

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Interstate 35 Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Tim Porter	President	2003
Alan Brommel	Vice President	2004
Leah Gray	Board Member	2004
Bill Seibert	Board Member	2005
Brian Mitchell	Board Member	2003
Board of Education (After September 2003 Election)		
Bill Seibert	President	2005
Leah Gray	Vice President	2004
Alan Brommel	Board Member	2004
Bruce McCuddin	Board Member	2006
Bret Smith	Board Member	2006
School Officials		
Henry Eggert	Superintendent	2004
Lisa Brown	District Secretary	2004
Ahlers and Cooney, P.C.	Attorney	2004

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(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
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INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Interstate 35 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 Interstate 35 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 Interstate 35 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, Interstate 35 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.

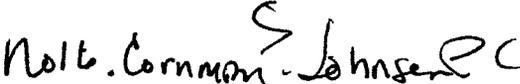
In accordance with Government Auditing Standards, we have also issued our report dated March 9, 2005 on our consideration of the Interstate 35 Community School District's internal control over

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financial 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 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 Interstate 35 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.

March 9, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 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 \$5,349,382 in fiscal 2003 to \$5,454,772 in fiscal 2004, while General Fund expenditures increased from \$5,361,970 in fiscal 2003 to \$5,485,874 in fiscal 2004. This resulted in a decrease in the District's General Fund balance from a deficit \$72,538 in fiscal 2003 to a deficit of \$99,865 in fiscal 2004, a 37.67% decrease from the prior year.
- The increase in General Fund revenues was attributable to an increase in property tax and state 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 \$14,315 in fiscal year 2003 to \$5,128 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 Interstate 35 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 Interstate 35 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 Interstate 35 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.

