>(1,324,514)</u>
(94,661)	0	(94,661)
(41,081)	0	(41,081)
(404,680)	0	(404,680)
(237,256)	0	(237,256)
(114,271)	0	(114,271)
(7,824)	0	(7,824)
<u>(899,773)</u>	<u>0</u>	<u>(899,773)</u>
(7,750)	0	(7,750)
(39,446)	0	(39,446)
0	0	0
(64,281)	0	(64,281)
<u>(103,727)</u>	<u>0</u>	<u>(103,727)</u>
(2,335,764)	0	(2,335,764)
0	12,749	12,749
0	12,749	12,749
<u>(2,335,764)</u>	<u>12,749</u>	<u>(2,323,015)</u>
\$ 1,025,014	0	1,025,014
160,215	0	160,215
153,223	0	153,223
1,093,099	0	1,093,099
6,214	55	6,269
7,574	0	7,574
<u>2,445,339</u>	<u>55</u>	<u>2,445,394</u>
109,575	12,804	122,379
<u>1,227,223</u>	<u>48,042</u>	<u>1,275,265</u>
<u>\$ 1,336,798</u>	<u>60,846</u>	<u>1,397,644</u>

HAMBURG 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)	\$ 212,192	0	0	212,192
Other	463,606	89,261	284,996	837,863
Receivables:				
Property tax				
Delinquent	10,126	0	2,360	12,486
Succeeding year	1,021,419	0	217,228	1,238,647
Income surtax	34,140	0	0	34,140
Due from other governments	16,769	74,981	0	91,750
TOTAL ASSETS	\$ 1,758,252	164,242	504,584	2,427,078
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 16,094	6,351	1,494	23,939
Salaries and benefits payable	246,095	0	0	246,095
ISCAP warrants payable(Note 4)	214,000	0	0	214,000
Deferred revenue:				
Succeeding year property tax	1,021,419	0	217,228	1,238,647
Income surtax	34,140	0	0	34,140
Total liabilities	<u>1,531,748</u>	<u>6,351</u>	<u>218,722</u>	<u>1,756,821</u>
Fund balances:				
Reserved for:				
Talented and gifted	21,354	0	0	21,354
Unreserved:				
Undesignated:				
General	205,150	0	0	205,150
Capital projects	0	157,891	0	157,891
Management levy	0	0	80,712	80,712
Physical plant and equipment levy	0	0	74,536	74,536
Other special revenue purposes	0	0	130,614	130,614
Total fund balances	<u>226,504</u>	<u>157,891</u>	<u>285,862</u>	<u>670,257</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,758,252	164,242	504,584	2,427,078

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG 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 16)	\$	670,257
 <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.		805,066
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.		34,140
Long-term liabilities, including early retirement payable and state aid overpayment payable, are not due and payable in the current period and, therefore, are not reported in the funds.		(172,665)
		<hr/>
Net assets of governmental activites (page 13)	\$	<u>1,336,798</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Other	Total
			Governmental Funds	
REVENUES:				
Local sources:				
Local tax	\$ 926,827	153,223	224,262	1,304,312
Tuition	61,534	0	0	61,534
Other	63,926	337	76,897	141,160
State sources	1,305,958	0	68	1,306,026
Federal sources	137,825	0	56,500	194,325
Total revenues	<u>2,496,070</u>	<u>153,560</u>	<u>357,727</u>	<u>3,007,357</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,169,307	0	0	1,169,307
Special instruction	341,609	0	0	341,609
Other instruction	101,580	0	61,354	162,934
	<u>1,612,496</u>	<u>0</u>	<u>61,354</u>	<u>1,673,850</u>
Support services:				
Student services	89,571	0	3,782	93,353
Instructional staff services	40,715	0	0	40,715
Administration services	400,677	0	3,665	404,342
Operation and maintenance of plant services	196,115	0	39,890	236,005
Transportation services	84,713	0	0	84,713
Central support services	7,824	0	0	7,824
	<u>819,615</u>	<u>0</u>	<u>47,337</u>	<u>866,952</u>
Non-instructional programs:				
Operation of non-instructional programs	0	0	7,750	7,750
Other expenditures:				
Facilities acquisitions	0	232,768	190,131	422,899
AEA flowthrough	94,675	0	0	94,675
	<u>94,675</u>	<u>232,768</u>	<u>190,131</u>	<u>517,574</u>
Total expenditures	<u>2,526,786</u>	<u>232,768</u>	<u>306,572</u>	<u>3,066,126</u>
Excess(deficiency) of revenues over(under) expenditures	(30,716)	(79,208)	51,155	(58,769)
OTHER FINANCING SOURCES(USES):				
Transfer in	0	56,500	0	56,500
Transfer out	0	0	(56,500)	(56,500)
Sale of equipment	7,574	0	0	7,574
TOTAL OTHER FINANCING SOURCES(USES)	<u>7,574</u>	<u>56,500</u>	<u>(56,500)</u>	<u>7,574</u>
Net change in fund balances	(23,142)	(22,708)	(5,345)	(51,195)
Fund balance beginning of year	249,646	180,599	291,207	721,452
Fund balance end of year	<u>\$ 226,504</u>	<u>157,891</u>	<u>285,862</u>	<u>670,257</u>

