LENOX COMMUNITY SCHOOL DISTRICT

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

JUNE 30, 2004

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Lenox Community School District

Officials

Name	Title	Term Expires
	Board of Education (Before September 2003 election)	
John Donaldson	President	2003
Chris Christensen	Vice President	2004
Paul Maynes	Board Member	2004
Todd Barker	Board Member	2005
Beverly Kinker	Board Member	2005
	Board of Education (After September 2003 election)	
Chris Christensen	President	2004
Todd Barker	Vice President	2005
Paul Maynes	Board Member	2004
Beverly Kinker	Board Member	2005
Brent Wise	Board Member	2006
	School Officials	
Bradley Hohensee	Superintendent	2004
Paula Horton	District Secretary/ District Treasurer	2004
Richard Wilson	Attorney	2004

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

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

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

In accordance with Government Auditing Standards, we have also issued our report dated September 17, 2004 on our consideration of the Lenox Community School District's internal control over

financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 36 through 38 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 Lenox 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 the 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 5, 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 17, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

2004 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from $2,928,098 in fiscal 2003 to $3,021,748 in fiscal 2004, while General Fund expenditures decreased from $3,112,557 in fiscal 2003 to $2,870,595 in fiscal 2004. This resulted in an increase in the District's General Fund balance from $312,785 in fiscal 2003 to a balance of $467,334 in fiscal 2004, a 49.41% increase from the prior year.

- The increase in General Fund revenues was attributable to an increase in property tax and federal grant revenue in fiscal 2004. The decrease in expenditures was due primarily to an decrease in the negotiated salary and benefits and restricted grant expenditures.

- A decline in interest rates during the past fiscal year, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone to decrease from $5,581 in fiscal year 2003 to $3,569 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 Lenox 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 Lenox 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 Lenox Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

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

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

Other Supplementary Information provides detailed information about the nonmajor funds.

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

Figure A-1
Lenox Community School District Annual Financial Report

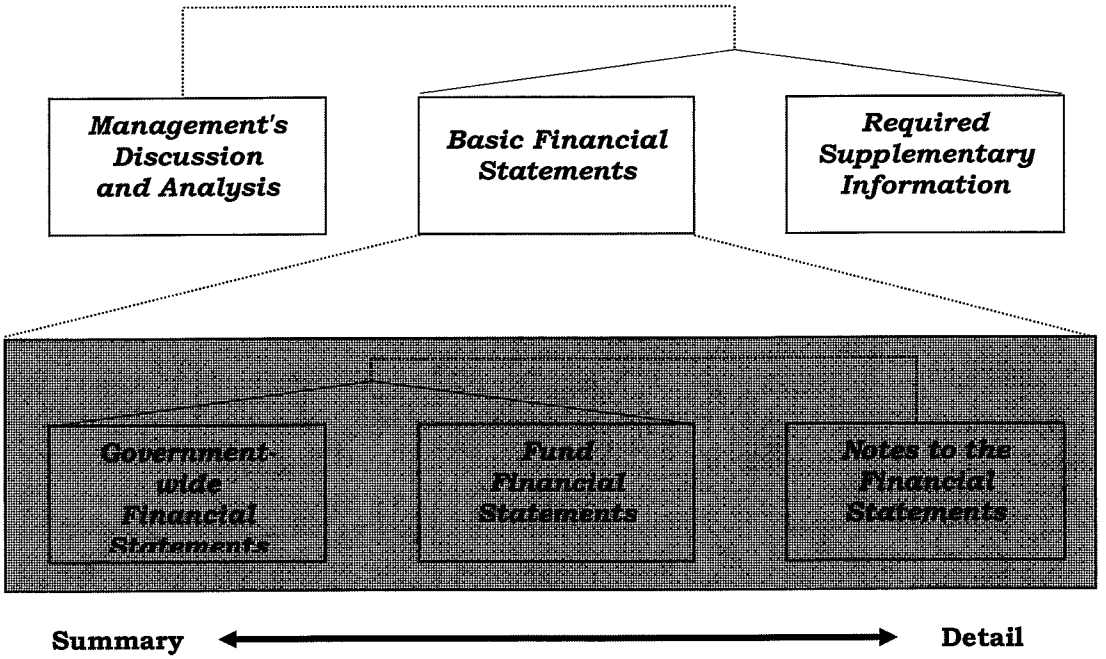

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

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

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	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, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of revenues, expenses and changes in net assets • Statement of cash flows	• 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, Debt Service Fund and Capital Projects Fund.

