

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

JUNE 30, 2004

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Keokuk Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Wilson Davis Jr.	President	2003
Sandy Stark	Vice President	2005
David Barrett	Board Member	2005
Diana Coop	Board Member (Resigned)	2003
Tyler McGhghy	Board Member (Appointed)	2003
Julia Logan	Board Member	2003
Jim Vandenberg	Board Member	2004
Brent Gatton	Board Member	2004
Board of Education (After September 2003 Election)		
Julia Logan	President	2006
Sandy Stark	Vice President	2005
David Barrett	Board Member	2005
Tyler McGhghy	Board Member	2006
Brian Richardson	Board Member	2006
Jim Vandenberg	Board Member	2004
Brent Gatton	Board Member	2004
School Officials		
Jane Babcock	Superintendent	2004
Greg Reynolds	District Secretary/Treasurer and Business Manager	2004
Nyemaster, Goode, Voigts, West, Hansell & O'Brien, P.C.	Attorney	2004
Dorsey & Whitney, LLP	Attorney	2004
James F. Dennis	Attorney	2004

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Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Keokuk 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 Keokuk 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 Keokuk Community School District at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 23, 2004 on our consideration of the Keokuk Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 38 through 41 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 Keokuk 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 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 23, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$17,412,950 in fiscal 2003 to \$17,253,229 in fiscal 2004, while General Fund expenditures increased from \$16,754,760 in fiscal 2003 to \$17,155,190 in fiscal 2004. This resulted in an increase in the District's General Fund balance from \$3,498,254 in fiscal 2003 to a balance of \$3,619,484 in fiscal 2004, a 3% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in local tax revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. One reason the General Fund balance increased is because the negotiated salary and benefits settlement was less than the District's General Fund revenue for fiscal 2004. As a result, the District's General Fund increased.
- The unspent balance increased by \$240,023 from the previous year. The increased balance is due to the District's efforts to keep expenditures below the current year operating revenues.
- Capital expenditures of \$463,450 were made in fiscal 2004, with upgrades made to the HVAC at George Washington elementary, modifications to the new transportation facilities and smokestack repairs at the High school.
- 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 \$124,941 in fiscal year 2003 to \$41,049 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 Keokuk 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 Keokuk 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 Keokuk Community School District acts solely as an agent or custodial for the benefit of those outside of County government.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

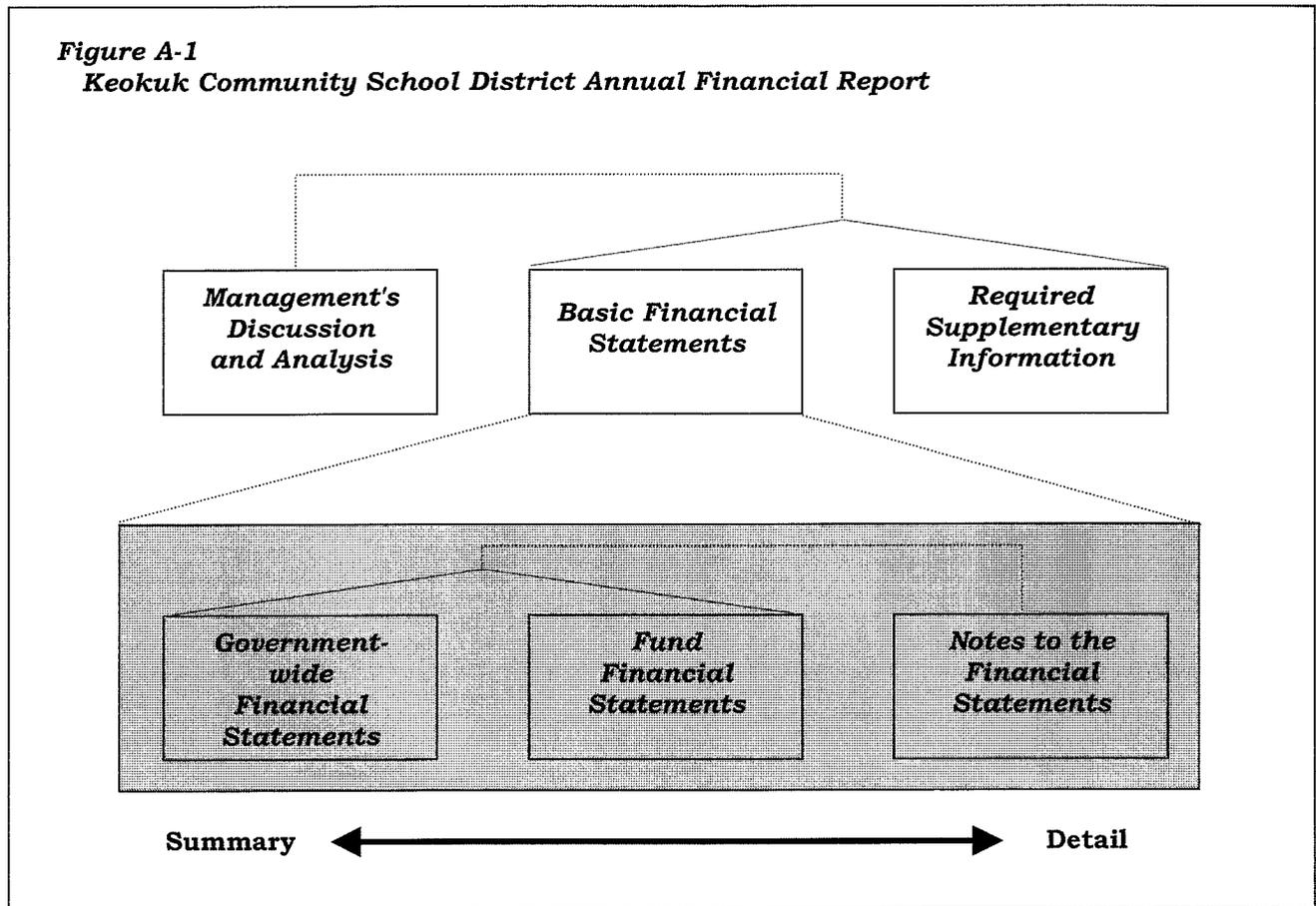


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary 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	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions 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 three kinds of funds:

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

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

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

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. This fund is the Private-Purpose Trust fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.

