

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2004

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Table of Contents

June 30, 2004

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-13
Basic Financial Statements	<u>Exhibit</u>
Government-wide Financial Statements	
Statement of Net Assets	A 15-16
Statement of Activities	B 17-18
Governmental Fund Financial Statements	
Balance Sheet	C 19
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D 20
Statement of Revenues, Expenditures and Changes in Fund Balances	E 21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F 22
Proprietary Fund Financial Statements	
Statement of Net Assets	G 23
Statement of Revenues, Expenses and Changes in Fund Net Assets	H 24
Statement of Cash Flows	I 25
Fiduciary Financial Statements	
Statement of Fiduciary Net Asset	J 26
Statement of Changes in Fiduciary Net Assets	K 27
Notes to Financial Statements	28-39
Required Supplementary Information	
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund	41
Notes to Required Supplementary Information - Budgetary Reporting	42

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Table of Contents
June 30, 2004

	<u>Schedule</u>	<u>Page</u>
Other Supplementary Information		
Nonmajor Governmental Funds		
Combining Balance Sheet	1	44
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances	2	45
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	46-47
Fiduciary Funds		
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	48
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	5	49
 Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		 50-54
 Audit Staff		 55

NORTH CEDAR COMMUNITY SCHOOL DISTRICT

Officials

June 30, 2004

Name	Title	Term Expires
Board of Education		
(Before September, 2003 Election)		
Mark Glover	Board President	2005
Peggy Kedley	Board Member	2003
Brent Montz	Board Member	2003
Tim Drewelow	Board Member	2004
Duane Stonerook	Board Member	2005
(After September, 2003 Election)		
Mark Glover	Board President	2005
Tim Drewelow	Board Member	2004
Duane Stonerook	Board Member	2005
Peggy Kedley	Board Member	2006
Brent Montz	Board Member	2006
School Officials		
Gregg Fuerstenau	Superintendent	2005
Jean Esbaum	District Secretary	2004
Brian Gruhn	Attorney	2004

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100
Muscatine, Iowa 52761
563-264-1385

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
North Cedar Community School District
Clarence, Iowa

I have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of North Cedar Community School District, Stanwood, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of North Cedar Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, North Cedar 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 Disclosure; 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, I have also issued my reports dated August 31, 2004 on my consideration of North Cedar Community School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations and contracts. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 41 through 42 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise North Cedar Community School District's basic financial statements. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements. The supplementary 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 my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.



Kay L. Chapman, CPA PC
August 31, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

North Cedar 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 \$6,351,032 in fiscal 2003 to \$6,516,532 in fiscal 2004, while General Fund expenditures increased from \$6,271, in fiscal 2003 to \$6,519,974 in fiscal 2004. The District's General Fund balance decreased from \$974,003 in fiscal 2003 to \$970,561 in fiscal 2004, a 1% decrease.
- The increase in General Fund revenues was attributable to an increase in property tax and state and federal grant revenue in fiscal 2004. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and restricted grant expenditures. One reason the General Fund balance decreased is because the negotiated salary and benefits settlement was greater than the District's increase in General Fund revenue for fiscal 2004. As a result, the District funded a portion of the current year General Fund salaries and benefits from the carryover fund balance.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in interest earnings in the General Fund alone decreasing from \$12,707 in fiscal 2003 to \$10,500 in fiscal 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 North Cedar 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 North Cedar 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 North Cedar Community School District acts solely as an agent or custodian for the benefit of those outside of County government.