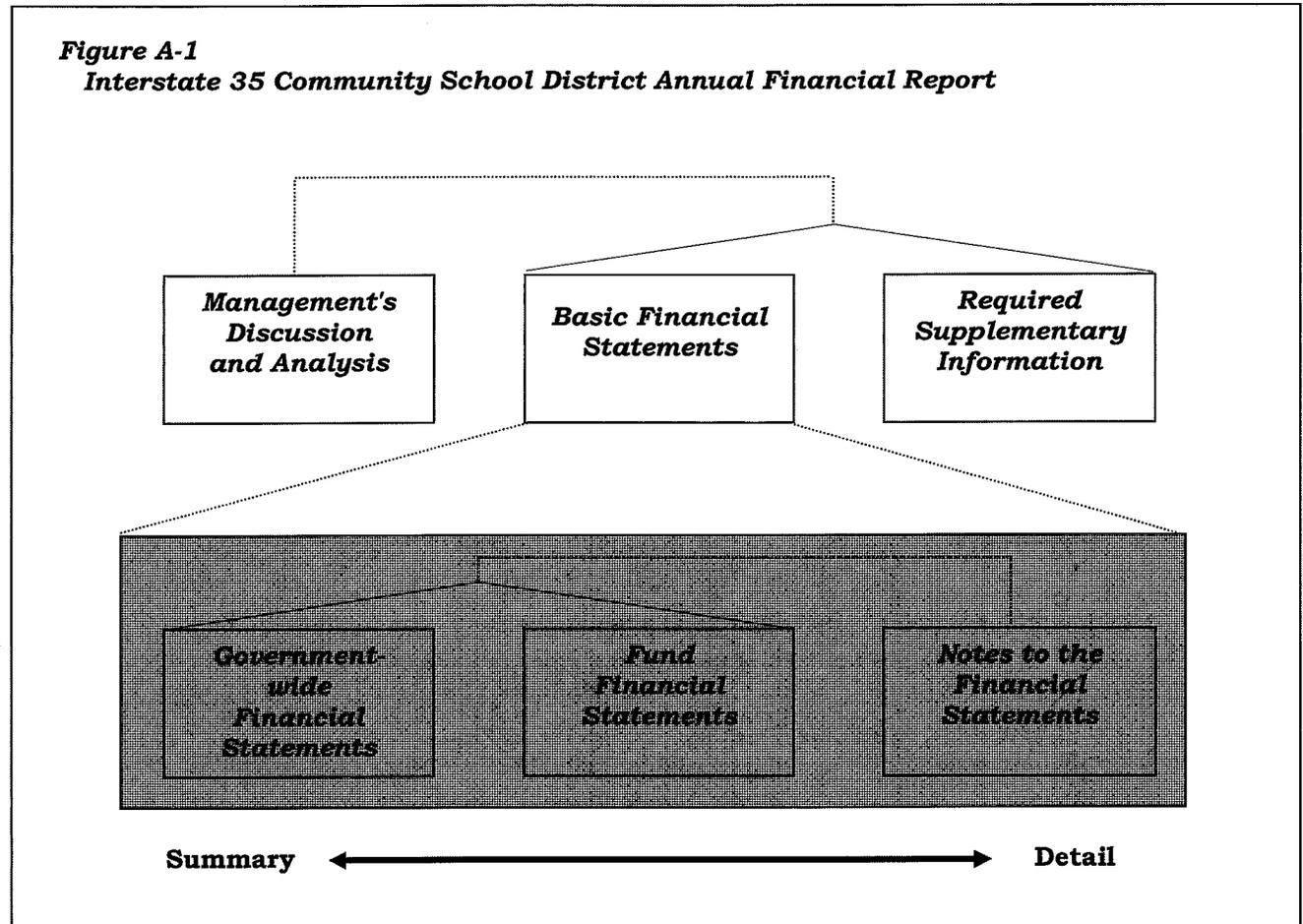


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

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

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

The required financial statements for the proprietary funds include a statement of 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	Business-type Activities	Total School District
	2004	2004	2004
Current and other assets	\$ 5,057,257	41,825	5,099,082
Capital assets	9,974,049	201,356	10,175,405
Total assets	<u>15,031,306</u>	<u>243,181</u>	<u>15,274,487</u>
Long-term obligations	5,517,551	0	5,517,551
Other liabilities	4,822,898	9,727	4,832,625
Total liabilities	<u>10,340,449</u>	<u>9,727</u>	<u>10,350,176</u>
Net assets:			
Invested in capital assets, net of related debt	4,604,340	201,356	4,805,696
Restricted	205,822	0	205,822
Unrestricted	(119,305)	32,098	(87,207)
Total net assets	<u>\$ 4,690,857</u>	<u>233,454</u>	<u>4,924,311</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	Business-type Activities	Total School District
	2004	2004	2004
Revenues:			
Program revenues:			
Charges for services	\$ 528,845	212,116	740,961
Operating grants and contributions and restricted interest	682,965	97,196	780,161
General revenues:			
Property tax	2,503,938	0	2,503,938
Unrestricted state grants	2,787,133	0	2,787,133
Other	9,383	221	9,604
Total revenues	<u>6,512,264</u>	<u>309,533</u>	<u>6,821,797</u>
Program expenses:			
Governmental activities:			
Instructional	3,884,615	0	3,884,615
Support services	1,862,713	0	1,862,713
Non-instructional programs	0	335,754	335,754
Other expenditures	669,781	0	669,781
Total expenses	<u>6,417,109</u>	<u>335,754</u>	<u>6,752,863</u>
Changes in net assets	<u>\$ 95,155</u>	<u>(26,221)</u>	<u>68,934</u>

Property tax and unrestricted state grants account for 78% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$6,512,264 and expenses were \$6,417,109.

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	\$ 3,884,615	2,889,736
Support services	1,862,713	1,862,713
Other expenditures	669,781	452,850
Totals	<u>\$ 6,417,109</u>	<u>5,205,299</u>

- The cost financed by users of the District's programs was \$528,845.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$682,965.
- The net cost of governmental activities was financed with \$2,503,938 in property tax, \$2,787,133 in state foundation aid, \$5,608 in interest income and \$3,775 as a gain on sale of capital assets.

Business-Type Activities

Revenues of the District's business-type activities were \$309,553 and expenses were \$335,754. 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 Interstate 35 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 \$266,161, below last year's ending fund balances of a \$283,405. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the increase in General Fund expenditures.

Governmental Fund Highlights

- The District's deteriorating General Fund financial position from a deficit \$72,538 to a deficit \$99,865 is the product of many factors:
 - Increase in state 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 more than the increase in revenues resulting in a net decrease of \$27,327.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$259,675 at June 30, 2003 to \$233,454 at June 30, 2004, representing a decrease of 10.10%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$185,186 less than budgeted revenues, a variance of 2.63%. The most significant variance resulted from the District receiving less in state 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.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$10,175,405, 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 4 to the financial statements. Depreciation expense for the year was \$388,776.

The original cost of the District's capital assets was \$14.8 million. Governmental funds account for \$14.5 million with the remainder of \$0.3 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 \$9,148,593 at June 30, 2004, compared to \$9,385,985 reported at June 30, 2003. This decrease resulted from current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 401,200	0	401,200
Construction in progress	22,035	0	22,035
Buildings	9,148,593	0	9,148,593
Land improvements	272,645	0	272,645
Machinery and equipment	129,576	201,356	330,932
Total	\$ 9,974,049	201,356	10,175,405

Long-Term Debt

At June 30, 2004, the District had \$5,517,551 in general obligation and other long-term debt outstanding. This represents a decrease of 6.2% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$5,425,000 at June 30, 2004.

The District had total outstanding Early Retirement payable from the Special Revenue - Management Fund of \$84,555 at June 30, 2004.

The District had total outstanding Compensated Absences payable from the General Fund of \$7,996 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General Obligation Bonds	\$ 5,425,000	5,775,000	-6.1%
Early Retirement	84,555	103,026	-17.9%
Compensated Absences	7,996	2,547	213.9%
	<u>\$ 5,517,551</u>	<u>5,880,573</u>	<u>-6.2%</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:

- 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 voters of Madison, Clarke and Warren Counties passed the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding will begin in September 2004.