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG 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 18) \$ (51,195)

***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. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 369,283	
Depreciation expense	<u>(177,599)</u>	191,684

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.	34,140
--	--------

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, as follows:

Early retirement payable	\$ (93,232)	
State aid overpayment payable	<u>28,178</u>	(65,054)

Changes in net assets of governmental activities (page 15) \$ 109,575

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and pooled investments	\$ 52,233
Receivables:	
Accounts	1,395
Inventories	2,072
Capital assets, net of accumulated depreciation (Note 5)	10,742
TOTAL ASSETS	66,442
LIABILITIES	
Accounts payable	1,588
Salaries and benefits payable	3,358
Deferred revenues:	
Other	650
TOTAL LIABILITIES	5,596
NET ASSETS	
Investment in capital assets, net of related debt	10,742
Unrestricted	50,104
TOTAL NET ASSETS	\$ 60,846

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG 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	\$ 51,711
TOTAL OPERATING REVENUES	51,711
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	51,565
Benefits	6,592
Services	488
Supplies	73,587
Depreciation	1,634
TOTAL OPERATING EXPENSES	133,866
OPERATING LOSS	(82,155)
NON-OPERATING REVENUES:	
State sources	2,136
Federal sources	92,768
Interest income	55
TOTAL NON-OPERATING REVENUES	94,959
Change in net assets	12,804
Net assets beginning of year	48,042
Net assets end of year	\$ 60,846

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG 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	\$ 49,893
Cash received from miscellaneous sources	1,133
Cash payments to employees for services	(58,049)
Cash payments to suppliers for goods or services	(63,864)
Net cash used in operating activities	(70,887)
Cash flows from non-capital financing activities:	
State grants received	2,136
Federal grants received	83,395
Net cash provided by non-capital financing activities	85,531
Cash flows from investing activities:	
Interest on investments	55
Net cash provided by investing activities	55
Net increase in cash and cash equivalents	14,699
Cash and cash equivalents at beginning of year	37,534
Cash and cash equivalents at end of year	\$ 52,233
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (82,155)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	9,373
Depreciation	1,634
Increase in inventories	(448)
Increase in accounts receivable	(1,335)
Increase in accounts payable	1,286
Increase in salaries and benefits payable	108
Increase in deferred revenue	650
Net cash used in operating activities	\$ (70,887)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 52,233

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$9,373.

SEE NOTES TO FINANCIAL STATEMENTS.

HAMBURG COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

(1) Summary of Significant Accounting Policies

The Hamburg 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. The geographic area served includes the City of Hamburg, Iowa, and the predominate agricultural territory in Fremont County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, Hamburg 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 Hamburg 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 Fremont 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 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 reports the following major proprietary 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 and proprietary 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, machinery, 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	\$ 0
Buildings	1,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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
Land improvements	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.

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.

(2) Cash and Pooled Investments

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

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

The District had no investments at June 30, 2004.