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

The required financial statements for fiduciary funds include the statement of fiduciary net assets and the statement of changes in fiduciary net assets.

Reconciliation 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		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Current and other assets	\$ 16,485,977	15,911,106	259,248	34,154	16,745,225	15,945,260	5.02%
Capital assets	18,604,893	18,512,995	188,079	207,585	18,792,972	18,720,580	0.39%
Total assets	35,090,870	34,424,101	447,327	241,739	35,538,197	34,665,840	2.52%
Long-term obligations	13,239,973	14,317,021	0	0	13,239,973	14,317,021	-7.52%
Other liabilities	9,605,073	9,153,727	14,111	5,839	9,619,184	9,159,566	5.02%
Total liabilities	22,845,046	23,470,748	14,111	5,839	22,859,157	23,476,587	-2.63%
Net assets:							
Invested in capital assets, net of related debt	9,088,775	5,111,154	188,079	207,585	9,276,854	5,318,739	74.42%
Restricted	131,766	3,268,975	0	0	131,766	3,268,975	-95.97%
Unrestricted	3,025,283	2,573,224	245,137	28,315	3,270,420	2,601,539	25.71%
Total net assets	\$ 12,245,824	10,953,353	433,216	235,900	12,679,040	11,189,253	13.31%

The District's combined net assets increased by 13% or \$1,489,787 over the prior year. The largest portion of the District's net assets is the invested in capital assets, less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets decreased \$3,137,209 or 96% over the prior year. The increase was primarily a result of decrease in reserves for debt reduction and capital projects.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirement - increased \$668,881 or nearly 26%. This increase in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

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		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Revenues:							
Program revenues:							
Charges for services	\$ 766,349	754,090	542,498	226,639	1,308,847	980,729	33.46%
Operating grants and contributions and restricted interest	3,408,449	3,369,124	525,361	489,452	3,933,810	3,858,576	1.95%
Capital grants and contributions and restricted interest	100,000	200,000	0	0	100,000	200,000	-50.00%
General revenues:							
Property tax	6,183,222	6,574,906	0	0	6,183,222	6,574,906	-5.96%
Local option sales and service tax	1,377,057	1,260,434					
Unrestricted state grants	8,430,869	8,260,836	0	0	8,430,869	8,260,836	2.06%
Other	157,414	9,299	1,309	207,953	158,723	217,252	-26.94%
Total revenues	20,423,360	20,428,689	1,069,168	924,044	20,115,471	20,092,299	0.12%
Program expenses:							
Governmental activities:							
Instructional	11,428,663	11,753,777	0	0	11,428,663	11,753,777	-2.77%
Support services	5,283,368	5,227,268	0	0	5,283,368	5,227,268	1.07%
Non-instructional programs	828,507	799,318	871,852	642,313	1,700,359	1,441,631	17.95%
Other expenses	1,590,351	6,039,930	0	0	1,590,351	6,039,930	-73.67%
Total expenses	19,130,889	23,820,293	871,852	642,313	20,002,741	24,462,606	-18.23%
Changes in net assets	1,292,471	(3,391,604)	197,316	281,731	112,730	(4,370,307)	-102.58%
Net assets beginning of year	10,953,353	14,344,957	235,900	(45,831)	11,189,253	14,299,126	-21.75%
Net assets end of year	12,245,824	10,953,353	433,216	235,900	11,301,983	9,928,819	13.83%

Property tax and unrestricted state grants account for 73% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 84% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$20,423,360 and expenses were \$19,130,889.

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	\$ 11,428,663	7,860,983
Support services	5,283,368	5,222,237
Non- instructional	828,507	828,507
Other expenses	1,590,351	944,364
Totals	<u>\$ 19,130,889</u>	<u>14,856,091</u>

- The cost financed by users of the District’s programs was \$766,349.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$3,508,449.
- The net cost of governmental activities was financed with \$7,560,279 in local tax, \$8,430,869 in unrestricted state grants, and \$132,501 in interest income.

Business-Type Activities

Revenues of the District’s business-type activities were \$1,069,168 and expenses were \$871,852. 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 Keokuk 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 \$7,019,588, above last year’s ending fund balances of a \$6,914,220. However, the primary reason for the increase was the reduction in instructional costs from the previous year.

Governmental Fund Highlights

- The District’s improving General Fund financial position is the product of many factors. The increase in revenues was greater than the increase in General Fund expenditures ensuring the financial position of the District increase.
- The Management, and Activity Fund combined balance increased from \$264,477 in 2003, to \$360,568 in 2004, due to the increase in revenues in both funds.
- The Physical Plant and Equipment Levy (PPEL), and Schoolhouse 67.5 combined fund balance increased from \$208,357 to \$221,970, due to a decrease in total expenditures for both funds for the year.
- The Capital Projects fund balance decreased during the current year, from \$1,639,876 to \$1,473,548. This was a result of an increase in expenditures including funds used for property tax relief in debt service.
- The Debt Service fund balance increased from \$1,303,256 to \$1,344,018. This was a result of decreased expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$235,900 at June 30, 2003 to \$433,216 at June 30, 2004, representing an increase of approximately 84%. For fiscal 2004, the District increased revenues from ala carte and also from outside sources for services provided.

BUDGETARY HIGHLIGHTS

The District's revenues were \$945,309 more than budgeted revenues, a variance of 4.6%. The most significant variance resulted from the District receiving more in local taxes 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 \$18.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of less than 1% from last year. More detailed information about capital assets is available in Note 6 to the financial statements. Depreciation expense for the year was \$922,601.

