

KEOTA COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Keota Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2003 Election)		
Matt Olson	President	2004
Kevin Greiner	Vice President	2003
Tom Edwards	Board Member	2005
Jim Branstad	Board Member	2004
Lelsie Greiner	Board Member	2005
Board of Education (After September 2003 Election)		
Matt Olson	President	2004
Kevin Greiner	Vice President	2006
Tom Edwards	Board Member	2005
Jim Branstad	Board Member	2004
Lelsie Greiner	Board Member	2005
School Officials		
Dave Harris	Superintendent	2004
Marlene Stoutner	District Secretary/Treasurer and Business Manager	2004
Michael Neary	Attorney	2004

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

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

As described in Note 9 to the financial statements, during the year ended June 30, 2004, Keota Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments; Statement No. 37, Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule- Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

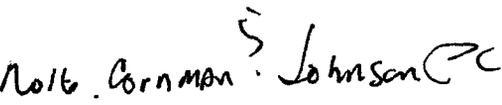
In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2004 on our consideration of the Keota Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of

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laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 37 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Auditing Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Keota Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2003 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

November 15, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues decreased from \$3,091,330 in fiscal 2003 to \$3,055,694 in fiscal 2004, while General Fund expenditures decreased from \$3,263,056 in fiscal 2003 to \$2,952,115 in fiscal 2004. This resulted in an increase in the District's General Fund balance from of \$643,507 in fiscal 2003 to a balance of \$709,383 in fiscal 2004, a 10.2% increase from the prior year.
- The decrease in General Fund revenues was attributable to a decrease in property tax and state and federal grant revenue in fiscal 2004, which included a 2.5% across the board state budget cut. The decrease in expenditures was due primarily to a decrease in the negotiated salary and benefits (resulting from budget cuts) and restricted grant expenditures.
- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from \$18,626 in fiscal year 2003 to \$16,068 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 Keota 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 Keota 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 Keota 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-1
Keota Community School District Annual Financial Report