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 Lisa Brown, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 1,577,207	0	1,577,207
Other	798,009	37,978	835,987
Receivables:			
Property tax:			
Delinquent	44,065	0	44,065
Succeeding year	2,609,954	0	2,609,954
Accounts	1,408	0	1,408
Accrued ISCAP interest (Note 3)	2,794	0	2,794
Due from other governments	23,820	0	23,820
Inventories	0	3,847	3,847
Capital assets, net of accumulated depreciation (Note 4)	9,974,049	201,356	10,175,405
TOTAL ASSETS	15,031,306	243,181	15,274,487
LIABILITIES			
Accounts payable	51,864	45	51,909
Salaries and benefits payable	539,910	5,321	545,231
ISCAP warrants payable (Note 3)	1,568,000	0	1,568,000
ISCAP interest payable (Note 3)	4,236	0	4,236
ISCAP unamortized premium	17,132	0	17,132
Interest payable	31,802	0	31,802
Deferred revenue:			
Succeeding year property tax	2,609,954	0	2,609,954
Other	0	4,361	4,361
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	355,000	0	355,000
Early retirement payable	49,668	0	49,668
Compensated absences payable	7,996	0	7,996
Portion due after one year:			
General obligation bonds payable	5,070,000	0	5,070,000
Early retirement payable	34,887	0	34,887
TOTAL LIABILITIES	10,340,449	9,727	10,350,176
NET ASSETS			
Investment in capital assets, net of related debt	4,604,340	201,356	4,805,696
Restricted for:			
Teacher compensation	195	0	195
Talented and gifted	3,086	0	3,086
Management levy	108,985	0	108,985
Other special revenue purposes	93,556	0	93,556
Unrestricted	(119,305)	32,098	(87,207)
TOTAL NET ASSETS	\$ 4,690,857	233,454	4,924,311

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest
Functions/Programs			
Governmental activities:			
Instruction:			
Regular instruction	\$ 2,493,440	188,971	438,803
Special instruction	845,691	0	27,231
Other instruction	545,484	339,874	0
	<u>3,884,615</u>	<u>528,845</u>	<u>466,034</u>
Support services:			
Student services	171,517	0	0
Instructional staff services	77,049	0	0
Administration services	659,256	0	0
Operation and maintenance of plant services	535,480	0	0
Transportation services	419,411	0	0
	<u>1,862,713</u>	<u>0</u>	<u>0</u>
Other expenditures:			
Long-term debt interest and fiscal charges	195,409	0	0
AEA flowthrough	216,931	0	216,931
Depreciation(unallocated)*	257,441	0	0
	<u>669,781</u>	<u>0</u>	<u>216,931</u>
Total governmental activities	6,417,109	528,845	682,965
Business-Type activities:			
Non-instructional programs:			
Nutrition services	335,754	212,116	97,196
Total business-type activities	<u>335,754</u>	<u>212,116</u>	<u>97,196</u>
Total	<u>\$ 6,752,863</u>	<u>740,961</u>	<u>780,161</u>

General Revenues:

Local tax for:
 General purposes
 Capital outlay
 Debt service
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
(1,865,666)	0	(1,865,666)
(818,460)	0	(818,460)
(205,610)	0	(205,610)
<u>(2,889,736)</u>	<u>0</u>	<u>(2,889,736)</u>
(171,517)	0	(171,517)
(77,049)	0	(77,049)
(659,256)	0	(659,256)
(535,480)	0	(535,480)
(419,411)	0	(419,411)
<u>(1,862,713)</u>	<u>0</u>	<u>(1,862,713)</u>
(195,409)	0	(195,409)
0	0	0
(257,441)	0	(257,441)
<u>(452,850)</u>	<u>0</u>	<u>(452,850)</u>
(5,205,299)	0	(5,205,299)
0	(26,442)	(26,442)
0	(26,442)	(26,442)
<u>(5,205,299)</u>	<u>(26,442)</u>	<u>(5,231,741)</u>
\$ 1,825,452	0	1,825,452
138,253	0	138,253
540,233	0	540,233
2,787,133	0	2,787,133
5,608	221	5,829
3,775	0	3,775
<u>5,300,454</u>	<u>221</u>	<u>5,300,675</u>
95,155	(26,221)	68,934
<u>4,595,702</u>	<u>259,675</u>	<u>4,855,377</u>
<u>\$ 4,690,857</u>	<u>233,454</u>	<u>4,924,311</u>