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

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

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

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include the Agency fund.

- Agency Fund – These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

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 District-wide financial statements because it cannot use these assets to finance its operations.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Current and other assets	$ 5,524,471	8,392	5,532,863
Capital assets	1,361,039	9,005	1,370,044
Total assets	6,885,510	17,397	6,902,907
Long-term obligations	3,780,000	0	3,780,000
Other liabilities	1,683,996	2,582	1,686,578
Total liabilities	5,463,996	2,582	5,466,578
Net assets:			
Invested in capital assets, net of related debt	525,058	9,005	534,063
Restricted	302,409	0	302,409
Unrestricted	594,047	5,810	599,857
Total net assets	$ 1,421,514	14,815	1,436,329

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	$ 364,555	61,384	425,939
Operating grants and contributions and restricted interest	485,625	83,695	569,320
Capital grants and contributions and restricted interest	25,000	0	25,000
General revenues:			
Property tax	1,232,728	0	1,232,728
Local option sales and services tax	44,475	0	44,475
Unrestricted state grants	1,319,776	0	1,319,776
Other	26,931	26	26,957
Total revenues	3,499,090	145,105	3,644,195
Program expenses:			
Governmental activities:			
Instructional	2,252,279	0	2,252,279
Support services	717,138	0	717,138
Non-instructional programs	0	158,339	158,339
Other expenses	274,934	0	274,934
Total expenses	3,244,351	158,339	3,402,690
Changes in net assets	$ 254,739	(13,234)	241,505

Property tax, local option sales and services tax and unrestricted state grants account for 71% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 87% of the total expenses.

Governmental Activities

Revenues for governmental activities were $3,499,090 and expenses were $3,244,351.

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	$ 2,252,279	1,511,185
Support services	717,138	692,138
Other expenses	274,934	165,848
Totals	$ 3,244,351	2,369,171

- The cost financed by users of the District's programs was $364,555.
- Federal and state governments subsidized certain programs with grants and contributions totaling $510,625.

- The net cost of governmental activities was financed with $1,232,728 in property tax, $44,475 in local option sales and services tax, $1,319,776 in state foundation aid, $23,535 in interest income and $3,396 in gain on sale of equipment.

Business-Type Activities

Revenues of the District's business-type activities were $145,105 and expenses were $158,339. 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 Lenox 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 $3,711,431, above last year's ending fund balances of a $560,944. However, the primary reason for the increase in combined fund balances in fiscal 2004 is due to the issuance of General Obligation Bonds to be used for capital construction.

Governmental Fund Highlights

- The District's improving General Fund financial position from $312,785 to $467,334 is the product of many factors:
    - Increases in federal grants and the increase in tax levy during the year resulted in an increase in revenues.
    - The decrease in negotiated salary and benefits, as well as existing expenditure commitments of the District, resulted in a decrease in expenditures.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from $28,049 at June 30, 2003 to $14,815 at June 30, 2004, representing a decrease of 47.18%.

BUDGETARY HIGHLIGHTS

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

The District's revenues were $210,031 more than budgeted revenues, a variance of 6.09%. 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested $1.4 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) More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was $97,645.

The original cost of the District's capital assets was $2.51 million. Governmental funds account for $2.47 million with the remainder of $0.04 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled $949,990 at June 30, 2004, compared to $0 reported at June 30, 2003. This increase resulted from the issuance of General Obligation Bonds used for capital improvements made during the year.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities 2004	Business-type Activities 2004	Total School District 2004
Land	$ 50,521	0	50,521
Construction in progress	949,990	0	949,990
Buildings	261,900	0	261,900
Machinery and equipment	98,628	9,005	107,633
Total	$ 1,361,039	9,005	1,370,044

Long-Term Debt

At June 30, 2004, the District had $3,780,000 in general obligation long-term debt outstanding. This represents an increase of 8,168.6% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding General Obligation Bonds payable of $3,780,000 at June 30, 2004.

Figure A-7
Outstanding Long-Term Obligations

	Total School District 2004	Total School District 2003	Total Change
General Obligation Bonds	$ 3,780,000	0	100.0%
Capital Loan Notes	0	45,715	-100.0%
Totals	$ 3,780,000	45,715	8168.6%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.

- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

- The voters of Taylor and Ringgold Counties passed by 76.4% and 75%, respectively, the Local Option Sales and Services Tax for School Infrastructure (SILO). This 1 cent tax on sales and services will greatly benefit the District in maintaining their buildings, purchasing equipment and debt repayment. The funding will began in July 2004.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Paula Horton, District Secretary, Lenox Community School District, 600 South Locust, Lenox, Iowa, 50851.