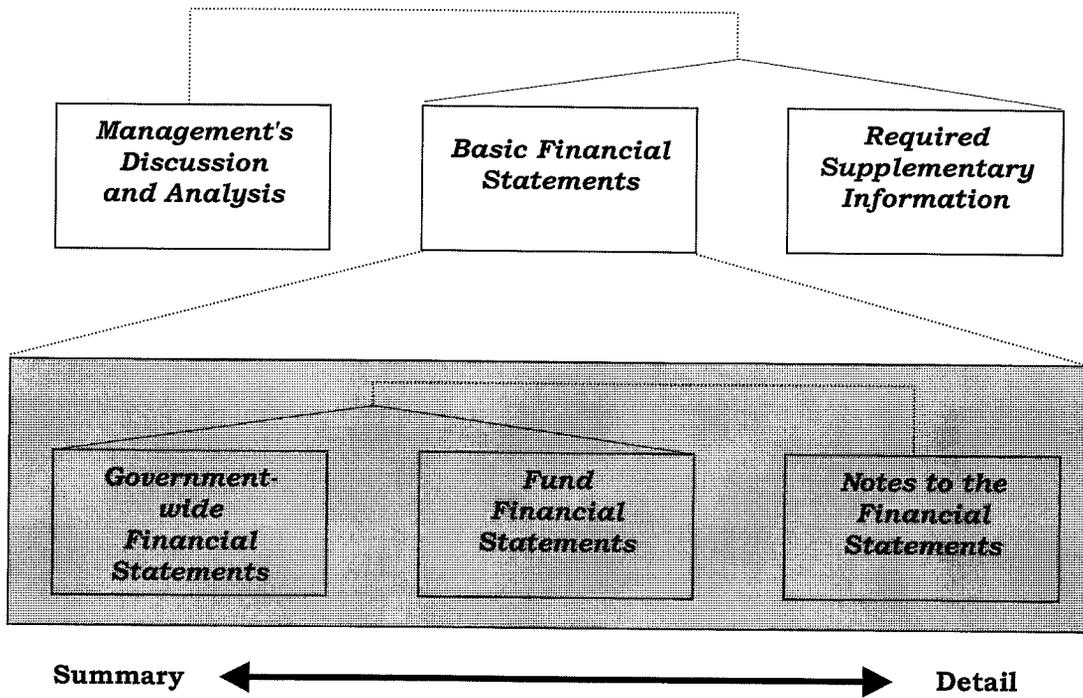


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

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

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

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	\$ 2,811,862	21,763	2,833,625
Capital assets	3,824,661	7,399	3,832,060
Total assets	6,636,523	29,162	6,665,685
Long-term obligations	3,148,542	0	3,148,542
Other liabilities	1,847,510	799	1,848,309
Total liabilities	4,996,052	799	4,996,851
Net assets:			
Invested in capital assets, net of related debt	654,432	7,399	661,831
Restricted	201,647	0	201,647
Unrestricted	784,392	20,964	805,356
Total net assets	\$ 1,640,471	28,363	1,668,834

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

Figure A-4
Changes of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Revenues:			
Program revenues:			
Charges for services	\$ 228,512	88,034	316,546
Operating grants and contributions and restricted interest	384,439	46,459	430,898
Capital grants, contributions and restricted interest restricted interest	22,900	0	22,900
General revenues:			
Local tax	1,931,968	0	1,931,968
Unrestricted state grants	953,438	0	953,438
Capital contributions	0	4,476	4,476
Other	18,169	285	18,454
Total revenues	3,539,426	139,254	3,678,680
Program expenses:			
Governmental activities:			
Instructional	2,105,490	0	2,105,490
Support services	920,142	0	920,142
Non-instructional programs	0	129,997	129,997
Other expenses	405,394	0	405,394
Total expenses	3,431,026	129,997	3,561,023
Changes in net assets	\$ 108,400	9,257	117,657

Property tax and unrestricted state grants account for 82% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$3,539,426 and expenses were \$3,431,026. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

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

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 2,105,490	1,601,133
Support services	920,142	920,142
Other expenses	405,394	273,900
Totals	\$ 3,431,026	2,795,175

- The cost financed by users of the District's programs was \$228,512.

-
- Federal and state governments subsidized certain programs with grants and contributions totaling \$407,339.
 - The net cost of governmental activities was financed with \$1,931,968 in local tax, \$953,438 in unrestricted state grants, and \$18,169 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$139,254 and expenses were \$129,997. 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 Keota 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 \$882,586, above last year's ending fund balances of a \$805,972.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Reduction in the tax levy, as well as, state and federal grants resulted in a decrease in revenues. However, the decrease in revenues was more than offset by the District's decrease in General Fund expenditures ensuring the financial position of the District to increase.
- The Management, Debt Service, and Activity Fund combined balance decreased from \$45,938 in 2003, to \$36,466 in 2004, due to the increase in expenditures in all funds.
- The Physical Plant and Equipment Levy (PPEL) fund balance increased from \$116,257 to \$136,737, due to an increase in federal revenues for the year.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$19,106 at June 30, 2003 to \$28,383 at June 30, 2004, representing an increase of approximately 49%.

BUDGETARY HIGHLIGHTS

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

The District's revenues were \$144,700 less than budgeted revenues, a variance of 4%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget exceeded in non-instructional and the other expenditures functional areas due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$3.8 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 3.7% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$165,175.

The original cost of the District's capital assets was \$5.8 million. Governmental funds account for \$5.7 million with the remainder of \$0.1 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$3,609,951 at June 30, 2004, compared to \$3,704,749 reported at June 30, 2003. This decrease resulted from the current year depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	\$ 12,310	0	12,310
Buildings	3,609,951	0	3,609,951
Machinery and equipment	202,400	7,399	209,799
Total	\$ 3,824,661	7,399	3,832,060

Long-Term Debt

At June 30, 2004, the District had long-term debt outstanding of \$3,148,542 in general obligation bonds and leases. This represents a decrease of approximately 5.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding general obligation bonds payable of \$3,010,000 at June 30, 2004.