The original cost of the District's capital assets was \$28.8 million. Governmental funds account for \$28.6 million with the remainder of \$0.2 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 \$16,204,193 at June 30, 2004, compared to \$15,931,270 reported at June 30, 2003. This increase resulted from the improvements made during the current year, mainly with the upgrade to the HVAC system at George Washington Elementary.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-04
Land	\$ 902,602	898,732	0	0	902,602	898,732	0.43%
Construction in progress	55,285	0	0	0	55,285	0	100.00%
Buildings	16,204,193	15,931,270	0	0	16,204,193	15,931,270	1.71%
Improvements other than buildings	507,975	548,481	0	0	507,975	548,481	-7.39%
Machinery and equipment	934,838	1,134,512	188,079	207,585	1,122,917	1,342,097	-16.33%
Total	\$ 18,604,893	18,512,995	188,079	207,585	18,792,972	18,720,580	0.39%

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$13,239,973 in general obligation bonds, revenue bonds, compensated absences, and early retirement. This represents a

decrease of approximately 7.5% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 7 to the financial statements.

The District had total outstanding general obligation bonds payable of \$7,480,000 at June 30, 2004.

The District had revenue bonds payable of \$4,715,000, at June 30, 2004.

The District had compensated absences of \$128,971, at June 30, 2004.

The District also had total outstanding early retirement payable of \$916,002 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 7,480,000	7,880,000	-5.1%
Revenue Bonds	4,715,000	5,365,000	-12.1%
Early retirement	916,002	940,091	-2.6%
Compensated absences	128,971	131,930	-2.2%
Total	\$ 13,239,973	14,317,021	-7.5%

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:

- Although the District has experienced a slight increase in enrollment the last two years, the District expects a decline in enrollment which will impact future funding.
- 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.
- Funding for the District's before and after school program has been received from Federal and State Grants. The grants for this program will continue for two more years. The future of this program will depend upon the District's ability to fund this through alternative sources.
- Low allowable growth over several years and enrollment trends impact 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 experienced a decline in taxable valuations the last two years and has forced a shift in funding between state aid and property taxes.

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 Gregory Reynolds, District Board Secretary, Keokuk Community School District, 727 Washington Street, Keokuk, Iowa, 52632.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments			
ISCAP	\$ 3,088,720	0	3,088,720
Other	6,785,519	102,252	6,887,771
Receivables:			
Property tax:			
Delinquent	202,110	0	202,110
Succeeding year	6,086,081	0	6,086,081
Interfund	28,180	43,459	71,639
Accounts	68,511	107,384	175,895
Accrued interest			
ISCAP	8,200	0	8,200
Due from other governments	218,656	0	218,656
Inventories	0	6,153	6,153
Capital assets, net of accumulated depreciation(Note 6)	18,604,893	188,079	18,792,972
TOTAL ASSETS	35,090,870	447,327	35,538,197
LIABILITIES			
Interfund payable	71,639	0	71,639
Accounts payable	159,501	8,098	167,599
Interest payable	138,684	0	138,684
Salaries and benefits payable	8,464	0	8,464
ISCAP warrants payable	3,070,000	0	3,070,000
ISCAP accrued interest payable	12,433	0	12,433
ISCAP premiums payable	29,033	0	29,033
Bond principal due and unpaid	25,000	0	25,000
Bond interest due and unpaid	4,238	0	4,238
Deferred revenue:			
Succeeding year property tax	6,086,081	0	6,086,081
Other	0	6,013	6,013
Long-term liabilities(Note 7):			
Portion due within one year:			
General obligation bonds	405,000	0	405,000
Revenue bonds	690,000	0	690,000
Early retirement	154,881	0	154,881
Compensated absences	128,971	0	128,971
Portion due after one year:			
General obligation bonds	7,075,000	0	7,075,000
Revenue bonds	4,025,000	0	4,025,000
Early retirement	761,121	0	761,121
TOTAL LIABILITIES	22,845,046	14,111	22,859,157
NET ASSETS			
Investment in capital assets, net of related debt	9,088,775	188,079	9,276,854
Restricted for:			
Talented and gifted	501	0	501
Phase III	1,938	0	1,938
Physical plant & equipment levy	129,327	0	129,327
Other special revenue purposes	219,634	0	219,634
Unrestricted	2,805,649	245,137	3,050,786
TOTAL NET ASSETS	\$ 12,245,824	433,216	12,679,040

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Expenses	Charges for Services	Program Revenues	
			Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 7,262,034	670,413	2,760,321	100,000
Special instruction	3,140,061	36,946	0	0
Other instruction	1,026,568	0	0	0
	11,428,663	707,359	2,760,321	100,000
Support services:				
Student services	750,654	0	0	0
Instructional staff services	417,995	0	0	0
Administration services	1,903,757	0	0	0
Operation and maintenance of plant services	1,764,557	0	0	0
Transportation services	445,638	58,990	2,141	0
Central support services	767	0	0	0
	5,283,368	58,990	2,141	0
Non-instructional:				
Food service operation	1,492	0	0	0
Community service and education operations	827,015	0	0	0
	828,507	0	0	0
Other expenditures:				
Long-term debt interest	513,366	0	0	0
AEA flowthrough	645,987	0	645,987	0
Depreciation(unallocated) *	430,998	0	0	0
	1,590,351	0	645,987	0
Total governmental activities	19,130,889	766,349	3,408,449	100,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	871,852	542,498	525,361	0
Total business-type activities	871,852	542,498	525,361	0
Total	\$ 20,002,741	1,308,847	3,933,810	100,000

General Revenues:

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

Total general revenues

Changes in net assets

Net assets beginning of year

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(3,731,300)	0	(3,731,300)
(3,103,115)	0	(3,103,115)
(1,026,568)	0	(1,026,568)
(7,860,983)	0	(7,860,983)
(750,654)	0	(750,654)
(417,995)	0	(417,995)
(1,903,757)	0	(1,903,757)
(1,764,557)	0	(1,764,557)
(384,507)	0	(384,507)
(767)	0	(767)
(5,222,237)	0	(5,222,237)
(1,492)	0	(1,492)
(827,015)	0	(827,015)
(828,507)	0	(828,507)
(513,366)	0	(513,366)
0	0	0
(430,998)	0	(430,998)
(944,364)	0	(944,364)
(14,856,091)	0	(14,856,091)
0	196,007	196,007
0	196,007	196,007
(14,856,091)	196,007	(14,660,084)
\$ 5,736,505	0	5,736,505
330,553	0	330,553
116,164	0	116,164
1,377,057	0	1,377,057
8,430,869	0	8,430,869
122,334	1,309	123,643
35,080	0	35,080
16,148,562	1,309	16,149,871
1,292,471	197,316	1,489,787
10,953,353	235,900	11,189,253
\$ 12,245,824	433,216	12,679,040