BASIC FINANCIAL STATEMENTS

Exhibit A

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments	$ 4,139,993	4,653	4,144,646
Receivables:			
Property tax:			
Delinquent	29,034	0	29,034
Succeeding year	1,123,419	0	1,123,419
Income surtax	142,552	0	142,552
Accounts	9,454	0	9,454
Due from other governments	80,019	0	80,019
Inventories	0	3,739	3,739
Capital assets, net of accumulated depreciation(Note 5)	1,361,039	9,005	1,370,044
TOTAL ASSETS	6,885,510	17,397	6,902,907
LIABILITIES			
Interfund payable	457	0	457
Accounts payable	278,084	0	278,084
Salaries and benefits payable	268,528	1,703	270,231
Interest payable	13,508	0	13,508
Deferred revenue:			
Succeeding year property tax	1,123,419	0	1,123,419
Other	0	879	879
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	100,000	0	100,000
Portion due after one year:			
General obligation bonds payable	3,680,000	0	3,680,000
TOTAL LIABILITIES	5,463,996	2,582	5,466,578
NET ASSETS			
Investment in capital assets, net of related debt	525,058	9,005	534,063
Restricted for:			
Management levy	139,274	0	139,274
Physical plant and equipment levy	124,816	0	124,816
Other special revenue purposes	38,319	0	38,319
Unrestricted	594,047	5,810	599,857
TOTAL NET ASSETS	$ 1,421,514	14,815	1,436,329

SEE NOTES TO FINANCIAL STATEMENTS.

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

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Instruction:				
Regular instruction	$ 1,285,232	122,731	360,565	0
Special instruction	661,963	140,893	15,974	0
Other instruction	305,084	100,931	0	0
	2,252,279	364,555	376,539	0
Support services:				
Student services	17,791	0	0	0
Instructional staff services	39,274	0	0	0
Adminstration services	309,285	0	0	0
Operation and maintenance of plant services	232,156	0	0	25,000
Transportation services	118,632	0	0	0
	717,138	0	0	25,000
Other expenditures:				
Facilities acquisitions	199	0	0	0
Long-term debt interest and fiscal charges	151,149	0	0	0
AEA flowthrough	109,086	0	109,086	0
Depreciation(unallocated)*	14,500	0	0	0
	274,934	0	109,086	0
Total governmental activities	3,244,351	364,555	485,625	25,000
Business-Type activities:				
Non-instructional programs:				
Nutrition services	158,339	61,384	83,695	0
Total business-type activities	158,339	61,384	83,695	0
Total	$ 3,402,690	425,939	569,320	25,000

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

Total general revenues

Changes in net assets

Net assets beginning of year, as restated(Note 10)

Net assets end of year

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

SEE NOTES TO FINANCIAL STATEMENTS.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
(801,936)	0	(801,936)
(505,096)	0	(505,096)
(204,153)	0	(204,153)
(1,511,185)	0	(1,511,185)
(17,791)	0	(17,791)
(39,274)	0	(39,274)
(309,285)	0	(309,285)
(207,156)	0	(207,156)
(118,632)	0	(118,632)
(692,138)	0	(692,138)
(199)	0	(199)
(151,149)	0	(151,149)
0	0	0
(14,500)	0	(14,500)
(165,848)	0	(165,848)
(2,369,171)	0	(2,369,171)
0	(13,260)	(13,260)
0	(13,260)	(13,260)
(2,369,171)	(13,260)	(2,382,431)
$ 966,458	0	966,458
102,905	0	102,905
163,365	0	163,365
44,475	0	44,475
1,319,776	0	1,319,776
23,535	26	23,561
3,396	0	3,396
2,623,910	26	2,623,936
254,739	(13,234)	241,505
1,166,775	28,049	1,194,824
$ 1,421,514	14,815	1,436,329