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	Other Governmental Funds	Total
ASSETS			
Cash and pooled investments			
ISCAP(Note 3)	\$ 1,577,207	0	1,577,207
Other	442,150	371,145	813,295
Receivables:			
Property tax			
Delinquent	29,517	14,548	44,065
Succeeding year	1,772,497	837,457	2,609,954
Accounts	1,240	168	1,408
Accrued ISCAP interest(Note 3)	2,794	0	2,794
Due from other governments	23,820	0	23,820
TOTAL ASSETS	\$ 3,849,225	1,223,318	5,072,543
LIABILITIES AND FUND BALANCES			
Liabilities:			
Excess of warrants issued over bank balance	\$ 0	15,286	15,286
Accounts payable	47,315	4,549	51,864
Salaries and benefits payable	539,910	0	539,910
ISCAP warrants payable(Note 3)	1,568,000	0	1,568,000
ISCAP interest payable(Note 3)	4,236	0	4,236
ISCAP unamortized premium	17,132	0	17,132
Deferred revenue:			
Succeeding year property tax	1,772,497	837,457	2,609,954
Total liabilities	3,949,090	857,292	4,806,382
Fund balances:			
Reserved for:			
Debt service	0	93,381	93,381
Teacher compensation	195	0	195
Talented and gifted	3,086	0	3,086
Unreserved:			
Undesignated:			
General	(103,146)	0	(103,146)
Management levy	0	193,540	193,540
Physical plant and equipment levy	0	(8,163)	(8,163)
Capital projects	0	(6,288)	(6,288)
Other special revenue purposes	0	93,556	93,556
Total fund balances	(99,865)	366,026	266,161
TOTAL LIABILITIES AND FUND BALANCES	\$ 3,849,225	1,223,318	5,072,543

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 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)	\$	266,161
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		9,974,049
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(31,802)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		<u>(5,517,551)</u>
Net assets of governmental activites (page 13)	\$	<u><u>4,690,857</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

	General	Other Governmental Funds	Total
REVENUES:			
Local sources:			
Local tax	\$ 1,677,253	826,685	2,503,938
Tuition	188,971	0	188,971
Other	120,133	225,349	345,482
Intermediate sources	860	0	860
State sources	3,342,169	1,683	3,343,852
Federal sources	125,386	0	125,386
Total revenues	<u>5,454,772</u>	<u>1,053,717</u>	<u>6,508,489</u>
EXPENDITURES:			
Current:			
Instruction:			
Regular instruction	2,328,957	124,213	2,453,170
Special instruction	843,303	0	843,303
Other instruction	351,276	188,241	539,517
	<u>3,523,536</u>	<u>312,454</u>	<u>3,835,990</u>
Support services:			
Student services	174,280	0	174,280
Instructional staff services	73,135	0	73,135
Administration services	670,130	0	670,130
Operation and maintenance of plant services	439,188	114,171	553,359
Transportation services	388,674	69,851	458,525
	<u>1,745,407</u>	<u>184,022</u>	<u>1,929,429</u>
Other expenditures:			
Facilities acquisitions	0	510	510
Long-term debt:			
Principal	0	350,000	350,000
Interest and fiscal charges	0	196,648	196,648
AEA flowthrough	216,931	0	216,931
	<u>216,931</u>	<u>547,158</u>	<u>764,089</u>
Total expenditures	<u>5,485,874</u>	<u>1,043,634</u>	<u>6,529,508</u>
Excess(deficiency) of revenues over(under) expenditures	(31,102)	10,083	(21,019)
OTHER FINANCING SOURCES:			
Compensation for loss of capital assets	250	0	250
Sale of equipment	3,525	0	3,525
	<u>3,775</u>	<u>0</u>	<u>3,775</u>
Net change in fund balances	(27,327)	10,083	(17,244)
Fund balance beginning of year	(72,538)	355,943	283,405
Fund balance end of year	<u>\$ (99,865)</u>	<u>366,026</u>	<u>266,161</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 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) \$ (17,244)

**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	\$ 107,873	
Depreciation expense	<u>(359,735)</u>	(251,862)

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. 350,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,239

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

Early retirement	\$ 18,471	
Compensated absences	<u>(5,449)</u>	13,022

Changes in net assets of governmental activities (page 15) \$ 95,155

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2004

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 37,978
Inventories	3,847
Capital assets, net of accumulated depreciation (Note 4)	201,356
TOTAL ASSETS	<u>243,181</u>
LIABILITIES	
Accounts payable	45
Salaries and benefits payable	5,321
Deferred revenues:	
Other	4,361
TOTAL LIABILITIES	<u>9,727</u>
NET ASSETS	
Investment in capital assets, net of related debt	201,356
Unrestricted	32,098
TOTAL NET ASSETS	<u>\$ 233,454</u>

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 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	\$ 212,116
TOTAL OPERATING REVENUES	212,116
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	115,151
Benefits	43,659
Services	11,867
Supplies	136,036
Depreciation	29,041
TOTAL OPERATING EXPENSES	335,754
OPERATING LOSS	(123,638)
NON-OPERATING REVENUES:	
State sources	4,293
Federal sources	92,903
Interest income	221
TOTAL NON-OPERATING REVENUES	97,417
Change in net assets	(26,221)
Net assets beginning of year, as restated(Note 10)	259,675
Net assets end of year	\$ 233,454