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
ASSETS					
Cash and pooled investments					
ISCAP (Note 5)	\$ 3,088,720	0	0	0	3,088,720
Other	3,370,061	1,473,419	1,367,380	574,659	6,785,519
Receivables:					
Property tax					
Delinquent	92,014	90,964	5,876	13,256	202,110
Succeeding year	4,912,337	0	472,262	701,482	6,086,081
Interfund	28,180	0	0	0	28,180
Accounts	68,207	0	0	304	68,511
Accrued interest					
ISCAP (Note 5)	8,200	0	0	0	8,200
Due from other governments	218,656	0	0	0	218,656
TOTAL ASSETS	\$ 11,786,375	1,564,383	1,845,518	1,289,701	16,485,977
LIABILITIES AND FUND BALANCES					
Liabilities:					
Interfund payable	\$ 43,459	28,180	0	0	71,639
Accounts payable	91,165	62,655	0	5,681	159,501
Salaries and benefits payable	8,464	0	0	0	8,464
ISCAP warrants payable (Note 5)	3,070,000	0	0	0	3,070,000
ISCAP accrued interest payable (Note 5)	12,433	0	0	0	12,433
ISCAP premiums payable	29,033	0	0	0	29,033
Bond principal due and unpaid	0	0	25,000	0	25,000
Bond interest due and unpaid	0	0	4,238	0	4,238
Deferred revenue:					
Succeeding year property tax	4,912,337	0	472,262	701,482	6,086,081
Total liabilities	8,166,891	90,835	501,500	707,163	9,466,389
Fund balances:					
Reserved for:					
Talented and gifted	501	0	0	0	501
Phase III	1,938	0	0	0	1,938
Unreserved:					
Undesignated	3,617,045	1,473,548	1,344,018	582,538	7,017,149
Total fund balances	3,619,484	1,473,548	1,344,018	582,538	7,019,588
TOTAL LIABILITIES AND FUND BALANCES	\$ 11,786,375	1,564,383	1,845,518	1,289,701	16,485,977

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

Total fund balances of governmental funds (page 17)	\$	7,019,588
 <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 reported as assets in in the governmental funds.		18,604,893
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(138,684)
Long-term liabilities, including bonds payable, compensated absences payable, and early retirement are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(13,239,973)
Net assets of governmental activites (page 14)	\$	12,245,824

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Capital Projects	Debt Service	Other Governmental Funds	Total
REVENUES:					
Local sources:					
Local tax	\$ 5,114,476	0	330,553	738,193	6,183,222
LCSST	0	1,377,057	0	0	1,377,057
Tuition	132,977	0	0	0	132,977
Other	162,253	159,327	48,671	368,120	738,371
Intermediate sources	17,335	0	0	0	17,335
State sources	9,645,067	0	3,799	9,331	9,658,197
Federal sources	2,181,121	0	0	100,000	2,281,121
Total revenues	17,253,229	1,536,384	383,023	1,215,644	20,388,280
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	6,820,017	0	0	381,536	7,201,553
Special instruction	3,174,324	0	0	0	3,174,324
Other instruction	758,246	0	0	354,372	1,112,618
	10,752,587	0	0	735,908	11,488,495
Support services:					
Student services	715,383	0	0	0	715,383
Instructional staff services	421,299	0	0	0	421,299
Administration services	1,811,498	0	0	22,801	1,834,299
Operation and maintenance of plant services	1,613,727	0	0	136,266	1,749,993
Transportation services	366,927	0	0	73,381	440,308
Central support services	767	0	0	0	767
	4,929,601	0	0	232,448	5,162,049
Non-instructional:					
Food service operations	0	0	0	1,492	1,492
Community service and education operations	827,015	0	0	0	827,015
	827,015	0	0	1,492	828,507
Other expenditures:					
Facilities acquisitions	0	463,450	0	172,718	636,168
Long-term debt:					
Principal	0	0	1,050,000	0	1,050,000
Interest and fiscal charges	0	0	531,523	0	531,523
AEA flowthrough	645,987	0	0	0	645,987
	645,987	463,450	1,581,523	172,718	2,863,678
Total expenditures	17,155,190	463,450	1,581,523	1,142,566	20,342,729
Excess (deficiency) of revenues over (under) expenditures	98,039	1,072,934	(1,198,500)	73,078	45,551
Other financing sources (uses):					
Transfers in	0	0	1,239,262	0	1,239,262
Transfers out	0	(1,239,262)	0	0	(1,239,262)
Compensation for loss of fixed assets	23,161	0	0	0	23,161
Sale of real property	0	0	0	36,626	36,626
Sale of equipment and materials	30	0	0	0	30
Total other financing sources (uses)	23,191	(1,239,262)	1,239,262	36,626	59,817
Net change in fund balances	121,230	(166,328)	40,762	109,704	105,368
Fund balance beginning of year	3,498,254	1,639,876	1,303,256	472,834	6,914,220
Fund balance end of year	\$ 3,619,484	1,473,548	1,344,018	582,538	7,019,588

SEE NOTES TO FINANCIAL STATEMENTS.

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

Net change in fund balances - total governmental funds (page 19) \$ 105,368

*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 not reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlays expenditures exceeded depreciation expense in the current year, as follows:

Capital expenditures	\$ 1,018,680	
Depreciation expense	(902,045)	116,635

The proceeds from the sale of equipment (\$30), compensation for loss of fixed assets (\$23,161), and sale of real property (\$1,546) are reported as revenue in the governmental funds. However the cost of the equipment is removed from the capital assets account in the Statement of Net Assets and offset against the sale proceeds resulting in a "loss on disposal of equipment" which is reported within the government-type expenses. Thus, more revenue is reported in the governmental funds than the Statement of Activities. (24,737)

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. 1,050,000

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. 18,157

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

Early retirement	\$ 24,089	
Compensated absences	2,959	27,048

Changes in net assets of governmental activities (page 16) \$ 1,292,471

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 102,252
Interfund receivable	43,459
Accounts receivable	107,384
Inventories	6,153
Capital assets, net of accumulated depreciation	188,079
TOTAL ASSETS	447,327
 LIABILITIES	
Accounts payable	8,098
Deferred revenues	6,013
TOTAL LIABILITES	14,111
 NET ASSETS	
Invested in capital assets, net of related debt	188,079
Unrestricted	245,137
TOTAL NET ASSETS	\$ 433,216

SEE NOTES TO FINANCIAL STATEMENTS.