The District also had outstanding leases payable from the General Fund of \$138,542 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2004	2003	
General obligation bonds	\$ 3,010,000	3,160,000	-4.7%
Bus lease	\$ 138,542	170,000	-18.5%
Total	<u>\$ 3,148,542</u>	<u>3,330,000</u>	<u>-5.4%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District has experienced declining enrollment for a few years, and expects a slight decrease to continue.
- 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 at the rate of 10% each year.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

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 Marlene Stoutner, District Board Secretary, Keota Community School District, P.O. Box 88, Keota, Iowa, 52248.

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	\$ 900,711	20,882	921,593
Receivables:			
Property tax:			
Delinquent	18,955	0	18,955
Succeeding year	1,750,634	0	1,750,634
Income surtax	105,352	0	105,352
Accounts	16,423	0	16,423
Accrued interest	846	0	846
Due from other governments	18,941	0	18,941
Inventories	0	881	881
Capital assets, net of accumulated depreciation (Note 4)	3,824,661	7,399	3,832,060
TOTAL ASSETS	6,636,523	29,162	6,665,685
LIABILITIES			
Accounts payable	73,290	0	73,290
Interest payable	23,586	0	23,586
Deferred revenue:			
Succeeding year property tax	1,750,634	0	1,750,634
Other	0	799	799
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds	160,000	0	160,000
Bus lease	32,680	0	32,680
Portion due after one year:			
General obligation bonds	2,850,000	0	2,850,000
Bus lease	105,862	0	105,862
TOTAL LIABILITIES	4,996,052	799	4,996,851
NET ASSETS			
Investment in capital assets, net of related debt	654,432	7,399	661,831
Restricted for:			
Talented and gifted	17,940	0	17,940
Teacher quality	173	0	173
Phase III	12,230	0	12,230
Physical plant & equipment levy	136,737	0	136,737
Management levy	4,640	0	4,640
Other special revenue purposes	29,927	0	29,927
Unrestricted	784,392	20,964	805,356
TOTAL NET ASSETS	\$ 1,640,471	28,363	1,668,834

SEE NOTES TO FINANCIAL STATEMENTS.

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

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	\$ 1,429,851	148,338	267,206	0
Special instruction	525,755	0	8,639	0
Other instruction	149,884	80,174	0	0
	<u>2,105,490</u>	<u>228,512</u>	<u>275,845</u>	<u>0</u>
Support services:				
Student services	41,879	0	0	0
Instructional staff services	48,308	0	0	0
Administration services	392,841	0	0	0
Operation and maintenance of plant services	265,770	0	0	0
Transportation services	171,344	0	0	0
	<u>920,142</u>	<u>0</u>	<u>0</u>	<u>0</u>
Other expenditures:				
Facilities acquisitions	41,822	0	0	22,900
Long-term debt interest	148,748	0	0	0
AEA flowthrough	108,594	0	108,594	0
Depreciation(unallocated)*	106,230	0	0	0
	<u>405,394</u>	<u>0</u>	<u>108,594</u>	<u>22,900</u>
Total governmental activities	3,431,026	228,512	384,439	22,900
Business-Type activities:				
Non-instructional programs:				
Nutrition services	129,997	88,034	46,459	0
Total business-type activities	<u>129,997</u>	<u>88,034</u>	<u>46,459</u>	<u>0</u>
Total	\$ 3,561,023	316,546	430,898	22,900

General Revenues:

Property tax levied for:
 General purposes
 Debt services
 Capital outlay
 Unrestricted state grants
 Unrestricted investment earnings