Exhibit C

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments	$ 778,953	3,116,430	244,610	4,139,993
Receivables:				
Property tax:				
Delinquent	21,606	0	7,428	29,034
Succeeding year	852,430	0	270,989	1,123,419
Income surtax	126,713	0	15,839	142,552
Interfund	0	0	45,407	45,407
Accounts	8,770	0	684	9,454
Due from other governments	66,788	13,231	0	80,019
TOTAL ASSETS	$ 1,855,260	3,129,661	584,957	5,569,878
LIABILITIES AND FUND BALANCES				
Liabilities:				
Interfund payable	$ 45,407	0	457	45,864
Accounts payable	94,848	178,570	4,666	278,084
Salaries and benefits payable	268,528	0	0	268,528
Deferred revenue:				
Succeeding year property tax	852,430	0	270,989	1,123,419
Income surtax	126,713	0	15,839	142,552
Total liabilities	1,387,926	178,570	291,951	1,858,447
Fund balances:				
Reserved for:				
Debt service	0	0	6,436	6,436
Unreserved:				
General	467,334	0	0	467,334
Capital projects	0	2,951,091	0	2,951,091
Management levy	0	0	139,274	139,274
Physical plant and equipment levy	0	0	108,977	108,977
Other special revenue purposes	0	0	38,319	38,319
Total fund balances	467,334	2,951,091	293,006	3,711,431
TOTAL LIABILITIES AND FUND BALANCES	$ 1,855,260	3,129,661	584,957	5,569,878

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit D

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

Total fund balances of governmental funds (page 16)	$ 3,711,431
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not report as assets in in the governmental funds.	1,361,039
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	142,552
Accrued interest payable on long-term liabiliities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(13,508)
Long-term liabilities, including general obligation bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,780,000)
Net assets of governmental activites (page 13)	$ 1,421,514

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit E

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

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	$ 924,541	44,475	325,759	1,294,775
Tuition	263,624	0	0	263,624
Other	28,494	18,005	77,967	124,466
State sources	1,579,718	0	312	1,580,030
Federal sources	225,371	0	25,000	250,371
Total revenues	3,021,748	62,480	429,038	3,513,266
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	1,224,219	0	27,109	1,251,328
Special instruction	661,963	0	0	661,963
Other instruction	236,805	0	66,739	303,544
	2,122,987	0	93,848	2,216,835
Support services:				
Student services	17,791	0	0	17,791
Instructional staff services	39,274	0	0	39,274
Administration services	313,068	0	3,137	316,205
Operation and maintenance of plant services	199,638	0	32,518	232,156
Transportation services	68,751	0	12,311	81,062
	638,522	0	47,966	686,488
Other expenditures:				
Facilities acquisitions	0	949,990	199	950,189
Long-term debt:				
Principal	0	0	145,715	145,715
Interest and fiscal charges	0	0	137,862	137,862
AEA flowthrough	109,086	0	0	109,086
	109,086	949,990	283,776	1,342,852
Total expenditures	2,870,595	949,990	425,590	4,246,175
Excess(deficiency) of revenues over(under) expenditures	151,153	(887,510)	3,448	(732,909)
OTHER FINANCING SOURCES(USES):				
Transfer in	0	0	126,371	126,371
Transfer out	0	(27,000)	(99,371)	(126,371)
Compensation for loss of fixed assets	914	0	0	914
Sale of equipment	2,482	0	0	2,482
Sale of bonds	0	3,880,000	0	3,880,000
	3,396	3,853,000	27,000	3,883,396
Net change in fund balances	154,549	2,965,490	30,448	3,150,487
Fund balance beginning of year, as restated(Note 10)	312,785	(14,399)	262,558	560,944
Fund balance end of year	$ 467,334	2,951,091	293,006	3,711,431

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit F

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

Net change in fund balances - total governmental funds (page 18)		$ 3,150,487
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. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:		
Expenditures for capital assets	$ 965,390	
Depreciation expense	(95,994)	869,396
Income surtax account receivable is not available to finance expenditures of the current year period in the governmental funds.		(17,572)
Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:		
Issued	$ (3,880,000)	
Repaid	145,715	(3,734,285)
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.		(13,287)
Changes in net assets of governmental activities (page 15)		$ 254,739

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit G

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

	School Nutrition
ASSETS	
Cash and pooled investments	$ 4,653
Inventories	3,739
Capital assets, net of accumulated depreciation(Note 5)	9,005
TOTAL ASSETS	17,397
LIABILITIES	
Salaries and benefits payable	1,703
Deferred revenue:	
Other	879
TOTAL LIABILITIES	2,582
NET ASSETS	
Investment in capital assets, net of related debt	9,005
Unrestricted	5,810
TOTAL NET ASSETS	$ 14,815