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Other local sources:	
Sale of lunches and breakfasts:	
Students	\$ 529,620
Adults	10,362
Miscellaneous	2,516
TOTAL OPERATING REVENUES	542,498
OPERATING EXPENSES:	
Food service operations:	
Salaries	292,664
Benefits	105,852
Services	6,996
Supplies	445,784
Depreciation	20,556
TOTAL OPERATING EXPENSES	871,852
OPERATING LOSS	(329,354)
NON-OPERATING REVENUES:	
Interest	1,309
State sources	10,694
Federal sources	514,667
TOTAL NON-OPERATING REVENUES	526,670
Net income	197,316
Retained earnings at beginning of year	235,900
Retained earnings end of year	\$ 433,216

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK 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	\$ 433,952
Cash received from miscellaneous operating activities	2,516
Cash payments to employees for services	(398,516)
Cash payments to suppliers for goods or services	(392,555)
Net cash used in operating activities	(354,603)
Cash flows from non-capital financing activities:	
State grants received	10,694
Federal grants received	467,267
Net cash provided by non-capital financing activities	477,961
Cash flows from investing activities:	
Interfund receivable from General Fund	(43,459)
Interest on investments	1,309
Net cash used in investing activities	(42,150)
Cash flows from capital financing activities:	
Purchase of assets	(1,050)
Net cash used in financing activities	(1,050)
Net increase in cash and cash equivalents	80,158
Cash and cash equivalents at beginning of year	22,094
Cash and cash equivalents at end of year	\$ 102,252
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (329,354)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	47,400
Depreciation	20,556
Decrease in inventories	5,907
Increase in accounts receivables	(107,384)
Increase in accounts payable	6,918
Increase in deferred revenue	1,354
Net cash used in operating activities	\$ (354,603)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 102,252

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$47,400.

SEE NOTES TO FINANCIAL STATEMENTS.

KEOKUK COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED JUNE 30, 2004

	<u>Total Private- Purpose Trust</u>
ASSETS	
Cash and pooled investments	\$ 102,833
LIABILITIES	<u>0</u>
NET ASSETS	
Reserved for scholarships	<u>\$ 102,833</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 FIDUCIARY FUND
 YEAR ENDED JUNE 30, 2004

	<u>Total Private- Purpose Trust</u>
ADDITIONS:	
Local sources:	
Interest income	\$ 3,135
DEDUCTIONS:	
Support services:	
Scholarship awarded	3,549
Change in net assets	(414)
Net assets beginning of year, as restated Note 11	<u>103,247</u>
Net assets end of year	<u>\$ 102,833</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

The Keokuk Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Keokuk, Iowa, and the predominate agricultural territory in Lee 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, Keokuk 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 Keokuk Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

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

B. Basis of Presentation

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

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference

reported as net assets. Net assets are reported in three categories:

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

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

The District also reports a fiduciary fund which focus on net assets and changes in net assets. The District's fiduciary fund is as follows:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

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

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

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

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

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

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

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

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

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

Asset Class	Amount
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

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

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. A liability for these amounts is reported governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 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, no disbursements exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$4,903,689 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

The District had investments in certificates of deposit that are stated at a fair value of \$874,264 and are classified as risk category 1, which are investments that are insured and registered and held by the District or its agent in the District's name.

(3) Interfund Receivables and Payables

The detail of interfund receivables and payables at June 30, 2004 is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	\$ 28,180
Nutrition	General	43,459
Total		\$ 71,639

The General Fund is repaying the Nutrition Fund for federal and state reimbursements received by the General Fund that should have been receipted in the Nutrition Fund. The Capital Projects Fund is repaying the General Fund for federal reimbursements that were receipted incorrectly. The balance will be repaid by June 30, 2005.

(4) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 1,239,262

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

(5) Iowa School Cash Anticipation Program (ISCAP)

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

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued		
				Interest Receivable	Warrants Payable	
2003-04B	1/30/04	1/28/05	1,507,194	8,200	1,497,000	12,433
2004-05A	6/30/04	6/30/05	1,581,526	0	1,573,000	0
Total			\$ 3,088,720	8,200	3,070,000	12,433

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity was noted during the year.

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

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

(6) Capital Assets

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

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 898,732	3,870	0	902,602
Construction in progress	0	55,285	0	55,285
Total capital assets not being depreciated	898,732	59,155	0	957,887
Capital assets being depreciated:				
Buildings	21,726,020	657,841	0	22,383,861
Land improvements	1,111,958	5,574	0	1,117,532
Machinery and equipment	3,882,776	296,110	49,650	4,129,236
Total capital assets being depreciated	26,720,754	959,525	49,650	27,630,629
Less accumulated depreciation for:				
Buildings	5,794,750	384,918	0	6,179,668
Land improvements	563,477	46,080	0	609,557
Machinery and equipment	2,748,264	471,047	24,913	3,194,398
Total accumulated depreciation	9,106,491	902,045	24,913	9,983,623
Total capital assets being depreciated, net	17,614,263	57,480	24,737	17,647,006
Governmental activities capital assets, net \$	18,512,995	116,635	24,737	18,604,893

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 304,265	1,050	0	305,315
Less accumulated depreciation	96,680	20,556	0	117,236
Business-type activities capital assets, net	\$ 207,585	(19,506)	0	188,079

Depreciation expense was charged by the District as follows:

Governmental activities:		
Instruction:		
Regular		\$ 261,725
Other		8,227
Support services:		
Instructional staff services		10,011
Administration services		100,917
Operation and maintenance of plant services		14,314
Transportation		75,853
		471,047
Unallocated depreciation		430,998
Total governmental activities depreciation expense		\$ 902,045
Business-type activities:		
Food services		\$ 20,556