Notes to 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 Governmental Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

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

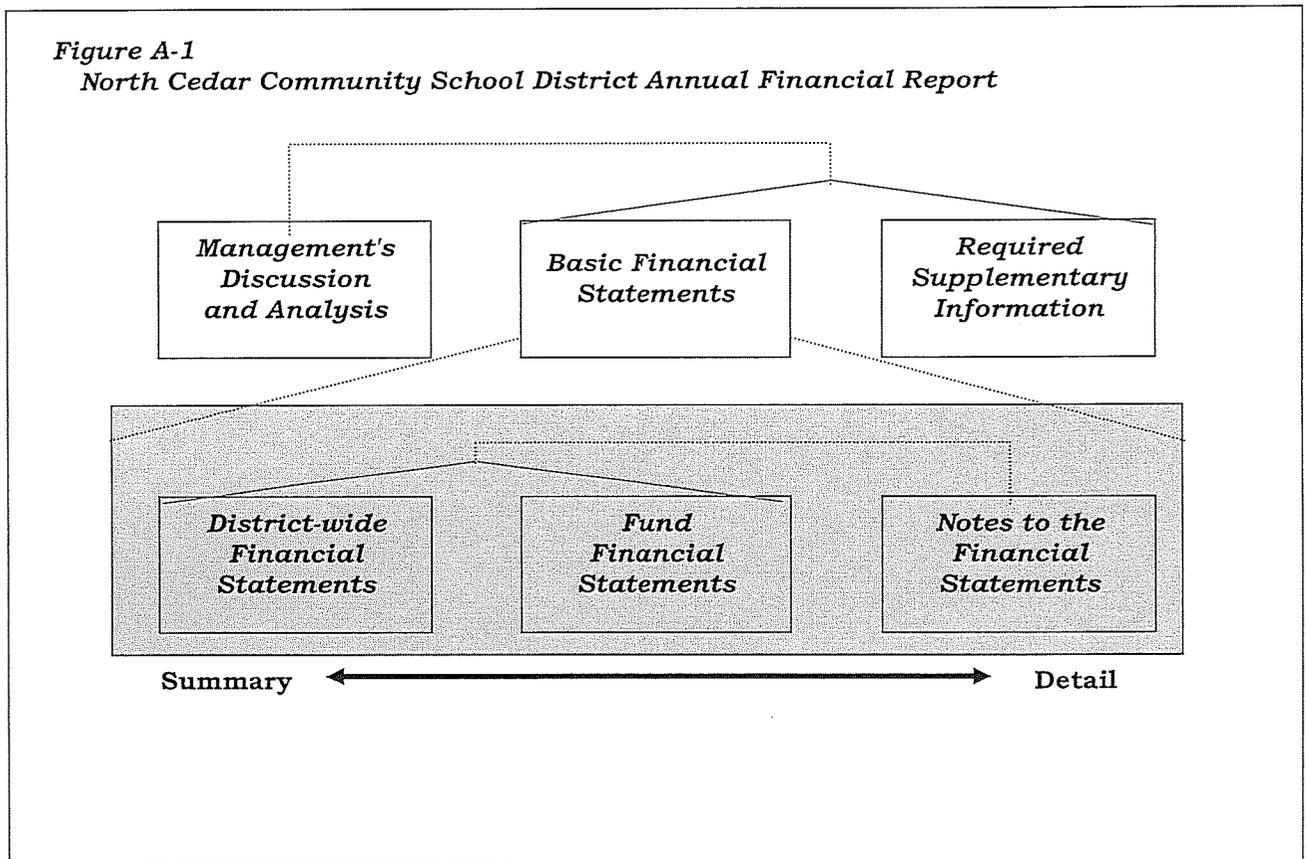


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and adult education	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
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 fund net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, 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 financial 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 three 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.
- *Component Unit:* This includes the activities of the North Cedar Community School District Foundation. The District receives significant financial benefits from the Foundation although they are legally separate entities.

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, and Capital Projects Fund.

The required financial statements for 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. Internal Service Funds, the

other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one Internal Service Fund, the employee benefit fund.

The required financial statements for proprietary funds include a statement of revenues, expenses and changes in fund 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 Private-Purpose Trust Funds and an Agency Fund.

- Private-Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund.
- Agency Fund – This is a fund through which the District administers and accounts for employee benefits-health insurance claims on behalf of District employees.