Total general revenues

Excess of revenues over expenses before capital contribution

Capital contributions
 Changes in net assets

Net assets beginning of year, as restated (Note 9)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(1,014,307)	0	(1,014,307)
(517,116)	0	(517,116)
(69,710)	0	(69,710)
(1,601,133)	0	(1,601,133)
(41,879)	0	(41,879)
(48,308)	0	(48,308)
(392,841)	0	(392,841)
(265,770)	0	(265,770)
(171,344)	0	(171,344)
(920,142)	0	(920,142)
(18,922)	0	(18,922)
(148,748)	0	(148,748)
0	0	0
(106,230)	0	(106,230)
(273,900)	0	(273,900)
(2,795,175)	0	(2,795,175)
0	4,496	4,496
0	4,496	4,496
(2,795,175)	4,496	(2,790,679)
\$ 1,591,089	0	1,591,089
291,456	0	291,456
49,423	0	49,423
953,438	0	953,438
18,169	285	18,454
2,903,575	285	2,903,860
108,400	4,781	113,181
0	4,476	4,476
108,400	9,257	113,181
1,532,071	19,106	1,551,177
\$ 1,640,471	28,363	1,664,358

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

	General	Special		Total
		Revenue - PEEL Fund	Other Governmental Funds	
ASSETS				
Cash and pooled investments	\$ 731,441	136,225	33,045	900,711
Receivables:				
Property tax				
Delinquent	15,032	512	3,411	18,955
Succeeding year	1,364,500	46,179	339,955	1,750,634
Income surtax	105,352	0	0	105,352
Accounts	15,752	0	671	16,423
Accrued interest	846	0	0	846
Due from other governments	18,941	0	0	18,941
TOTAL ASSETS	\$ 2,251,864	182,916	377,082	2,811,862
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 72,629	0	661	73,290
Deferred revenue:				
Succeeding year property tax	1,364,500	46,179	339,955	1,750,634
Income surtax	105,352	0	0	105,352
Total liabilities	1,542,481	46,179	340,616	1,929,276
Fund balances:				
Reserved for:				
Talented and gifted	17,940	0	0	17,940
Teacher Quality	173	0	0	173
Phase III	12,230	0	0	12,230
Unreserved:				
Undesignated	679,040	136,737	36,466	852,243
Total fund balances	709,383	136,737	36,466	882,586
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,251,864	182,916	377,082	2,811,862

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA 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)	\$ 882,586
 <i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	3,824,661
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.	(23,586)
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	105,352
Long-term liabilities, including bonds payable, and bus lease payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,148,542)
Net assets of governmental activites (page 14)	<u>\$ 1,640,471</u>

SEE NOTES TO FINANCIAL STATEMENTS.

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

	General	Special		Total
		Revenue - PPEL Fund	Other Governmental Funds	
REVENUES:				
Local sources:				
Local tax	\$ 1,553,598	49,423	328,947	1,931,968
Tuition	131,901	0	0	131,901
Other	32,505	1,117	81,158	114,780
State sources	1,220,613	24	163	1,220,800
Federal sources	117,077	22,900	0	139,977
Total revenues	3,055,694	73,464	410,268	3,539,426
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,427,249	0	0	1,427,249
Special instruction	525,755	0	0	525,755
Other instruction	62,423	0	86,461	148,884
	2,015,427	0	86,461	2,101,888
Support services:				
Student services	41,879	0	0	41,879
Instructional staff services	48,308	0	0	48,308
Administration services	392,263	0	578	392,841
Operation and maintenance of plant services	234,188	0	31,582	265,770
Transportation services	111,456	0	6,864	118,320
	828,094	0	39,024	867,118
Other expenditures:				
Facilities acquisitions	0	53,254	0	53,254
Long-term debt:				
Principal	0	0	181,458	181,458
Interest and fiscal charges	0	0	150,500	150,500
AEA flowthrough	108,594	0	0	108,594
	108,594	53,254	331,958	493,806
Total expenditures	2,952,115	53,254	457,443	3,462,812
Excess (deficiency) of revenues over (under) expenditures	103,579	20,210	(47,175)	76,614
Other financing sources (uses):				
Operating transfers in	0	0	37,703	37,703
Operating transfers out	(37,703)	0	0	(37,703)
Total other financing sources (uses)	(37,703)	0	37,703	0
Net change in fund balances	65,876	20,210	(9,472)	76,614
Fund balance beginning of year, as restated (Note 9)	643,507	116,527	45,938	805,972
Fund balance end of year	\$ 709,383	136,737	36,466	882,586