(7) 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	\$ 7,880,000	0	400,000	7,480,000	405,000
Revenue bonds	5,365,000	0	650,000	4,715,000	690,000
Early retirement	940,091	383,746	407,835	916,002	154,881
Compensated absences	131,930	128,971	131,930	128,971	128,971
Total	\$ 14,317,021	512,717	1,589,765	13,239,973	1,378,852

General Obligation Bonds Payable

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

Year Ending June 30,	Interest Rate	Bond issue March 24, 2003		
		Principal	Interest	Total
2005	2.00 %	\$ 405,000	250,050	655,050
2006	2.00	410,000	241,950	651,950
2007	2.50	425,000	233,750	658,750
2008	3.00	435,000	223,126	658,126
2009	3.00	445,000	210,076	655,076
2010	3.25	460,000	196,726	656,726
2011	3.30	475,000	181,776	656,776
2012	3.40	490,000	166,100	656,100
2013	3.50	510,000	149,440	659,440
2014	3.60	525,000	131,590	656,590
2015	3.70	540,000	112,690	652,690
2016	3.80	555,000	92,710	647,710
2017	3.90	580,000	71,620	651,620
2018	4.00	600,000	49,000	649,000
2019	4.00	625,000	25,000	650,000
Total		\$ 7,480,000	2,335,604	9,815,604

Revenue Bonds Payable

Details of the District's June 30, 2004 revenue bonded indebtedness is as follows:

Year Ending June 30	Series A - Sales Tax Bond		Series B - Sales Tax Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 200,000	73,613	\$ 490,000	162,080	\$ 690,000	235,693
2006	200,000	61,862	525,000	137,020	725,000	198,882
2007	200,000	50,400	560,000	110,395	760,000	160,795
2008	200,000	39,950	600,000	81,679	800,000	121,629
2009	200,000	29,475	650,000	50,515	850,000	79,990
2010	400,000	16,175	490,000	19,180	890,000	35,355
Total	\$ 1,400,000	271,475	\$ 3,315,000	560,869	\$ 4,715,000	832,344

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentives for each eligible employee is governed by the Master Contract between the District and the Keokuk Education Association. Early retirement benefits paid for the year ended June 30, 2004 totaled \$407,835.

(8) Pension and Retirement Benefits

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

may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$623,676, \$624,655, and \$645,928, respectively, equal to the required contributions for each year.

(9) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were \$69,908.

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.

Keokuk 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.

(10) 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 \$645,987 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.

(11) Restatement

During the year it was determined that the Clarence Jungst Memorial Scholarship was not owned by the District, and there was also an investment in the name of Edna Meirotto that was not previously recorded. These changes to the Private-Purpose Trust Fund are as follows:

	<u>Private-Purpose Trust Fund</u>
Net assets, June 30, 2003, as previously reported \$	132,016
Add funds not previously recognized by the District	10,399
Remove funds that are not owned by the District	<u>(39,168)</u>
Net assets, July 1, 2003, as restated	<u>\$ 103,247</u>

REQUIRED SUPPLEMENTAL INFORMATION

KEOKUK 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	\$ 8,437,331	437,777
State sources	9,649,259	10,694
Federal sources	2,214,805	514,667
Total receipts	20,301,395	963,138
Disbursements:		
Instruction	11,248,982	0
Support services	5,113,801	0
Non-instructional programs	820,986	839,521
Other expenditures	3,092,510	0
Total disbursements	20,276,279	839,521
Excess(deficiency) of receipts over(under) disbursements	25,116	123,617
Other financing sources, net	58,367	0
Excess(deficiency) of receipts and other financing sources over(under) disbursements	83,483	123,617
Balance beginning of year	6,658,577	22,094
Balance end of year	\$ 6,742,060	145,711

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
8,875,108	7,366,618	7,366,618	1,508,490
9,659,953	10,507,606	10,507,606	(847,653)
2,729,472	2,445,000	2,445,000	284,472
21,264,533	20,319,224	20,319,224	945,309
11,248,982	11,820,000	11,820,000	571,018
5,113,801	5,565,000	5,565,000	451,199
1,660,507	1,737,500	1,737,500	76,993
3,092,510	3,513,161	3,513,161	420,651
21,115,800	22,635,661	22,635,661	1,519,861
148,733	(2,316,437)	(2,316,437)	2,465,170
58,367	967,572	967,572	1,993,511
207,100	(1,348,865)	(1,348,865)	4,458,681
6,680,671	6,453,209	6,453,209	227,462
6,887,771	5,104,344	5,104,344	4,686,143

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

	Governmental Fund Types		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 20,301,395	86,885	20,388,280
Expenses	20,276,279	66,450	20,342,729
Net	25,116	20,435	45,551
Other financing sources, net	58,367	1,450	59,817
Beginning fund balances	6,658,577	255,643	6,914,220
Ending fund balances	\$ 6,742,060	277,528	7,019,588

	Proprietary Fund Type		
	Enterprise		
	Accrual		
	Cash Basis	Adjust- ments	Accrual Basis
Revenues	\$ 963,138	106,030	1,069,168
Expenses	839,521	32,331	871,852
Net	123,617	73,699	197,316
Beginning retained earnings	22,094	213,806	235,900
Ending retained earnings	\$ 145,711	287,505	433,216

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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

	Management	Physical Plant & Equipment Levy	School- house 67.5	Student Activity	Total Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 222,386	127,262	92,643	132,368	574,659
Receivables:					
Property tax:					
Current year delinquent	11,191	2,065	0	0	13,256
Succeeding year	590,000	111,482	0	0	701,482
Accounts	0	0	0	304	304
TOTAL ASSETS	\$ 823,577	240,809	92,643	132,672	1,289,701
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	0	0	5,681	5,681
Deferred revenue:					
Succeeding year property tax	590,000	111,482	0	0	701,482
	590,000	111,482	0	5,681	707,163
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	233,577	129,327	92,643	126,991	582,538
Total fund balances	233,577	129,327	92,643	126,991	582,538
TOTAL LIABILITIES AND FUND EQUITY	\$ 823,577	240,809	92,643	132,672	1,289,701