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

The required financial statements for fiduciary funds include 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 at June 30, 2004 compared to June 30, 2003.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2004	2003	2004	2003	2004	2003	2003-2004
Current and other assets	\$ 4,230,778	\$ 4,261,878	\$ 31,177	\$ 15,355	\$ 4,261,955	\$ 4,277,233	-0.36%
Capital assets	<u>1,149,731</u>	<u>1,076,287</u>	<u>23,851</u>	<u>28,828</u>	<u>1,173,582</u>	<u>1,105,115</u>	6.20%
Total assets	<u>5,380,509</u>	<u>5,338,165</u>	<u>55,028</u>	<u>44,183</u>	<u>5,435,537</u>	<u>5,382,348</u>	0.99%
Long-term obligations	-	2,225	-	-	-	2,225	0.00%
Other liabilities	<u>2,781,201</u>	<u>2,896,333</u>	-	-	<u>2,781,201</u>	<u>2,896,333</u>	-3.98%
Total liabilities	<u>2,781,201</u>	<u>2,898,558</u>	-	-	<u>2,781,201</u>	<u>2,898,558</u>	-4.05%
Net assets							
Invested in capital assets, net of related debt	1,149,731	1,076,287	23,851	28,828	1,173,582	1,105,115	6.20%
Restricted	477,515	375,839	-	-	477,515	375,839	27.05%
Unrestricted	<u>972,062</u>	<u>987,481</u>	<u>31,177</u>	<u>15,355</u>	<u>1,003,239</u>	<u>1,002,836</u>	0.04%
Total net assets	<u>\$ 2,599,308</u>	<u>\$ 2,439,607</u>	<u>\$ 55,028</u>	<u>\$ 44,183</u>	<u>\$ 2,654,336</u>	<u>\$ 2,483,790</u>	6.87%

The District's combined net assets increased by approximately 6.9%, or \$170,546, over the prior year. The largest portion of the District's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$101,676, or approximately 27% over the prior year. The District's net assets increased primarily due to the purchase of computer equipment and capital improvements of its facilities.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$403, or .4%. This slight increase in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year while still trying to remain within its budget.

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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total School District</u>
Revenues			
Program revenues			
Charges for service and sales	\$ 351,598	\$ 247,495	\$ 599,093
Operating grants, contributions and restricted interest	846,363	144,626	990,989
General revenues			
Property tax	2,746,104	-	2,746,104
Unrestricted state grants	3,127,919	-	3,127,919
Unrestricted investment earnings	-	159	159
Other	<u>2,529</u>	<u>-</u>	<u>2,529</u>
Total revenues	<u>7,074,513</u>	<u>392,280</u>	<u>7,466,793</u>
Program expenses			
Governmental activities			
Instruction	4,828,807	-	4,828,807
Support services	1,745,157	-	1,745,157
Non-instructional programs	2,315	381,435	383,750
Other expenses	<u>338,533</u>	<u>-</u>	<u>338,533</u>
Total expenses	<u>6,914,812</u>	<u>381,435</u>	<u>7,296,247</u>
Change in net assets	<u>\$ 159,701</u>	<u>\$ 10,845</u>	<u>\$ 170,546</u>

Property tax and unrestricted state grants account for 52% of the total revenue. The District's expenses primarily relate to instruction and support services, which account for 91% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$7,074,513 and expenses were \$6,914,812. 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, non-instructional programs and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost <u>of Services</u>	Net Cost <u>of Services</u>
Instruction	\$ 4,828,807	\$ 3,908,911
Support services	1,745,157	1,743,912
Non-instructional programs	2,315	2,315
Other expenses	<u>338,533</u>	<u>61,713</u>
Total expenses	<u>\$ 6,914,812</u>	<u>\$ 5,716,851</u>

- The cost financed by users of the District's programs was \$351,598.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$846,363.
- The net cost of governmental activities was financed with \$2,746,104 in property taxes and \$3,127,919 in unrestricted state grants.

Business Type Activities

Revenues for business type activities were \$392,280 and expenses were \$381,435. 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.