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA 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) \$ 76,614

*Amounts reported for governmental activities in the
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 11,432	
Depreciation expense	(162,856)	(151,424)

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. 181,458

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,752

Changes in net assets of governmental activities (page 16) \$ 108,400

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

	School Nutrition
ASSETS	
Cash and cash equivalents	\$ 20,882
Inventories	881
Capital assets, net of accumulated depreciation	7,399
TOTAL ASSETS	29,162
 LIABILITIES	
Deferred revenues	799
TOTAL LIABILITES	799
 NET ASSETS	
Invested in capital assets, net of related debt	7,399
Unrestricted	20,964
TOTAL NET ASSETS	\$ 28,363

SEE NOTES TO FINANCIAL STATEMENTS.

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

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 88,034
TOTAL OPERATING REVENUES	<u>88,034</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Salaries	41,376
Benefits	18,997
Supplies	67,305
Depreciation	2,319
TOTAL OPERATING EXPENSES	<u>129,997</u>
OPERATING LOSS	<u>(41,963)</u>
NON-OPERATING REVENUES:	
State sources	2,372
Federal sources	44,087
Interest on investments	285
TOTAL NON-OPERATING REVENUES	<u>46,744</u>
Income before capital contributions	4,781
Capital contributions	<u>4,476</u>
Change in net assets	9,257
Net assets beginning of year	<u>19,106</u>
Net assets end of year	<u>\$ 28,363</u>

SEE NOTES TO FINANCIAL STATEMENTS.

KEOTA 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	\$ 87,525
Cash received from miscellaneous operating activities	409
Cash payments to employees for services	(60,373)
Cash payments to suppliers for goods or services	(54,869)
Net cash used in operating activities	(27,308)
Cash flows from non-capital financing activities:	
State grants received	2,372
Federal grants received	32,585
Net cash provided by non-capital financing activities	34,957
Cash flows from investing activities:	
Interest on investments	285
Net cash provided by investing activities	285
Net increase in cash and cash equivalents	7,934
Cash and cash equivalents at beginning of year	12,948
Cash and cash equivalents at end of year	\$ 20,882
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (41,963)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	11,502
Depreciation	2,319
Decrease in inventories	934
Decrease in deferred revenue	(100)
Net cash used in operating activities	\$ (27,308)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	\$ 20,882

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at \$11,502.

During the year ended June 30, 2004, the District received contributed capital assets of \$4,476.

SEE NOTES TO FINANCIAL STATEMENTS.

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

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

The Keota 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 Keota, Iowa, and the predominate agricultural territory in Keokuk, and Washington 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, Keota 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 Keota 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 Keokuk, and Washington Counties Assessors' Conference Board.

B. Basis of Presentation

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

The Special Revenue - Physical Plant and Equipment Levy (PPEL) Fund is used to account for resources used in building improvements and equipment purchases.

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

C. Measurement Focus and Basis of Accounting

The Government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual

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

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Assets, Liabilities and Fund Equity

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

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

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

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

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

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

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

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded

as expenses when consumed rather than when purchased or received.