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK 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 Nonmajor Governmental Funds
	Physical Manage- ment	Plant & Equipment Levy	School- house 67.5	Student Activity	
REVENUES:					
Local sources:					
Local tax	\$ 622,029	116,164	0	0	738,193
Other	240	240	506	367,134	368,120
State sources	7,996	1,335	0	0	9,331
Federal sources	0	100,000	0	0	100,000
TOTAL REVENUES	630,265	217,739	506	367,134	1,215,644
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	381,536	0	0	0	381,536
Other instruction	0	0	0	354,372	354,372
	381,536	0	0	354,372	735,908
Support services:					
Administration services	22,801	0	0	0	22,801
Operation and maintenance of plant services	118,516	17,750	0	0	136,266
Transportation services	22,591	50,790	0	0	73,381
	163,908	68,540	0	0	232,448
Non-instructional:					
Food service operations	1,492	0	0	0	1,492
Other expenditures:					
Facilities acquisition	0	162,418	10,300	0	172,718
TOTAL EXPENDITURES	546,936	230,958	10,300	354,372	1,142,566
Excess (deficiency) of revenues over (under) expenditures	83,329	(13,219)	(9,794)	12,762	73,078
Other financing sources:					
Sales of real property	0	36,626	0	0	36,626
Excess (deficiency) of revenues and other financing sources over (under) expenditures other financing sources	83,329	23,407	(9,794)	12,762	109,704
Fund balance beginning of year	150,248	105,920	102,437	114,229	472,834
Fund balance end of year	\$ 233,577	129,327	92,643	126,991	582,538

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK 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
HS interest earned	\$ 75	1,706	1,708	73
HS drama	1,571	719	522	1,768
HS speech	2,102	3,436	4,518	1,020
HS show choir	664	2,072	2,019	717
HS vocal music	481	4,867	4,848	500
HS instrument music	346	3,746	2,592	1,500
HS winterguard	540	186	576	150
HS athletics	1,273	0	208	1,065
HS tournaments	1,425	6,248	7,673	0
HS booster resale	(677)	43,882	42,724	481
HS cross country	669	1,238	1,298	609
HS boys basketball	8,771	5,558	8,273	6,056
HS football	12,784	24,178	19,906	17,056
HS baseball	209	10,013	6,568	3,654
HS boys track	1,249	1,710	1,877	1,082
HS boys tennis	838	1,200	1,674	364
HS boys golf	798	2,308	1,606	1,500
HS boys swimming	0	570	70	500
HS soccer	1,450	3,516	3,508	1,458
HS wrestling	1,997	2,425	2,099	2,323
HS girls basketball	8,058	7,030	10,791	4,297
HS volleyball	2,261	4,637	5,175	1,723
HS softball	(1,076)	10,338	5,336	3,926
HS girls track	940	1,642	1,539	1,043
HS girls tennis	872	617	452	1,037
HS girls golf	1,322	1,440	1,737	1,025
HS girls swimming	806	1,853	1,647	1,012
HS girls soccer	1,000	0	0	1,000
HS yearbook	1,464	13,656	14,620	500
HS general	3,577	13,196	14,972	1,801
HS FHA	783	0	0	783
HS summer drama	1,343	0	0	1,343
HS student newspaper	1,688	1,990	2,959	719
HS fallon student	1,896	0	347	1,549
HS lit project	1,358	227	83	1,502
HS student council	3,559	9,885	6,884	6,560
HS uniform repair	2,246	1,465	1,138	2,573
HS national honor society	421	2,144	2,065	500
HS french club	753	161	294	620
HS spanish club	591	753	844	500
HS class of 2001	137	0	0	137
HS class of 2002	2,727	0	0	2,727
HS class of 2003	594	250	844	0
HS class of 2004	3,555	1,555	3,153	1,957
HS class of 2005	2,945	7,666	6,430	4,181
HS class of 2006	1,169	2,297	1,182	2,284
HS class of 2007	250	2,935	116	3,069
HS class of 2008	250	0	0	250

KEOKUK 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
HS special education club	1,121	227	301	1,047
HS athletics	1,022	12,330	11,852	1,500
HS special athletics	983	371	632	722
HS weight room	428	0	0	428
HS student activity	0	12,544	12,544	0
HS concessions	520	43,454	42,858	1,116
HS little feather	7,311	26,304	28,556	5,059
HS cheerleaders	2,281	2,597	2,057	2,821
HS bowling	1,499	227	652	1,074
HS gaming	0	199	199	0
HS teacher activity	329	2,362	2,191	500
HS jets	0	84	45	39
HS learning center	1,325	226	478	1,073
HS nurse activity	372	0	0	372
HS SADD	788	1,116	1,404	500
MS vocal music	2,562	6,456	6,713	2,305
MS instrument music	416	4,324	4,351	389
MS cross country	200	611	811	0
MS boys basketball	519	1,704	1,499	724
MS football	578	2,214	2,792	0
MS boys track	98	881	979	0
MS soccer	2,500	0	0	2,500
MS wrestling	14	990	686	318
MS girls basketball	592	1,943	2,535	0
MS volleyball	498	1,497	1,266	729
MS girls track	40	930	513	457
MS yearbook	23	3,533	2,673	883
MS student newspaper	248	0	0	248
MS lit project	1,820	17,133	12,919	6,034
MS student council	0	538	538	0
MS math contests	950	4	196	758
MS SPED club	29	715	462	282
MS student athletes	49	1,547	1,434	162
MS student activities	154	7,378	6,084	1,448
MS cheerleaders	0	200	104	96
MS teacher activity	377	868	910	335
MS student products	1,046	3,779	3,610	1,215
MS learn connects	0	1,146	829	317
MS int checking	192	337	441	88
HS boys golf fundraiser	0	50	0	50
HS softball fundraiser	1,291	1,000	1,383	908
Total	\$ 114,229	367,134	354,372	126,991

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOKUK COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN PRIVATE-PURPOSE TRUST FUND,
 SCHOLARSHIP ACCOUNTS
 YEAR ENDED JUNE 30, 2004