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 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	\$ 216,477
Cash payments to employees for services	(156,915)
Cash payments to suppliers for goods or services	(135,190)
Net cash used in operating activities	(75,628)
Cash flows from non-capital financing activities:	
State grants received	4,293
Federal grants received	78,296
Net cash provided by non-capital financing activities	82,589
Cash flows from investing activities:	
Interest on investments	221
Net cash provided by investing activities	221
Net increase in cash and cash equivalents	7,182
Cash and cash equivalents at beginning of year	30,796
Cash and cash equivalents at end of year	\$ 37,978
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (123,638)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,607
Depreciation	29,041
Increase in inventories	(1,939)
Increase in accounts payable	45
Increase in salaries and benefits payable	1,895
Increase in deferred revenue	4,361
Net cash used in operating activities	\$ (75,628)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 37,978
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	

During the year ended June 30, 2004, the District received Federal commodities valued at \$14,607.

SEE NOTES TO FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

The Interstate 35 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 Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren 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, Interstate 35 Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Interstate 35 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 Madison, Clarke and Warren Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The 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	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

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.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the support services functional area 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 \$78,510 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment trust is not subject to risk categorization.

(3) 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
2003-04B	1/30/04	1/28/05	\$ 513,473	2,794	510,000	4,236
2004-05A	6/30/04	6/30/05	1,063,734	0	1,058,000	0
Total			<u>\$ 1,577,207</u>	<u>2,794</u>	<u>1,568,000</u>	<u>4,236</u>

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. ISCAP advance activity in the General Fund for the year ended June 30, 2004 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2003-04A	\$ 0	300,000	300,000	0

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

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

(4) Capital Assets

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

	Balance			Balance
	Beginning of			End
	Year, as restated	Increases	Decreases	of Year
	(Note 10)			
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 401,200	0	0	401,200
Construction in progress	0	22,035	0	22,035
Total capital assets not being depreciated	401,200	22,035	0	423,235
Capital assets being depreciated:				
Buildings	11,877,168	0	0	11,877,168
Land improvements	518,794	0	0	518,794
Machinery and equipment	1,742,497	85,838	138,359	1,689,976
Total capital assets being depreciated	14,138,459	85,838	138,359	14,085,938
Less accumulated depreciation for:				
Buildings	2,491,183	237,392	0	2,728,575
Land improvements	226,100	20,049	0	246,149
Machinery and equipment	1,596,465	102,294	138,359	1,560,400
Total accumulated depreciation	4,313,748	359,735	138,359	4,535,124
Total capital assets being depreciated, net	9,824,711	(273,897)	0	9,550,814
Governmental activities capital assets, net	\$ 10,225,911	(251,862)	0	9,974,049

	Balance			Balance
	Beginning of			End
	Year	Increases	Decreases	of Year
Business-type activities:				
Machinery and equipment	\$ 297,648	0	1,247	296,401
Less accumulated depreciation	67,251	29,041	1,247	95,045
Business-type activities capital assets, net	\$ 230,397	(29,041)	0	201,356

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 41,284
Special		2,985
Other		10,658
Support services:		
Student		1,020
Instructional staff		3,914
Administration		4,906
Operation and maintenance of plant		7,888
Transportation		29,639
		102,294
Unallocated depreciation		257,441
Total governmental activities depreciation expense		\$ 359,735
Business-type activities:		
Food services		\$ 29,041
Total business-type activities depreciation expense		\$ 29,041

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 5,775,000	0	350,000	5,425,000	355,000
Early Retirement	103,026	35,151	53,622	84,555	49,668
Compensated Absences	2,547	7,996	2,547	7,996	7,996
	<u>\$ 5,880,573</u>	<u>43,147</u>	<u>406,169</u>	<u>5,517,551</u>	<u>412,664</u>

General Obligation Bonds Payable

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond issue of December 1, 2002		
		Principal	Interest	Total
2005	2.25-2.50 %	\$ 355,000	188,841	543,841
2006	2.50-3.00	365,000	180,123	545,123
2007	3.00	375,000	169,548	544,548
2008	3.00-3.25	385,000	158,223	543,223
2009	3.20-3.25	400,000	145,785	545,785
2010	3.20-3.45	410,000	132,935	542,935
2011	3.45-3.65	425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014	3.85-4.00	475,000	69,329	544,329
2015	4.00-4.10	495,000	50,305	545,305
2016	4.10-4.20	515,000	30,030	545,030
2017	4.20-4.30	325,000	9,575	334,575
Total		<u>\$ 5,425,000</u>	<u>1,444,097</u>	<u>6,869,097</u>

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 fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period determined by the Board, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2004, totaled \$53,622. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Advance Refunding

On April 25, 1996, the District issued refunding bonds in the amount of \$1,950,000 of outstanding general obligation bonds.