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

Asset Class	Amount
Land	\$ 5,000
Buildings	5,000
Improvements other than buildings	5,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	5,000

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

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

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

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

Long-term 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, disbursements in the non-instructional functional program area and the other expenditures area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of \$846 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement No. 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) **Transfers**

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 37,703

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

(4) Capital Assets

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

	Balance Beginning of Year, as restated (Note 9)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 12,310	0	0	12,310
Total capital assets not being depreciated	12,310	0	0	12,310
Capital assets being depreciated:				
Buildings	5,186,891	11,432	0	5,198,323
Machinery and equipment	521,865	0	0	521,865
Total capital assets being depreciated	5,708,756	11,432	0	5,720,188
Less accumulated depreciation for:				
Buildings	1,482,142	106,230	0	1,588,372
Machinery and equipment	262,839	56,626	0	319,465
Total accumulated depreciation	1,744,981	162,856	0	1,907,837
Total capital assets being depreciated, net	3,963,775	(151,424)	0	3,812,351
Governmental activities capital assets, net \$	3,976,085	(151,424)	0	3,824,661

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 43,978	4,476	3,749	44,705
Less accumulated depreciation	38,736	2,319	3,749	37,306
Business-type activities capital assets, net \$	5,242	2,157	0	7,399

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 2,602
Other	1,000
Support services:	
Transportation	53,024
	56,626
Unallocated depreciation	106,230
Total governmental activities depreciation expense	\$ 162,856
Business-type activities:	
Food services	\$ 2,319

(5) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation	\$ 3,160,000	0	150,000	3,010,000	160,000
Bus Lease	170,000	0	31,458	138,542	32,680
Total	\$ 3,330,000	0	181,458	3,148,542	192,680

Bus Lease Payable

Details of the District's June 30, 2004 Bus Lease indebtedness is as follows:

Year Ending June 30,	Interest Rate	Loans dated March 12, 2003		
		Principal	Interest	Total
2005	3.85 %	\$ 32,680	5,022	37,702
2006	3.85	33,951	3,752	37,703
2007	3.85	35,270	2,432	37,702
2008	3.85	36,641	1,061	37,702
Total		\$ 138,542	12,267	150,809

General Obligation

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

Year Ending June 30,	Interest Rate	Bond dated March 10, 1999		
		Principal	Interest	Total
2005	6.00 %	\$ 160,000	134,955	294,955
2006	5.00	170,000	125,355	295,355
2007	4.00	175,000	116,855	291,855
2008	4.00	185,000	109,855	294,855
2009	4.10	190,000	102,455	292,455
2010	4.10	200,000	94,665	294,665
2011	4.20	205,000	86,465	291,465
2012	4.30	215,000	77,855	292,855
2013	4.35	225,000	68,610	293,610
2014	4.40	235,000	58,823	293,823
2015	4.50	245,000	48,483	293,483
2016	4.55	255,000	37,855	292,855
2017	4.65	270,000	25,855	295,855
2018	4.75	280,000	13,300	293,300
Subtotal		\$ 3,010,000	1,101,386	4,111,386

(6) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual 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 \$100,745, \$104,625, \$103,380 respectively, equal to the required contributions for each year.

(7) Risk Management

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

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2004 were \$218,482.

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

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

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$108,594 for the year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Accounting Change and Restatements

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

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

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

Beginning capital assets for governmental activities of \$6,185,366 were restated to \$5,721,066. The restatement primarily removed assets below the District's capitalization threshold.

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

	Fund			Total
	General	Special	Other	
		Revenue - PEEL	Governmental Funds	
Net assets, June 30, 2003, as previously reported \$	643,507	116,527	45,938	805,972
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	\$ 643,507	116,527	45,938	805,972
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$1,744,981				3,976,085
Income surtax				105,352
Long-term liabilities:				
General obligation bonds			3,160,000	
Bus lease			170,000	(3,330,000)
Accrued interest				(25,338)
Net assets July 1, 2003, as restated				\$ 1,532,071