During the year ended June 30, 2004, the District increased meal prices for the first time in three years. This increase resulted in increased revenue to the School Nutrition Fund which the District has obligated for replacement of obsolete kitchen equipment at all district buildings in the next fiscal year.

INDIVIDUAL FUND ANALYSIS

As previously noted, North Cedar 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 a combined fund balance of \$1,448,076, above last year's ending fund balances of \$1,349,842.

Governmental Fund Highlights

- The District's slight decline in the General Fund financial position is the result of several factors. See below.
- The General Fund balance decreased from \$974,003 to \$970,561, due in part to the negotiated salary and benefits settlement, the prior year reduction in state aid, spiraling health insurance expense, enrollment out being greater than enrollment in, and existing expenditure commitments of the District.
- The Management Fund balance increased due to the reduction in the number of early retirements.

Proprietary Fund Highlights

Enterprise Fund net assets increased from \$44,183 at June 30, 2003 to \$55,028 at June 30, 2004, representing an increase of approximately 25%. For fiscal 2004, the District increased meal prices, resulting in the increase in net assets.

BUDGETARY HIGHLIGHTS

Over the course of the year, North Cedar Community School District did not amend its annual budget.

The District's receipts were \$17,479 less than budgeted receipts, a variance of 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated.

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

In spite of the District's budgetary practice, the certified budget was exceeded in the instruction, support services and non-instructional programs functions due to the timing of disbursements paid at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had invested \$1,173,582, 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 represents a net increase of 7% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$151,290.

The original cost of the District's capital assets was \$5,243,112. Governmental funds account for \$5,117,203, with the remainder of \$125,909 accounted for in the Proprietary, School Nutrition Fund.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental		Business-type		Total		Total Change
	Activities		Activities		School District		
	2004	2003	2004	2003	2004	2003	
Land	\$ 63,071	\$ 63,071	\$ -	\$ -	\$ 63,071	\$ 63,071	0.00%
Construction in progress	293,677	248,728	-	-	293,677	248,728	18.07%
Buildings and improvements	358,326	369,320	-	-	358,326	369,320	-2.98%
Improvements, other than buildings	30,363	7,827	-	-	30,363	7,827	287.93%
Furniture and equipment	<u>404,294</u>	<u>387,341</u>	<u>23,851</u>	<u>28,828</u>	<u>428,145</u>	<u>416,169</u>	2.88%
Totals	<u>\$1,149,731</u>	<u>\$1,076,287</u>	<u>\$23,851</u>	<u>\$28,828</u>	<u>\$1,173,582</u>	<u>\$1,105,115</u>	6.20%

Long-Term Debt

At June 30, 2004, the District had no long-term debt.

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 condition of the State of Iowa's budget has translated into reduced levels of state funding for all education. In order to operate without cutting staff and programs, these funds must be raised to a level where schools can operate efficiently and not be forced to cut in needed areas.
- Enrollment must remain stable or increase. District funding is driven by enrollment, therefore future enrollment stability is a critical element in maintaining a sound financial foundation.

- The District will negotiate a new agreement with the North Cedar Education Association (NCEA) for fiscal 2006. Settlements in excess of “new money” or allowable growth in state funding for Certified as well as Classified staff will have an adverse effect on the District’s General budget and related fund balance.

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 Jean Esbaum, District Secretary/Treasurer and Business Manager, North Cedar Community School District, 400 Ball Street, Clarence, Iowa, 52216.