The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2004, \$650,000 of such bonds is outstanding. Repayments of principal and interest for the year was \$200,000 and \$52,125 respectively.

On December 1, 2002, the District issued refunding bonds in the amount of \$5,925,000 to advance refund \$5,245,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2004, \$5,590,000 of such bonds is outstanding. Repayments of principal and interest for the year was \$185,000 and \$292,985 respectively.

(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 \$179,072, \$172,457 and \$175,023 respectively, equal to the required contributions for each year.

(8) Risk Management

Interstate 35 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, vision and prescription drugs.

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 \$574,582.

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.

Interstate 35 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 \$216,913 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.

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

	<u>Fund</u>		
	General	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	\$ (72,538)	355,943	283,405
GASB Interpretation 6 adjustments	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	<u>\$ (72,538)</u>	<u>355,943</u>	<u>283,405</u>
GASB 34 adjustments:			
Capital assets, net of accumulated depreciation of \$4,313,748			10,225,911
Long-term liabilities:			
General obligation bonds payable	\$ 5,775,000		
Early retirement payable		103,026	
Compensated absences payable		<u>2,547</u>	(5,880,573)
Interest payable			<u>(33,041)</u>
Net assets, July 1, 2003, as restated			<u>\$ 4,595,702</u>

	<u>Fund</u>
	School Nutrition
Net assets, June 30, 2003, as previously reported	\$ 29,185
Capital contributions	230,490
Net assets, July 1, 2003, as restated for proprietary funds	<u>\$ 259,675</u>

(11) Deficit Fund Balances

The Special Revenue - Physical Plant and Equipment Fund had a deficit undesignated fund balance of \$8,163 at June 30, 2004. The Capital Projects Fund had a deficit undesignated fund balance of \$6,288 at June 30, 2004. The General Fund also had a deficit undesignated fund balance of \$103,146 at June 30, 2004.

(12) Portable Buildings Commitment

The District has entered into an agreement to purchase two portable buildings for \$98,218. The agreement required 25% down payment of unit costs and final payment due upon completion. As of June 30, 2004, costs of \$22,035 had been incurred against the agreement. The balance of \$76,183 remaining at June 30, 2004 will be paid upon completion of the construction in progress.

(13) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

INTERSTATE 35 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	\$ 3,269,907	216,698
Intermediate sources	380	0
State sources	3,103,478	4,293
Federal sources	164,104	92,903
Total receipts	<u>6,537,869</u>	<u>313,894</u>
Disbursements:		
Instruction	3,843,475	0
Support services	1,927,467	0
Non-instructional programs	0	306,712
Other expenditures	764,089	0
Total disbursements	<u>6,535,031</u>	<u>306,712</u>
Excess(deficiency) of receipts over(under) disbursements	2,838	7,182
Other financing sources, net	<u>3,775</u>	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	6,613	7,182
Balance beginning of year	<u>791,396</u>	<u>30,796</u>
Balance end of year	<u>\$ 798,009</u>	<u>37,978</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
3,486,605	3,368,364	3,368,364	118,241
380	1,000	1,000	(620)
3,107,771	3,452,585	3,452,585	(344,814)
257,007	215,000	215,000	42,007
<u>6,851,763</u>	<u>7,036,949</u>	<u>7,036,949</u>	<u>(185,186)</u>
3,843,475	4,912,044	4,912,044	1,068,569
1,927,467	1,869,280	1,869,280	(58,187)
306,712	312,138	312,138	5,426
764,089	1,082,539	1,082,539	318,450
<u>6,841,743</u>	<u>8,176,001</u>	<u>8,176,001</u>	<u>1,334,258</u>
10,020	(1,139,052)	(1,139,052)	1,149,072
<u>3,775</u>	<u>0</u>	<u>0</u>	<u>3,775</u>
13,795	(1,139,052)	(1,139,052)	1,152,847
822,192	1,213,077	1,213,077	(390,885)
<u>835,987</u>	<u>74,025</u>	<u>74,025</u>	<u>761,962</u>

INTERSTATE 35 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	\$ 6,537,869	(29,380)	6,508,489
Expenses	6,535,031	(5,523)	6,529,508
Net	2,838	(23,857)	(21,019)
Other financing sources	3,775	0	3,775
Beginning fund balances	791,396	(507,991)	283,405
Ending fund balances	\$ 798,009	(531,848)	266,161

	Proprietary Fund Type		
	Cash Basis	Enterprise	
		Adjust- ments	Accrual Basis
Revenues	\$ 313,894	(4,361)	309,533
Expenses	306,712	29,042	335,754
Net	7,182	(33,403)	(26,221)
Beginning net assets, as restated(Note 10)	30,796	228,879	259,675
Ending net assets	\$ 37,978	195,476	233,454

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 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 ended June 30, 2004, disbursements in the support services functional program area exceeded the amount budgeted.