(3) Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects	Special Revenue - Physical Plant and Equipment Levy	<u>\$ 56,500</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 Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2004 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2004-05A	6/30/04	6/30/05	\$ 212,192	0	214,000	0

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, and 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. No ISCAP advance activity in the General Fund was noted for the year ended June 30, 2004.

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

Series	Interest Rates on Warrants	Interest Rates on Investments
2004-05A	3.000%	2.463%

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 42,707	0	0	42,707
Total capital assets not being depreciated	<u>42,707</u>	<u>0</u>	<u>0</u>	<u>42,707</u>
Capital assets being depreciated:				
Buildings	1,493,485	253,672	0	1,747,157
Land improvements	182,710	73,281	0	255,991
Machinery and equipment	793,012	42,330	0	835,342
Total capital assets being depreciated	<u>2,469,207</u>	<u>369,283</u>	<u>0</u>	<u>2,838,490</u>
Less accumulated depreciation for:				
Buildings	1,104,362	48,496	0	1,152,858
Land improvements	150,582	12,800	0	163,382
Machinery and equipment	643,588	116,303	0	759,891
Total accumulated depreciation	<u>1,898,532</u>	<u>177,599</u>	<u>0</u>	<u>2,076,131</u>
Total capital assets being depreciated, net	<u>570,675</u>	<u>191,684</u>	<u>0</u>	<u>762,359</u>
Governmental activities capital assets, net	<u>\$ 613,382</u>	<u>191,684</u>	<u>0</u>	<u>805,066</u>
Business-type activities:				
Machinery and equipment	\$ 39,899	0	0	39,899
Less accumulated depreciation	27,523	1,634	0	29,157
Business-type activities capital assets, net	<u>\$ 12,376</u>	<u>(1,634)</u>	<u>0</u>	<u>10,742</u>

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 53,111
Special		343
Other		9,246
Support services:		
Student		1,308
Instructional staff		366
Administration		3,435
Operation and maintenance of plant		1,251
Transportation		44,258
		<u>113,318</u>
Unallocated depreciation		<u>64,281</u>
Total governmental activities depreciation expense		<u>\$ 177,599</u>
Business-type activities:		
Food services		\$ 1,634
Total business-type activities depreciation expense		<u>\$ 1,634</u>

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
Early Retirement	\$ 23,078	97,013	3,781	116,310	20,082
State Aid Overpayment	84,533	0	28,178	56,355	28,177
Total	\$ 107,611	97,013	31,959	172,665	48,259

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed twenty-five years of service to the District. Employees must complete an application which is required to be approved by the Board of Education. The District will pay health insurance benefits until the retiree reaches age sixty-five. A liability has been recorded in the Statement of Net Assets for government-wide activities for these early retirement benefits. Early retirement benefits paid during the year ended June 30, 2004, totaled \$3,781.

State Aid Overpayment

Details of the District's June 30, 2004 loan are as follows:

Year Ending June 30,	State Aid Overpayment
2005	\$ 28,178
2006	28,177
Total	\$ 56,355

(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 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 \$87,476, \$84,319 and \$83,853 respectively, equal to the required contributions for each year.

(8) Risk Management

Hamburg Community School District is a member in the Iowa School Employees Benefits Association, and 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 July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical, dental 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 GAAP 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 \$203,811.

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, 2004, no liability has been recorded in the District's financial statements. As of June 30, 2004, settled claims have not exceeded the risk pool or reinsurance company coverage.

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

Hamburg 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 \$94,675 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(GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absences and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board(GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement Number 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the year ended June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include Government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount 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 \$2,479,829 were restated to \$2,511,914. The restatement primarily add assets not capitalized in the previous year after the appraisal was completed.