(10) Budget Overexpenditure

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

REQUIRED SUPPLEMENTAL INFORMATION

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

	Governmental Fund Types Actual	Proprietary Fund Type Actual
Revenue:		
Local sources	\$ 2,178,649	88,319
State sources	1,220,800	2,372
Federal sources	139,977	44,087
Total revenue	<u>3,539,426</u>	<u>134,778</u>
Expenditures:		
Instruction	2,101,888	0
Support services	867,118	0
Non-instructional programs	0	129,997
Other expenditures	493,806	0
Total expenditures	<u>3,462,812</u>	<u>129,997</u>
Excess(deficiency) of revenues over(under) expenditures	76,614	4,781
Capital Contributions	0	4,476
Excess(deficiency) of revenues and capital contributions over(under) expenditures	76,614	9,257
Balance beginning of year	805,972	19,106
Balance end of year	<u>\$ 882,586</u>	<u>28,363</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Original	Final	
2,266,968	2,266,491	2,266,491	477
1,223,172	1,311,413	1,311,413	(88,241)
184,064	241,000	241,000	(56,936)
3,674,204	3,818,904	3,818,904	(144,700)
2,101,888	2,320,049	2,320,049	218,161
867,118	1,332,766	1,332,766	465,648
129,997	129,250	129,250	(747)
493,806	410,502	410,652	(83,154)
3,592,809	4,192,567	4,192,717	599,908
81,395	(373,663)	(373,813)	455,208
4,476	0	0	4,476
85,871	(373,663)	(373,813)	459,684
825,078	854,358	854,358	(29,280)
910,949	480,695	480,545	430,404

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

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

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$150.

During the year ended June 30, 2004, expenditures in the non-instructional program and other expenditures functions exceeded the amounts budgeted.

OTHER SUPPLEMENTAL INFORMATION

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

	Special Revenue Funds				Total
	Management	Student Activity	Total Special Revenue	Debt Service	Nonmajor Governmental Funds
ASSETS					
Cash and pooled investments	\$ 4,250	29,917	34,167	(1,122)	33,045
Receivables:					
Property tax:					
Current year delinquent	390	0	390	3,021	3,411
Succeeding year	45,000	0	45,000	294,955	339,955
Accounts	0	671	671	0	671
TOTAL ASSETS	\$ 49,640	30,588	80,228	296,854	377,082
LIABILITIES AND FUND EQUITY					
Liabilities:					
Accounts payable	\$ 0	661	661	0	661
Deferred revenue:					
Succeeding year property tax	45,000	0	45,000	294,955	339,955
	45,000	661	45,661	294,955	340,616
Fund equity:					
Fund balances:					
Unreserved:					
Undesignated	4,640	29,927	34,567	1,899	36,466
Total fund balances	4,640	29,927	34,567	1,899	36,466
TOTAL LIABILITIES AND FUND EQUITY	\$ 49,640	30,588	80,228	296,854	377,082

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

KEOTA 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
	Manage- ment	Student Activity	Total Special Revenue	Debt Service	
REVENUES:					
Local sources:					
Local tax	\$ 37,491	0	37,491	291,456	328,947
Other	24	80,588	80,612	546	81,158
State sources	19	0	19	144	163
TOTAL REVENUES	37,534	80,588	118,122	292,146	410,268
EXPENDITURES:					
Current:					
Instruction:					
Other instruction	0	86,461	86,461	0	86,461
	0	86,461	86,461	0	86,461
Support services:					
Administration services	578	0	578	0	578
Operation and maintenance of plant services	31,582	0	31,582	0	31,582
Transportation services	6,864	0	6,864	0	6,864
	39,024	0	39,024	0	39,024
Other expenditures:					
Long-term debt:					
Principal	0	0	0	181,458	181,458
Interest and fiscal charges	0	0	0	150,500	150,500
	0	0	0	331,958	331,958
TOTAL EXPENDITURES	39,024	86,461	125,485	331,958	457,443
Other financing sources:					
Operating transfers in	0	0	0	37,703	37,703
Net change in fund balances	(1,490)	(5,873)	(7,363)	(2,109)	(9,472)
Fund balance beginning of year	6,130	35,800	41,930	4,008	45,938
Fund balance end of year	\$ 4,640	29,927	34,567	1,899	36,466