OTHER SUPPLEMENTAL INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2004

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Projects	Debt Service	
ASSETS							
Cash and pooled investments	\$ 190,932	96,338	1	287,271	0	83,874	371,145
Receivables:							
Property tax:							
Delinquent	2,608	0	2,433	5,041	0	9,507	14,548
Succeeding year property tax	150,000	0	143,115	293,115	0	544,342	837,457
Accounts	0	168	0	168	0	0	168
TOTAL ASSETS	\$ 343,540	96,506	145,549	585,595	0	637,723	1,223,318
LIABILITIES AND FUND EQUITY							
Liabilities:							
Excess of warrants issued over bank balance	\$ 0	0	8,998	8,998	6,288	0	15,286
Accounts payable	0	2,950	1,599	4,549	0	0	4,549
Deferred revenue:							
Succeeding year property tax	150,000	0	143,115	293,115	0	544,342	837,457
	150,000	2,950	153,712	306,662	6,288	544,342	857,292
Fund equity:							
Fund balances:							
Reserved for debt service	0	0	0	0	0	93,381	93,381
Unreserved, undesignated	193,540	93,556	(8,163)	278,933	(6,288)	0	272,645
	193,540	93,556	(8,163)	278,933	(6,288)	93,381	366,026
TOTAL LIABILITIES AND FUND EQUITY	\$ 343,540	96,506	145,549	585,595	0	637,723	1,223,318

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	Special Revenue Funds						Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Capital Project	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 148,199	0	138,253	286,452	0	540,233	826,685
Other	1	225,347	0	225,348	0	1	225,349
State sources	130	0	1,077	1,207	0	476	1,683
TOTAL REVENUES	148,330	225,347	139,330	513,007	0	540,710	1,053,717
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	124,213	0	0	124,213	0	0	124,213
Other instruction	0	188,241	0	188,241	0	0	188,241
Support services:							
Operation and maintenance of plant services	0	0	114,171	114,171	0	0	114,171
Transportation services	0	0	69,851	69,851	0	0	69,851
Other expenditures:							
Facilities acquisitions	0	0	510	510	0	0	510
Long-term debt:							
Principal	0	0	0	0	0	350,000	350,000
Interest and fiscal charges	0	0	0	0	0	196,648	196,648
TOTAL EXPENDITURES	124,213	188,241	184,532	496,986	0	546,648	1,043,634
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	24,117	37,106	(45,202)	16,021	0	(5,938)	10,083
FUND BALANCE BEGINNING OF YEAR	169,423	56,450	37,039	262,912	(6,288)	99,319	355,943
FUND BALANCE END OF YEAR	\$ 193,540	93,556	(8,163)	278,933	(6,288)	93,381	366,026

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 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
Interest	\$ 0	478	478	0
Candy	468	798	378	888
HS Book Club	0	461	167	294
Senior Breakfast	119	0	(46)	165
Class of 2003	1,137	0	1,137	0
Class of 2004	1,135	0	1,135	0
Class of 2005	1,988	1,005	2,481	512
Class of 2006	360	1,576	135	1,801
Class of 2007	100	470	0	570
Class of 2008	0	38	(928)	966
HS General Athletics	290	8,165	5,931	2,524
Middle School Classes	(2,931)	5,389	(1,750)	4,208
Elementary Classes	9,143	34,861	12,314	31,690
EL/MS Fundraising	0	9,119	5,834	3,285
JH Athletics	(8)	8,633	6,407	2,218
Uniform Fund	1,435	713	504	1,644
Speech	359	441	268	532
HS Vocal	1,599	4,601	4,685	1,515
7th and 8th Vocal	209	0	0	209
Elem Vocal	153	26	39	140
HS Band	1,192	258	1,394	56
7th and 8th Band	291	91	168	214
5th and 6th Band	583	0	0	583
Band Entry Fees	747	0	124	623
Vocal Entry Fees	141	0	80	61
Cross Country	800	1,747	1,603	944
Boys Basketball	3,316	3,450	5,027	1,739
Football	1,127	19,637	18,395	2,369
Baseball	(1,903)	9,959	10,175	(2,119)
Boys Track	820	913	1,427	306
Wrestling	1,924	15,051	14,189	2,786
HS Cheerleaders	2,013	6,569	7,188	1,394
MS Cheerleaders	52	0	0	52
Dance Team	606	5,457	3,614	2,449
Girls Basketball	1,741	5,666	7,790	(383)
Volleyball	2,370	7,031	8,233	1,168
Softball	(993)	10,259	9,318	(52)
Girls Track	2,058	8,184	8,384	1,858
Booster Club	9,200	28,398	26,650	10,948
Honor Society	1,349	858	915	1,292
HS Student Council	3,186	3,707	3,354	3,539
JH Student Council	6,910	5,441	7,894	4,457
FFA	1,942	10,130	9,055	3,017
FCCLA	(102)	269	312	(145)
Art Club	1,158	0	2	1,156
Beep Club	166	5,498	3,581	2,083
Scholarship Memorial	200	0	200	0
	<u>\$ 56,450</u>	<u>225,347</u>	<u>188,241</u>	<u>93,556</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 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	\$ 2,503,938	2,338,840	2,118,838	1,961,321
Tuition	188,971	150,598	156,330	144,044
Other	345,482	382,539	550,185	634,214
Intermediate sources	860	1,285	0	7,505
State sources	3,343,852	3,307,612	2,987,066	3,084,003
Federal sources	125,386	172,027	131,681	413,358
Total	\$ 6,508,489	6,352,901	5,944,100	6,244,445
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,453,170	2,440,909	2,405,788	2,364,745
Special instruction	843,303	816,042	909,978	707,182
Other instruction	539,517	539,466	495,319	548,802
Support services:				
Student services	174,280	167,047	152,342	155,126
Instructional staff services	73,135	30,381	52,362	54,666
Administration services	670,130	648,010	593,692	609,511
Operation and maintenance of plant services	553,359	651,427	584,649	446,513
Transportation services	458,525	396,955	411,260	428,580
Other expenditures:				
Facilities acquisitions	510	151,600	3,044,506	2,115,014
Long-term debt:				
Principal	350,000	235,000	165,000	155,000
Interest and fiscal charges	196,648	236,558	311,848	320,424
AEA flow-through	216,931	224,858	208,058	213,683
Total	\$ 6,529,508	6,538,253	9,334,802	8,119,246