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

	Fund			Total
	General	Capital Projects	Other Nonmajor Governmental Funds	
Net assets, June 30, 2003, as previously reported	\$ 249,646	180,599	291,207	721,452
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ 249,646</u>	<u>180,599</u>	<u>291,207</u>	<u>721,452</u>
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,898,532				613,382
Long-term debt:				
Early retirement payable			\$ 23,078	
State aid overpayment payable			84,533	(107,611)
Net assets, July 1, 2003, as restated				<u>\$ 1,227,223</u>

REQUIRED SUPPLEMENTAL INFORMATION

HAMBURG 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	\$ 1,512,003	51,081
State sources	1,305,026	2,136
Federal sources	131,317	92,768
Total receipts	<u>2,948,346</u>	<u>145,985</u>
Disbursements:		
Instruction	1,679,328	0
Support services	859,490	0
Non-instructional programs	7,750	131,286
Other expenditures	511,223	0
Total disbursements	<u>3,057,791</u>	<u>131,286</u>
Excess(deficiency) of receipts over(under) disbursements	(109,445)	14,699
Other financing sources, net	<u>7,574</u>	<u>0</u>
Excess(deficiency) of receipts and other financing sources over(under) disbursements	(101,871)	14,699
Balance beginning of year	<u>939,734</u>	<u>37,534</u>
Balance end of year	<u>\$ 837,863</u>	<u>52,233</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
1,563,084	1,524,281	1,524,281	38,803
1,307,162	1,359,633	1,359,633	(52,471)
224,085	162,663	162,663	61,422
<u>3,094,331</u>	<u>3,046,577</u>	<u>3,046,577</u>	<u>47,754</u>
1,679,328	1,762,337	1,762,337	83,009
859,490	1,062,040	1,062,040	202,550
139,036	171,583	171,583	32,547
511,223	375,600	625,000	113,777
<u>3,189,077</u>	<u>3,371,560</u>	<u>3,620,960</u>	<u>431,883</u>
(94,746)	(324,983)	(574,383)	479,637
7,574	0	0	7,574
(87,172)	(324,983)	(574,383)	487,211
977,268	804,315	804,315	172,953
<u>890,096</u>	<u>479,332</u>	<u>229,932</u>	<u>660,164</u>

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

	Governmental Fund Types		
	Cash Basis	Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 2,948,346	59,011	3,007,357
Expenses	3,057,791	8,335	3,066,126
Net	(109,445)	50,676	(58,769)
Other financing sources	7,574	0	7,574
Beginning fund balances	939,734	(218,282)	721,452
Ending fund balances	\$ 837,863	(167,606)	670,257

	Proprietary Fund Type		
	Cash Basis	Enterprise Accrual	
		Adjust- ments	Accrual Basis
Revenues	\$ 145,985	685	146,670
Expenses	131,286	2,580	133,866
Net	14,699	(1,895)	12,804
Beginning retained earnings	37,534	10,508	48,042
Ending retained earnings	\$ 52,233	8,613	60,846

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG 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. During the year, the District adopted one budget amendment increasing budgeted disbursements by \$249,400.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds
ASSETS					
Cash and pooled investments	\$ 81,477	47,364	72,901	83,254	284,996
Receivables:					
Property tax					
Delinquent	725	0	1,635	0	2,360
Succeeding year	70,000	0	147,228	0	217,228
TOTAL ASSETS	\$ 152,202	47,364	221,764	83,254	504,584
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 1,490	4	0	0	1,494
Deferred revenue:					
Succeeding year property tax	70,000	0	147,228	0	217,228
	71,490	4	147,228	0	218,722
Fund equity:					
Fund balances:					
Unreserved, undesignated	80,712	47,360	74,536	83,254	285,862
TOTAL LIABILITIES AND FUND EQUITY	\$ 150,712	47,360	221,764	83,254	503,090

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Special Revenue Funds				
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Expendable Trust	Total Special Revenue Funds
REVENUES:					
Local sources:					
Local tax	\$ 64,047	0	160,215	0	224,262
Other	422	75,153	161	1,161	76,897
State sources	47	0	21	0	68
Federal sources	0	0	56,500	0	56,500
TOTAL REVENUES	64,516	75,153	216,897	1,161	357,727
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	61,354	0	0	61,354
Support services:					
Student support	3,782	0	0	0	3,782
Administration services	3,665	0	0	0	3,665
Operation and maintenance of plant services	34,434	0	5,456	0	39,890
Non-instructional programs:					
Operation of non-instructional programs	0	0	0	7,750	7,750
Other expenditures:					
Facilities acquisitions	0	0	190,131	0	190,131
TOTAL EXPENDITURES	41,881	61,354	195,587	7,750	306,572
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	22,635	13,799	21,310	(6,589)	51,155
OTHER FINANCING USES:					
Transfer out	0	0	(56,500)	0	(56,500)
TOTAL OTHER FINANCING USES	0	0	(56,500)	0	(56,500)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	22,635	13,799	(35,190)	(6,589)	(5,345)
FUND BALANCE BEGINNING OF YEAR	58,077	33,561	109,726	89,843	291,207
FUND BALANCE END OF YEAR	\$ 80,712	47,360	74,536	83,254	285,862