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 1,000	2,661	1,539	2,122
Basketball	351	5,411	5,762	0
Track	0	1,187	1,187	0
Cross country	0	409	409	0
Golf	0	60	60	0
Football	0	255	255	0
Baseball	0	1,374	1,374	0
Volleyball	351	3,699	4,050	0
Softball	0	1,929	1,929	0
Miscellaneous	1,092	0	1,092	0
Cheerleaders	63	191	0	254
FFA	2,103	12,313	12,510	1,906
FCCLA	927	470	605	792
POM squad	3	40	43	0
Student Council	2,477	3,150	2,365	3,262
Project close-up	1,573	9,522	9,034	2,061
Class of 2005	193	2,472	1,804	861
Class of 2006	325	1,185	0	1,510
Class of 2007	115	200	26	289
Class of 2008	36	4,150	2,373	1,813
Class of 2009	0	63	0	63
Class of 2010	1,227	11,140	12,367	0
Special acct baseball	3,411	2,829	5,706	534
Special acct boy's track	25	300	0	325
Special acct volleyball	3,850	1,783	1,139	4,494
Special acct girl's track	0	300	0	300
Special acct softball	10,312	4,936	13,877	1,371
Special acct boy's basketball	2,959	2,204	574	4,589
Special acct girl's basketball	3,407	2,204	2,230	3,381
Special acct tournament	0	4,151	4,151	0
Total	\$ 35,800	80,588	86,461	29,927

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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

	Modified Accrual Basis			
	Years Ended June 30,			
	2004	2003	2002	2001
Revenues:				
Local sources:				
Local tax	\$ 1,932,155	1,890,497	1,753,731	1,792,105
Tuition	131,901	122,144	69,905	79,162
Other	114,780	125,360	119,857	169,256
State sources	1,220,613	1,275,099	1,247,181	1,251,592
Federal sources	139,977	147,120	148,603	112,423
Total	\$ 3,539,426	3,560,220	3,339,277	3,404,538
Expenditures:				
Instruction:				
Regular instruction	\$ 1,427,249	1,519,719	1,501,748	1,424,413
Special instruction	525,755	413,399	359,051	373,695
Other instruction	148,884	198,633	197,532	299,117
Support services:				
Student services	41,879	37,944	69,398	69,576
Instructional staff services	48,308	37,684	37,633	42,566
Administration services	392,841	418,151	411,658	421,501
Operation and maintenance of plant services	265,770	249,393	215,276	233,663
Transportation services	118,320	386,411	112,647	109,770
Other expenditures:				
Facilities acquisitions	53,254	80,245	107,548	945,642
Long Term Debt:				
Principal	181,458	157,640	162,644	163,558
Interest	150,200	152,598	175,729	172,315
Fees	300	300	150	300
AEA flow-through	108,594	115,337	115,247	119,541
Total	\$ 3,462,812	3,767,454	3,466,261	4,375,657

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
Keota Community School District:

We have audited the financial statements of Keota Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated November 15, 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 Keota Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for II-B-04 .

Internal Control Over Financial Reporting

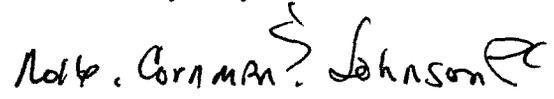
In planning and performing our audit, we considered Keota Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over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

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

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

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

November 15, 2004

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

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

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

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

- II-A-04 Official Depositories - A resolution naming official depositories have been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- II-B-04 Certified Budget - District disbursements for the year ended June 30, 2004, exceeded the amount budgeted in the non-instructional program and the other expenditure functional area.
- Recommendation-The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response- We will amend the budget if necessary in the future.
- Conclusion- Response accepted.
- II-C-04 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-04 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-E-04 Business Transactions - No business transactions between the District and District officials were noted.
- II-F-04 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-H-04 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-I-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-J-04 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.