	Balance Beginning of year	Revenues	Expenditures	Balance End of year
Black Sims Award	\$ 500	11	11	500
Kilborne Prize	9,637	243	216	9,664
William Aldrich Trust	3,752	101	142	3,711
Elizabeth Wilson Leake Award	13,501	358	210	13,649
Maud Marshall Hassall	11,113	410	359	11,164
WM J Sigmund Memorial	8,480	322	354	8,448
Edna Meirotto	11,035	266	1090	10,211
Edna Meirotto	10,399	375	517	10,257
Ming Chung	21,507	242	0	21,749
	\$ 103,247	3,135	3,549	102,833

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 7,560,279	7,835,340	7,942,449	7,161,434
Tuition	132,977	79,151	80,341	93,049
Other	738,371	965,510	1,435,570	1,670,068
Intermediate sources	17,335	0	0	1,250
State sources	9,658,197	9,529,374	9,377,292	9,931,546
Federal sources	2,281,121	2,300,586	1,910,262	1,982,199
Total	\$ 20,388,280	20,709,961	20,745,914	20,839,546
Expenditures:				
Instruction:				
Regular instruction	\$ 7,201,553	7,204,922	6,480,648	6,676,332
Special instruction	3,174,324	2,948,706	2,900,575	2,952,624
Other instruction	1,112,618	1,130,085	1,300,509	1,353,754
Support services:				
Student services	715,383	766,190	732,079	699,214
Instructional staff services	421,299	399,603	538,396	449,894
Administration services	1,834,299	1,709,331	1,773,559	1,614,758
Operation and maintenance of plant services	1,749,993	1,547,588	1,676,518	1,494,943
Transportation services	440,308	525,785	490,994	370,457
Other	767	0	0	0
Non-instructional	828,507	799,318	757,623	56,156
Other expenditures:				
Facilities acquisitions	636,168	4,007,977	8,503,240	4,215,925
Long Term Debt:				
Principal	1,050,000	1,010,000	995,000	780,000
Interest	531,523	989,078	768,703	865,606
AEA flow-through	645,987	667,716	672,452	707,206
Total	\$ 20,342,729	23,706,299	27,590,296	22,236,869

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
DIRECT:			
TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	84.287	FY 04	\$ 987,637
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DISTRIBUTION (non-cash)	10.550	FY 04	\$ 47,400
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 04	65,292
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 04	398,666
SPECIAL MILK	10.556	FY 04	3,309
			<u>467,267</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCA- TIONAL AGENCIES	84.010	3312-G-O	506,463
MIGRANT EDUCATION - BASIC STATE GRANTS PROGRAM (TITLE I MIGRANTS)			
	84.011	FY 04	5,000
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 03	690
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)			
	84.298	FY 04	20,449
			<u>21,139</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS			
	84.186	FY 04	18,256
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 03	13,897
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM			
	84.367	FY 04	123,419
			<u>137,316</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 03	11,150
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES			
	84.369	FY 04	2,366
			<u>13,516</u>
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION			
	84.332	FY 03	39,787
COMPREHENSIVE SCHOOL REFORM DEMONSTRATION			
	84.332	FY 04	167,539
			<u>207,326</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY (E2T2)			
	84.318	FY 04	837

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

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 03	114
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 04	40,702
			<u>40,816</u>
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 02	1,107
SPECIAL EDUCATION - GRANTS TO STATES (SUCCESS 4)	84.027	FY 03	1,219
			<u>2,326</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 04	101,867
TOTAL			<u>\$ 2,557,166</u>

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

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

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

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

We have audited the financial statements of Keokuk Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 23, 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 Keokuk Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings and Questioned Costs.

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

Internal Control Over Financial Reporting

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

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

consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

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

September 23, 2004

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

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

To the Board of Education of
Keokuk Community School District

Compliance

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

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Keokuk Community School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Keokuk Community School District's compliance with those requirements.

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations,

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contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Handwritten signature in black ink, appearing to read "Nolte, Cornman & Johnson" with a stylized flourish at the end.

NOLTE, CORNMAN & JOHNSON, P.C.

September 23, 2004

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

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, none of which are a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.287 - Twenty First Century Community Learning Centers
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keokuk Community School District qualified as a low-risk auditee.

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

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

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

II-A-04 Credit Card Policy - We noted during our audit that the District had instances where there was no supporting documents with their credit card statements. We also noted that the District's credit card policy does not state procedures in using the credit cards.

Recommendation - The District needs to initiate and follow a policy that requires a detailed receipt with any purchase using a credit card. A detailed receipt should be present before reimbursement would occur.

Response - We will review the policy and also ensure that all receipts are attached before reimbursement is made.

Conclusion - Response accepted.

II-B-04 Student Activity Fund - We noted during our audit that the Student Activity fund included old class accounts, a HS teacher activity account, and a HS nurse activity account.

Recommendation - The receipts and expenditures made from the teacher and nurse accounts appear to be more appropriately accounted for in the General fund. The District should review the transactions in these accounts and make the necessary transfers. The old class accounts should be closed out upon graduation.

Response - The older class accounts will be closed, the teacher and nurse accounts will be reviewed for proper classification.

Conclusion - Response accepted.

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

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No matters were reported.

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

Part IV: Other Findings Related to Statutory Reporting

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

IV-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, did not exceed the amount budgeted.

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

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

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

Name, Title and Business Connection	Transaction Description	Amount
Tyler McChghy, Board Member Employee of Athletic Center	Athletic apparel and supplies	\$13,203

In accordance with an Attorney General Opinion dated November 9, 1976, the transactions with the Board Member does not appear to be a conflict of interest.

IV-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board. However, we noted that the minutes were not always published in a timely manner.

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

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

Conclusion - Response accepted.

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

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

IV-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-K-04 PPEL Revenues - We noted during our audit that the District had sale of equipment in the PPEL Fund of \$3,192.66 that should more appropriately be receipted into the General Fund.

Recommendation - The District should make a corrective transfer from the PPEL Fund to the General Fund for the sale for equipment.

Response - We will comply.

Conclusion - Response accepted.