Basic Financial Statements

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	Primary Government			<u>Component Unit Foundation</u>
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 1,482,535	\$ 25,118	\$ 1,507,653	\$ 155,623
Receivables				
Property tax				
Delinquent	35,545	-	35,545	-
Succeeding year	2,666,081	-	2,666,081	-
Accounts receivable	652	-	652	-
Due from other governments	45,965	-	45,965	-
Inventories	-	6,059	6,059	-
Capital assets, net of accumulated depreciation	1,149,731	23,851	1,173,582	-
Total assets	5,380,509	55,028	5,435,537	155,623
LIABILITIES				
Accounts payable	93,991	-	93,991	-
Salaries and benefits payable	29	-	29	-
Health claims payable	21,100	-	21,100	-
Deferred revenue - succeeding year property tax	2,666,081	-	2,666,081	-
Total liabilities	2,781,201	-	2,781,201	-

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2004

Exhibit A

	Primary Government			Component Unit Foundation
	Governmental Activities	Business-type Activities	Total	
NET ASSETS				
Invested in capital assets, net of related debt	\$1,149,731	\$23,851	\$1,173,582	\$ -
Restricted for				
Management levy	234,287	-	234,287	-
Physical plant and equipment levy	137,643	-	137,643	-
Other special revenue purposes	92,745	-	92,745	-
Capital projects	12,840	-	12,840	-
Unrestricted	972,062	31,177	1,003,239	155,623
Total net assets	\$ 2,599,308	\$ 55,028	\$ 2,654,336	\$ 155,623

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

<u>Functions/Programs</u>	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	Primary Government			
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	
Primary Government								
Governmental activities								
Instruction								
Regular instruction	\$ 3,075,302	\$ 301,478	\$ 290,331	\$ -	\$ (2,483,493)	\$ -	\$ (2,483,493)	\$ -
Special instruction	1,208,727	48,875	271,415	-	(888,437)	-	(888,437)	-
Other instruction	<u>544,778</u>	<u>-</u>	<u>7,797</u>	<u>-</u>	<u>(536,981)</u>	<u>-</u>	<u>(536,981)</u>	<u>-</u>
	<u>4,828,807</u>	<u>350,353</u>	<u>569,543</u>	<u>-</u>	<u>(3,908,911)</u>	<u>-</u>	<u>(3,908,911)</u>	<u>-</u>
Support services								
Student services	131,344	-	-	-	(131,344)	-	(131,344)	-
Instructional staff services	48,312	-	-	-	(48,312)	-	(48,312)	-
Administration services	611,570	-	-	-	(611,570)	-	(611,570)	-
Operation and maintenance of plant services	542,667	1,245	-	-	(541,422)	-	(541,422)	-
Transportation services	314,348	-	-	-	(314,348)	-	(314,348)	-
Central support services	<u>96,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(96,916)</u>	<u>-</u>	<u>(96,916)</u>	<u>-</u>
	<u>1,745,157</u>	<u>1,245</u>	<u>-</u>	<u>-</u>	<u>(1,743,912)</u>	<u>-</u>	<u>(1,743,912)</u>	<u>-</u>
Non-instructional programs	<u>2,315</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,315)</u>	<u>-</u>	<u>(2,315)</u>	<u>-</u>
Other expenditures								
Facilities acquisition	766	-	-	-	(766)	-	(766)	-
Long-term debt interest	-	-	-	-	-	-	-	-
AEA flowthrough	276,820	-	276,820	-	-	-	-	-
Depreciation (unallocated)*	<u>60,947</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,947)</u>	<u>-</u>	<u>(60,947)</u>	<u>-</u>
	<u>338,533</u>	<u>-</u>	<u>276,820</u>	<u>-</u>	<u>(61,713)</u>	<u>-</u>	<u>(61,713)</u>	<u>-</u>
Total governmental activities	<u>6,914,812</u>	<u>351,598</u>	<u>846,363</u>	<u>-</u>	<u>(5,716,851)</u>	<u>-</u>	<u>(5,716,851)</u>	<u>-</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2004