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit H

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

	School Nutrition
OPERATING REVENUE:	
Local sources:	
Charges for services	$ 61,384
TOTAL OPERATING REVENUES	61,384
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	75,707
Benefits	13,645
Services	2,705
Supplies	64,631
Depreciation	1,651
TOTAL OPERATING EXPENSES	158,339
OPERATING LOSS	(96,955)
NON-OPERATING REVENUES:	
State sources	2,243
Federal sources	81,452
Interest income	26
TOTAL NON-OPERATING REVENUES	83,721
Change in net assets	(13,234)
Net assets beginning of year	28,049
Net assets end of year	$ 14,815

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit I

LENOX 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	$ 65,562
Cash received from miscellaneous sources	2,243
Cash payments to employees for services	(92,315)
Cash payments to suppliers for goods or services	(55,759)
Net cash used in operating activities	(80,269)
Cash flows from non-capital financing activities:	
State grants received	2,243
Federal grants received	71,031
Net cash provided by non-capital financing activities	73,274
Cash flows from investing financing activities:	
Interest on investments	26
Net cash provided by investing financing activities	26
Net decrease in cash and cash equivalents	(6,969)
Cash and cash equivalents at beginning of year	11,622
Cash and cash equivalents at end of year	$ 4,653
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (96,955)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	10,421
Depreciation	1,651
Decrease in inventories	1,657
Decrease in accounts receivable	6,520
Decrease in accounts payable	(501)
Decrease in salaries and benefits payable	(2,963)
Decrease in deferred revenue	(99)
Net cash used in operating activities	$ (80,269)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	$ 4,653

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2004, the District received Federal commodities valued at $10,421.

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit J

LENOX COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	Agency
ASSETS	
Receivables:	
Interfund	$ 457
	457
LIABILITIES	
Due to other groups	457
NET ASSETS	$ 0

SEE NOTES TO FINANCIAL STATEMENTS.

(1) Summary of Significant Accounting Policies

The Lenox 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 Lenox, Iowa, and the predominate agricultural territory in Adams, Ringgold, Taylor and Union 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, Lenox Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Lenox 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 Adams, Ringgold, Taylor and Union 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 Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The District reports the following proprietary fund:

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

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, 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

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	$ 1,000
Buildings	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	1,000

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

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July and August, have been accrued as liabilities.

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

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

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

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

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

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

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

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

The District had investments in the Iowa Schools Joint Investment Trust which are valued at an amortized cost of $2,276,088 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Number 3 requires investments to be categorized to give an indication of the level of risk assumed by the District at year end. The District's investment in the Iowa Schools Joint Investment Trust is not subject to risk categorization.

(3) Transfers

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

Transfer to	Transfer from	Amount
Debt Service	Special Revenue, Physical Plant and Equipment Levy	$ 99,371
Debt Service	Capital Projects	27,000
Total		$ 126,371

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

(4) Interfund Receivables and Payables

At June 30, 2004 the interfund receivables and payables consisted of the following:

Receivable Fund	Payable Fund	Amount
Special Revenue, Management	General	$ 45,407
Agency	Special Revenue, Student Activity	457
Total		$ 45,864

(5) Capital Assets

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

	Balance Beginning of Year, as restated (Note 10)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 50,521	0	0	50,521
Construction in progress	0	949,990	0	949,990
Total capital assets not being depreciated	50,521	949,990	0	1,000,511
Capital assets being depreciated:				
Buildings	819,578	0	0	819,578
Machinery and equipment	635,208	15,400	0	650,608
Total capital assets being depreciated	1,454,786	15,400	0	1,470,186
Less accumulated depreciation for:				
Buildings	543,178	14,500	0	557,678
Machinery and equipment	470,486	81,494	0	551,980
Total accumulated depreciation	1,013,664	95,994	0	1,109,658
Total capital assets being depreciated, net	441,122	(80,594)	0	360,528
Governmental activities capital assets, net	$ 491,643	869,396	0	1,361,039

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	$ 43,576	0	0	43,576
Less accumulated depreciation	32,920	1,651	0	34,571
Business-type activities capital assets, net	$ 10,656	(1,651)	0	9,005

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	$ 35,504
Other	1,540
Support services:	
Administration	6,880
Transportation	37,570
	81,494
Unallocated depreciation	14,500
Total governmental activities depreciation expense	$ 95,994
Business-type activities:	
Food services	$ 1,651
Total business-type activities depreciation expense	$ 1,651

(6) Long-Term Liabilities

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	$ 0	3,880,000	100,000	3,780,000	100,000
Capital Loan Notes	45,715	0	45,715	0	0
Total	$ 45,715	3,880,000	145,715	3,780,000	100,000