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
Interstate 35 Community School District:

We have audited the financial statements of Interstate 35 Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated March 9, 2005. 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 Interstate 35 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 items II-A-04, II-G-04, II-J-04 and II-K-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interstate 35 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.

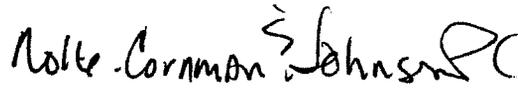
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 item I-A-04, I-B-04 and I-C-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 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 Interstate 35 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.

March 9, 2005

INTERSTATE 35 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 did not reconcile bank balances to the general ledger on a timely basis.

Recommendation - The District needs to perform reconciliations of bank statements and then reconcile to the general ledger for the fund balance. This reconciliation should be performed each month.

Response - We are working on this.

Conclusion - Response accepted.

I-C-04 Miscoding of Accounts - We noted during our audit that accounts for some State and Federal grants did not conform to the Uniform Financial Accounting Chart of Accounts.

Recommendation - The District should utilize the Iowa Department of Education's Uniform Financial Accounting for Iowa LEAs and AEAs Manual which provides project codes for the specific State and Federal grants. With the use of these codes, the District would be able to prepare final reports with greater accuracy.

Response - We will review the Uniform Financial Accounting Manual and utilize the software to code the State and Federal grants to the appropriate accounts.

Conclusion - Response accepted.

I-D-04 Student Activity Fund-Individuals Receiving Checks - We noted during our audit that the District wrote checks to individual students in the Student Activity fund. According to the Uniform Accounting Manual from the Department of Education, no funds from a student organization may be distributed to individual students.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - Checks will not be made to students.

Conclusion - Response accepted.

I-E-04 Timely Deposits - We noted during our audit that deposits for Preschool Tuition were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - We will review procedures in place to ensure timely deposits are made.

Conclusion - Response accepted.

INTERSTATE 35 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 has been approved by the Board. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2004.

Recommendation - The district should increase their depository limits.

Response - We will raise them in the future.

Conclusion - Response accepted.

II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004 exceeded the amount budgeted in the support services functional program area.

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

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

Conclusion - Response accepted.

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 and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Kephart, Bus Driver Spouse owns Kephart Construction	Repairs	\$4,945
Dick Downing, Bldgs and Grounds Director Owns Dick's Custom Woodworking	Tractor use and Supplies	\$2,229

In accordance with the Attorney's General's opinion dated November 9, 1976, the above transactions with the spouse of the bus driver do not appear to represent a conflict of interest.

In accordance with the Attorney's General's opinion dated July 2, 1990, the above transactions with Dick Downing do not appear to represent 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. 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. However, we noted significant differences requiring amendment.
- Recommendation - The District should file an amended Certified Annual Report with the recommended changes.
- Response - We will amend the Certified Annual Report to reflect the changes made.
- Conclusion - Response accepted.
- II-K-04 Financial Condition - The District had a deficit undesignated fund balance of \$103,146 in the General Fund. The District had a deficit undesignated fund balance of \$6,288 in the Capital Projects Fund. The District also had a deficit undesignated fund balance of \$8,163 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District also had several deficit account balances in the Special Revenue, Student Activity Fund.
- Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.
- Response - We will monitor these funds and investigate any available options to eliminate these deficits.
- Conclusion - Response accepted.