Exhibit B

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>			Component
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>	<u>Capital Grants, Contributions and Restricted Interest</u>	<u>Primary Government</u>			Unit
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Total</u>
<u>Functions/Programs (continued)</u>								
Primary Government (continued)								
Business-type activities								
Non-instructional programs								
Food service operations	\$ 381,435	\$ 247,495	\$ 144,626	\$ -	\$ -	\$ 10,686	\$ 10,686	\$ -
Total primary government	<u>\$ 7,296,247</u>	<u>\$ 599,093</u>	<u>\$ 990,989</u>	<u>\$ -</u>	<u>(5,716,851)</u>	<u>10,686</u>	<u>(5,706,165)</u>	<u>-</u>
Component Unit								
Foundation	<u>\$ 3,617</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,617)</u>
<u>General Revenues</u>								
Property tax levied for								
General purposes					2,746,104	-	2,746,104	-
Unrestricted state grants					3,127,919	-	3,127,919	-
Unrestricted investment earnings					-	159	159	245
Other					2,529	-	2,529	-
Total general revenues					<u>5,876,552</u>	<u>159</u>	<u>5,876,711</u>	<u>245</u>
Change in net assets					159,701	10,845	170,546	(3,372)
Net assets, beginning of year, as restated					2,439,607	44,183	2,483,790	158,995
Net assets, end of year					<u>\$ 2,599,308</u>	<u>\$ 55,028</u>	<u>\$ 2,654,336</u>	<u>\$ 155,623</u>

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

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Balance Sheet
 Governmental Funds
 June 30, 2004

Exhibit C

	<u>General</u>	<u>Management</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and pooled investments	\$ 927,103	\$ 232,348	\$ 243,398	\$ 1,402,849
Receivables				
Property tax				
Delinquent	30,530	1,939	3,076	35,545
Succeeding year	2,419,330	100,000	146,751	2,666,081
Accounts receivable	652	-	-	652
Due from other governments	<u>45,544</u>	<u>-</u>	<u>421</u>	<u>45,965</u>
Total assets and other debits	<u>\$ 3,423,159</u>	<u>\$ 334,287</u>	<u>\$ 393,646</u>	<u>\$ 4,151,092</u>
 LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 33,239	\$ -	\$ 3,667	\$ 36,906
Salaries and benefits payable	29	-	-	29
Deferred revenue				
Succeeding year property tax	<u>2,419,330</u>	<u>100,000</u>	<u>146,751</u>	<u>2,666,081</u>
Total liabilities	<u>2,452,598</u>	<u>100,000</u>	<u>150,418</u>	<u>2,703,016</u>
 Fund balances				
Reserved for				
Iowa Early Intervention program	7,366	-	-	7,366
Talented and gifted	31,693	-	-	31,693
Unreserved, undesignated				
Special revenue	-	234,287	230,388	464,675
Other governmental	<u>931,502</u>	<u>-</u>	<u>12,840</u>	<u>944,342</u>
Total fund balances	<u>970,561</u>	<u>234,287</u>	<u>243,228</u>	<u>1,448,076</u>
Total liabilities and fund balances	<u>\$ 3,423,159</u>	<u>\$ 334,287</u>	<u>\$ 393,646</u>	<u>\$ 4,151,092</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets
June 30, 2004

Exhibit D

Total fund balances of governmental funds	\$ 1,448,076
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,149,731
The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	<u>1,501</u>
Net assets of governmental activities	<u>\$ 2,599,308</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2004