General Obligation Bonds Payable

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

Year Ending June 30,	Bond Issue of July 1, 2003			
	Interest Rates	Principal	Interest	Total
2005	4.00 %	$ 100,000	158,095	258,095
2006	4.00	140,000	154,095	294,095
2007	4.00	150,000	148,495	298,495
2008	4.00	155,000	142,495	297,495
2009	4.00	160,000	136,295	296,295
2010	4.00	170,000	129,895	299,895
2011	4.00	175,000	123,095	298,095
2012	3.75	180,000	116,095	296,095
2013	3.80	190,000	109,345	299,345
2014	3.90	195,000	102,125	297,125
2015	4.00	200,000	94,520	294,520
2016	4.10	210,000	86,520	296,520
2017	4.20	220,000	77,910	297,910
2018	4.30	230,000	68,670	298,670
2019	4.40	240,000	58,780	298,780
2020	4.45	250,000	48,220	298,220
2021	4.50	260,000	37,095	297,095
2022	4.55	270,000	25,395	295,395
2023	4.60	285,000	13,110	298,110
Total		$ 3,780,000	1,830,250	5,610,250

(7) Pension and Retirement Benefits

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

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2004, 2003 and 2002. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003 and 2002 were $109,419, $110,310 and $110,079 respectively, equal to the required contributions for each year.

(8) Risk Management

Lenox Community School District is a member in the Iowa School Employees Benefits Association, and Iowa Code Chapter 28E organization. The Iowa School Employees Benefits Association (ISEBA) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. ISEBA provides coverage and protection in the following categories: medical and prescription drugs.

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

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2004 were $100,454.

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.

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

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled $109,086 for the year ended June 30, 2004 and is recorded in the General Fund

by making a memorandum adjusting entry to the cash basis financial statements.

(10) Accounting Change and Restatements

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

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

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

Beginning capital assets for governmental activities of $3,187,970 were restated to $1,505,307. 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			
	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Net assets, June 30, 2003, as previously reported	$ 312,785	(14,399)	262,558	560,944
GASB Interpretation 6 adjustments	0	0	0	0
Net assets, July 1, 2003, as restated for governmental funds	$ 312,785	(14,399)	262,558	560,944
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of $1,013,664				491,643
Income surtax				160,124
Long-term liabilities:				
Capital Loan Notes payable				(45,715)
Interest payable				(221)
Net assets, July 1, 2003, as restated				$ 1,166,775

(11) Construction Commitment

The District has entered into various contracts totaling $4,227,162 for the renovation of the High School. As of June 30, 2004, costs of $949,990 had been incurred against the contracts. The balance of $3,290,092 remaining at June 30, 2004 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTAL INFORMATION

LENOX COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, 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
Revenues:		
Local sources	$ 1,682,865	61,410
State sources	1,580,030	2,243
Federal sources	250,371	81,452
Total revenues	3,513,266	145,105
Expenditures:		
Instruction	2,216,835	0
Support services	686,488	0
Non-instructional programs	0	158,339
Other expenditures	1,342,852	0
Total expenditures	4,246,175	158,339
Excess(deficiency) of revenues over(under) expenditures	(732,909)	(13,234)
Other financing sources, net	3,883,396	0
Excess(deficiency) of revenues and other financing sources over(under) expenditures	3,150,487	(13,234)
Balance beginning of year	560,944	28,049
Balance end of year	$ 3,711,431	14,815

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Total Actual	Budgeted Amounts Original	Budgeted Amounts Final	Final to Actual Variance - Positive (Negative)
1,744,275	1,539,985	1,539,985	204,290
1,582,273	1,629,355	1,629,355	(47,082)
331,823	279,000	279,000	52,823
3,658,371	3,448,340	3,448,340	210,031
2,216,835	2,830,000	2,830,000	613,165
686,488	1,029,500	1,029,500	343,012
158,339	240,000	240,000	81,661
1,342,852	236,424	4,116,424	2,773,572
4,404,514	4,335,924	8,215,924	3,811,410
(746,143)	(887,584)	(4,767,584)	4,021,441
3,883,396	0	3,880,000	3,396
3,137,253	(887,584)	(887,584)	4,024,837
588,993	911,017	911,017	(322,024)
3,726,246	23,433	23,433	3,702,813

LENOX 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 $3,880,000.