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG 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
Drama	\$ 667	1,615	1,515	767
Chorus	1,162	842	517	1,487
Band	1,008	5,587	4,884	1,711
HS Athletics	7,050	28,965	22,951	13,064
HS Athletics Resale	(162)	3,499	2,125	1,212
JH Athletics	1,143	1,085	1,434	794
HS Cheerleading	1	1,261	1,649	(387)
Art	247	9	188	68
Class of 2003	241	0	1,003	(762)
Class of 2004	7,212	1,127	6,839	1,500
Class of 2005	1,717	17,767	8,725	10,759
Class of 2006	869	982	129	1,722
Class of 2007	895	966	300	1,561
Class of 2008	505	359	106	758
Class of 2009	0	339	0	339
Health Careers	39	18	0	57
Student Council	434	419	507	346
Yearbook	1,884	94	50	1,928
Betterment	1,963	5,410	4,893	2,480
Elementary Activity	5,582	710	2,164	4,128
Elementary Music Activity	437	3,332	494	3,275
Elementary Yearbook	467	807	881	393
Sally Ashler Memorial	200	(40)	0	160
Total	<u>\$ 33,561</u>	<u>75,153</u>	<u>61,354</u>	<u>47,360</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

HAMBURG 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	\$ 1,304,312	1,207,375	1,196,998	1,059,508
Tuition	61,534	64,773	41,910	24,386
Other	141,160	135,680	120,456	129,798
Intermediate sources	0	0	0	4,353
State sources	1,306,026	1,224,798	1,178,654	1,190,941
Federal sources	194,325	118,862	97,592	81,859
Total	<u>\$ 3,007,357</u>	<u>2,751,488</u>	<u>2,635,610</u>	<u>2,490,845</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 1,169,307	1,088,428	1,113,354	1,020,436
Special instruction	341,609	332,315	267,388	319,696
Other instruction	162,934	164,912	161,939	173,639
Support services:				
Student services	93,353	92,193	90,456	81,289
Instructional staff services	40,715	32,077	40,979	52,781
Administration services	404,342	362,906	345,744	388,237
Operation and maintenance of plant services	236,005	211,491	200,995	193,778
Transportation services	84,713	115,625	119,894	62,917
Central support services	7,824	2,124	7,099	0
Non-instructional programs	7,750	0	555	753
Other expenditures:				
Facilities acquisitions	422,899	146,429	157,218	15,628
Long-term debt:				
Principal	0	40,546	14,615	59,949
Interest and fiscal charges	0	1,265	3,095	6,626
AEA flow-through	94,675	95,222	92,850	94,400
Total	<u>\$ 3,066,126</u>	<u>2,685,533</u>	<u>2,616,181</u>	<u>2,470,129</u>

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

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

We have audited the financial statements of Hamburg Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 5, 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 Hamburg 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 except for item II-G-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hamburg 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

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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 items I-A-04 and I-B-04.

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

October 5, 2004

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

Part I: Findings Related to the 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. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done 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 Bank Reconciliations - We noted during our audit that the District does not reconcile the bank statements to the general ledger on a timely basis.

Recommendation - The District should reconcile bank statement balances to financial statement bank balances on a monthly basis.

Response - We are working on this.

Conclusion - Response accepted.

HAMBURG 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, 2004, 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 - No business transactions between the District and District officials were noted.

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. 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 will provide the minutes within the time period required, however, we are unable to control the publishing dates.

Conclusion - Response accepted.

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.