Exhibit E

	<u>General</u>	<u>Management</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues				
Local sources				
Local tax	\$ 2,344,668	\$ 148,901	\$ 237,272	\$ 2,730,841
Tuition	175,749	-	-	175,749
Other	46,667	350	146,430	193,447
State sources	3,673,213	11	17	3,673,241
Federal sources	276,235	-	25,000	301,235
Total revenues	<u>6,516,532</u>	<u>149,262</u>	<u>408,719</u>	<u>7,074,513</u>
Expenditures				
Current				
Instruction				
Regular instruction	2,990,897	72,076	-	3,062,973
Special instruction	1,238,792	-	-	1,238,792
Other instruction	415,390	-	128,888	544,278
	<u>4,645,079</u>	<u>72,076</u>	<u>128,888</u>	<u>4,846,043</u>
Support services				
Student services	128,764	2,580	-	131,344
Instructional staff services	48,312	-	-	48,312
Administration services	598,390	9,253	-	607,643
Operation and maintenance of plant services	479,457	4,492	234,010	717,959
Transportation services	247,058	3,418	-	250,476
Central support services	96,094	822	-	96,916
	<u>1,598,075</u>	<u>20,565</u>	<u>234,010</u>	<u>1,852,650</u>
Other expenditures				
Facilities acquisition	-	-	766	766
AEA flowthrough	276,820	-	-	276,820
	<u>276,820</u>	<u>-</u>	<u>766</u>	<u>277,586</u>
Total expenditures	<u>6,519,974</u>	<u>92,641</u>	<u>363,664</u>	<u>6,976,279</u>
Net change in fund balances	(3,442)	56,621	45,055	98,234
Fund balance, beginning of year	974,003	177,666	198,173	1,349,842
Fund balance, end of year	<u>\$ 970,561</u>	<u>\$ 234,287</u>	<u>\$ 243,228</u>	<u>\$ 1,448,076</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Fund Balances-Governmental Funds
 to the Statement of Activities
 For the Year Ended June 30, 2004

Exhibit F

Net change in fund balances - total governmental funds \$ 98,234

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	\$ 218,986	
Depreciation expense	<u>(145,542)</u>	73,444

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

Early retirement		2,225
------------------	--	-------

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities.

(14,202)

Change in net assets of governmental activities		<u>\$ 159,701</u>
-------------------------------------------------	--	-------------------

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Net Assets
Proprietary Funds
June 30, 2004

Exhibit G

	Business-type <u>Activities</u> Enterprise- School <u>Nutrition</u>	Governmental <u>Activities</u> Internal <u>Service</u>
ASSETS		
Cash and pooled investments	\$ 25,118	\$ 79,686
Inventories	6,059	-
Capital assets, net of accumulated depreciation	<u>23,851</u>	<u>-</u>
Total assets	<u>55,028</u>	<u>79,686</u>
 LIABILITIES		
Accounts payable	-	21,100
Health claims payable	<u>-</u>	<u>57,085</u>
Total liabilities	<u>-</u>	<u>78,185</u>
 NET ASSETS		
Invested in capital assets, net of related debt	23,851	-
Unreserved retained earnings	<u>31,177</u>	<u>1,501</u>
Total net assets	<u>\$ 55,028</u>	<u>\$ 1,501</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit H

	<u>Business-type Activities</u>	<u>Governmental Activities</u>
	<u>Enterprise- School Nutrition</u>	<u>Internal Service</u>
Operating revenue		
Local sources		
Charges for service	\$ 247,495	\$ -
Employee contributions	-	606,890
Total operating revenue	<u>247,495</u>	<u>606,890</u>
 Operating expenses		
Non-instructional programs		
Salaries	145,680	-
Benefits	43,392	-
Purchased services	5,953	-
Supplies	180,494	-
Miscellaneous	168	621,092
Depreciation	5,748	-
Total operating expenses	<u>381,435</u>	<u>621,092</u>
 Operating loss	<u>(133,940)</u>	<u>(14,202)</u>
 Non-operating revenue		
Interest income	159	-
State sources	5,795	-
Federal sources	138,831	-
Total non-operating revenue	<u>144,785</u>	<u>-</u>
 Change in net assets	10,845	(14,202)
Net assets, beginning of year, as restated	<u>44,183</u>	<u>15,703</u>
 Net assets, end of year	<u>\$ 55,028</u>	<u>\$ 1,501</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2004