OTHER SUPPLEMENTAL INFORMATION

Schedule 1

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

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
ASSETS						
Cash and pooled investments	$ 95,929	39,758	106,410	242,097	2,513	244,610
Receivables:						
Property tax:						
Current year delinquent	938	0	2,567	3,505	3,923	7,428
Succeeding year	30,000	0	109,239	139,239	131,750	270,989
Income surtax	0	0	15,839	15,839	0	15,839
Interfund	45,407	0	0	45,407	0	45,407
Accounts	0	684	0	684	0	684
TOTAL ASSETS	$ 172,274	40,442	234,055	446,771	138,186	584,957
LIABILITIES AND FUND EQUITY						
Liabilities:						
Interfund payable	$ 0	457	0	457	0	457
Accounts payable	3,000	1,666	0	4,666	0	4,666
Deferred revenue:						
Succeeding year property tax	30,000	0	109,239	139,239	131,750	270,989
Income surtax	0	0	15,839	15,839	0	15,839
	33,000	2,123	125,078	160,201	131,750	291,951
Fund equity:						
Fund balances:						
Reserved for debt service	0	0	0	0	6,436	6,436
Unreserved:						
Undesignated	139,274	38,319	108,977	286,570	0	286,570
Total fund balances	139,274	38,319	108,977	286,570	6,436	293,006
TOTAL LIABILITIES AND FUND EQUITY	$ 172,274	40,442	234,055	446,771	138,186	584,957

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 2

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

	Special Revenue Funds					Total Other Nonmajor Governmental Funds
	Management	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	
REVENUES:						
Local sources:						
Local tax	$ 39,745	0	122,649	162,394	163,365	325,759
Other	444	76,132	1,287	77,863	104	77,967
State sources	43	0	96	139	173	312
Federal sources	0	0	25,000	25,000	0	25,000
TOTAL REVENUES	40,232	76,132	149,032	265,396	163,642	429,038
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	27,109	0	0	27,109	0	27,109
Other instruction	0	66,739	0	66,739	0	66,739
Support services:						
Administration services	3,137	0	0	3,137	0	3,137
Operation and maintenance of plant services	12,207	0	20,311	32,518	0	32,518
Student transportation	12,311	0	0	12,311	0	12,311
Other expenditures:						
Facilities acquisitions	0	0	199	199	0	199
Principal	0	0	0	0	145,715	145,715
Interest and fiscal charges	0	0	0	0	137,862	137,862
TOTAL EXPENDITURES	54,764	66,739	20,510	142,013	283,577	425,590
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(14,532)	9,393	128,522	123,383	(119,935)	3,448
OTHER FINANCING SOURCES:						
Transfer in	0	0	0	0	126,371	126,371
Transfer out	0	0	(99,371)	(99,371)	0	(99,371)
TOTAL OTHER FINANCING SOURCES(USES)	0	0	(99,371)	(99,371)	126,371	27,000
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	(14,532)	9,393	29,151	24,012	6,436	30,448
FUND BALANCE BEGINNING OF YEAR	153,806	28,926	79,826	262,558	0	262,558
FUND BALANCE END OF YEAR	$ 139,274	38,319	108,977	286,570	6,436	293,006

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 3

LENOX 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
Athletics				
General athletics	$ 1,008	4,937	5,093	852
Football	6,670	4,702	4,312	7,060
Volleyball	1,558	2,026	1,137	2,447
Boys Basketball	6,105	2,457	3,213	5,349
Girls Basketball	7,914	3,170	3,515	7,569
Wrestling	(2,446)	1,880	(48)	(518)
Girls Track	194	1,109	996	307
Boys Track	752	2,060	785	2,027
Golf	(627)	0	(629)	2
HS Baseball	(6,444)	4,375	287	(2,356)
JH Baseball	(724)	0	(933)	209
HS Softball	(685)	2,837	2,560	(408)
JH Softball	174	0	(28)	202
Bowling	0	2,072	2,072	0
	13,449	31,625	22,332	22,742
Band/Vocal				
HS Music	1,475	3,818	3,214	2,079
Uniform Fees	659	734	319	1,074
Music Supplies	(4,714)	1,133	1,903	(5,484)
	(2,580)	5,685	5,436	(2,331)
Clubs/Organizations:				
Art Club	42	0	0	42
Peer Helpers	74	0	0	74
Football Cheerleaders	1,447	2,642	1,488	2,601
Basketball Cheerleaders	101	125	0	226
Wrestling Cheerleaders	210	125	636	(301)
Student Council	91	2,762	2,825	28
National Honor Society	267	279	279	267
Annual Staff	14,024	6,780	5,795	15,009
Drama Club	(4,154)	678	1,165	(4,641)
Explorer's	306	0	275	31
Foreign Language	95	0	14	81
	12,503	13,391	12,477	13,417

LENOX 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
Class Accounts:				
Class of 2003	48	0	48	0
Class of 2004	2,597	9,821	11,397	1,021
Class of 2005	43	10,112	7,872	2,283
Class of 2006	65	95	47	113
Class of 2007	31	47	9	69
Class of 2008	27	68	24	71
Class of 2009	0	22	16	6
	2,811	20,165	19,413	3,563
Elementary Activities:				
Memory Book	1,287	1,188	1,494	981
Student Council	1,404	1,471	1,940	935
Activities	162	0	34	128
Music	402	144	448	98
	3,255	2,803	3,916	2,142
Miscellaneous:				
Student Pop	49	2,337	2,607	(221)
Outdoor Classroom	(605)	0	0	(605)
Interest	0	126	126	0
JH Stand	44	0	(25)	69
Agency Funds	0	0	457	(457)
	(512)	2,463	3,165	(1,214)
Total	$ 28,926	76,132	66,739	38,319

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

Schedule 4

LENOX COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS AND LIABILITIES -
AGENCY FUND
YEAR ENDED JUNE 30, 2004

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Receivables:				
Interfund	$ 779	18,156	18,478	457
LIABILITIES				
Accounts payable	$ 94	0	94	0
Due to other groups	685	18,156	18,384	457
	$ 779	18,156	18,478	457

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

LENOX 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	$ 1,294,775	879,478	763,927	879,144
Tuition	263,624	271,605	227,605	247,987
Other	124,466	100,459	130,473	174,966
State sources	1,580,030	1,697,675	1,641,321	1,638,445
Federal sources	250,371	218,928	176,462	129,382
Total	$ 3,513,266	3,168,145	2,939,788	3,069,924
Expenditures:				
Current:				
Instruction:				
Regular instruction	$ 1,251,328	1,322,768	1,449,404	1,388,013
Special instruction	661,963	733,743	640,297	540,206
Other instruction	303,544	304,869	316,015	320,754
Support services:				
Student services	17,791	21,082	42,587	35,682
Instructional staff services	39,274	38,362	45,633	40,930
Adminstration services	316,205	378,093	368,488	354,740
Operation and maintenance of plant services	232,156	226,526	238,895	264,985
Transportation services	81,062	92,669	74,691	101,290
Other expenditures:				
Facilities acquisitions	950,189	23,508	40,553	41,552
Long-term debt:				
Principal	145,715	42,715	42,714	42,714
Interest and fiscal charges	137,862	5,100	7,509	9,883
AEA flow-through	109,086	117,901	116,416	120,304
Total	$ 4,246,175	3,307,336	3,383,202	3,261,053

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
Lenox Community School District:

We have audited the financial statements of Lenox Community School District as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 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 Lenox Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lenox 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 item 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 Lenox Community School District and other parties to whom Lenox 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 Lenox 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 PC

NOLTE, CORNMAN & JOHNSON, P.C.

September 17, 2004

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

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

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

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

Conclusion - Response accepted.

I-B-04 Credit Card Policy - During our audit we noted that the District has credit cards, but does not have a credit card policy in place regarding usage and procedures.

Recommendation - The District should have a policy in place for credit card usage. The users of the credit cards need to provide detailed receipts for purchases made. The District should review procedures in place to ensure the proper detailed documentation will be available with paid credit card statements.

Response - We will implement a credit card policy to ensure credit card receipts and supporting detail is obtained.

Conclusion - Response accepted.

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

Part II: Other Findings Related to Statutory Reporting

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

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

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

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

II-E-04 Business Transactions - No business transactions between the District and District officials were noted.

Name, Title and Business Connection	Transaction Description	Amount
Joyce Sweeney, Secretary Spouse owns Sweeney Repair	Repairs	$5,035
Tood Barker, Board Member Part owner of Barker Implement	Services	$293

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

The transactions with the board member do not appear to represent a conflict of interest in accordance with Chapter 279.7A of the Code of Iowa, since the amount was less than $2,500.

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

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

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

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

Conclusion - Response accepted.

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

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

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

II-K-04 Financial Condition - The District had several deficit student activity accounts in the Special Revenue Fund, Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit accounts.

Response - We will monitor this fund and investigate any available options to eliminate the deficit accounts.

Conclusion - Response accepted.