Exhibit I

	<u>Enterprise- School Nutrition</u>	<u>Internal Service</u>
Cash flows from operating activities		
Cash received from sale of lunches and breakfasts	\$ 247,495	\$ -
Cash received from miscellaneous operating activities	-	606,890
Cash payments to employees for services	(189,072)	-
Cash payments to suppliers for goods and services	<u>(161,547)</u>	<u>(618,435)</u>
Net cash used in operating activities	<u>(103,124)</u>	<u>(11,545)</u>
Cash flows from non-capital financing activities		
State grants received	5,795	-
Federal grants received	<u>116,622</u>	<u>-</u>
Net cash provided by non-capital financing activities	<u>122,417</u>	<u>-</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	<u>(771)</u>	<u>-</u>
Cash flows from investing activities		
Interest on investments	<u>159</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	18,681	(11,545)
Cash and cash equivalents, beginning of year	<u>6,437</u>	<u>91,231</u>
Cash and cash equivalents, end of year	<u>\$ 25,118</u>	<u>\$ 79,686</u>
 Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (133,940)	\$ (14,202)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	5,748	-
Commodities used	22,209	-
Decrease in inventories	2,859	-
Decrease in accounts payable	-	(18,443)
Increase in health claims payable	<u>-</u>	<u>21,100</u>
Net cash used in operating activities	<u>\$ (103,124)</u>	<u>\$ (11,545)</u>

Non-cash investing, capital and financing activities

During the year ended June 30, 2004, the District received \$22,209 of federal commodities.

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

Exhibit J

	<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Scholarships</u>	<u>Agency</u>
Assets		
Cash and pooled investments	\$86,078	\$ 19,372
Liabilities		
Due to others	<u> -</u>	<u> 19,372</u>
Net assets		
Reserved for scholarships	<u>\$86,078</u>	<u>\$ -</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2004

Exhibit K

	<u>Private Purpose Trust Scholarships</u>
Additions	
Local sources	
Gifts and contributions	\$ 13,857
Deductions	
Support services	
Scholarships	<u>11,350</u>
Change in net assets	2,507
Net assets, beginning of year	<u>83,571</u>
Net assets, end of year	<u>\$ 86,078</u>

See notes to financial statements and Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2004

Note 1. Summary of Significant Accounting Policies

The North Cedar Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors various adult education programs. The geographic area served includes the Cities of Mechanicsville, Stanwood, Clarence and Lowden, Iowa, and the agricultural territory in Cedar County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

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

A. Reporting Entity

For financial reporting purposes, North Cedar 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.

These financial statements present the North Cedar Community School District (the primary government) and its component unit. The component unit discussed below is included in the District's reporting entity because of the significance of its operational or financial relationship with the District.

Discretely Presented Component Unit

The North Cedar Community School District Foundation was created to raise money through contributions and fundraisers to benefit the District. The Foundation is a separate legal entity with its own accounting records and board of trustees. The Foundation does not produce separately prepared financial statements. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. The Foundation is accounted for as a Governmental Fund in these financial statements.

Jointly Governed Organizations

The District does not participate in any jointly governed organizations for which the District is financially accountable or that the nature and significance of the relationship with the District are such that exclusion would cause the District's financial statements to be misleading.

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 service.

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which 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 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 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 revenues 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 expenditures, including instructional, support and other costs.

Management Levy Fund is a special revenue fund used to account for all financial transactions from the levy authorized by Iowa Code section 298.4. The purpose of this fund is to pay the costs of unemployment or early retirement benefits, and the

costs of liability insurance and judgments or settlements relating to liability. This fund cannot be used for employee health, life, or disability insurance, even if the district is self-insured.

The District reports the following major proprietary fund:

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

Additionally, the District reports a nonmajor proprietary fund. The Internal Service Fund is utilized to account for employee flexible benefits.

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

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 and claims and judgments, compensated absences and early retirement 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 the 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 funds 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 non-operating 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 non-operating 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 governmental funds is 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 year 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 property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

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

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

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

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

<u>Asset Class</u>	<u>Amount</u>
Land	\$2,500
Buildings	\$2,500
Improvements other than buildings	\$2,500
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$2,500

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

<u>Asset Class</u>	<u>Useful Life</u>
Buildings	50 years
Improvements to buildings	20-50 years
Furniture and equipment	4-12 years

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2004. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid by the General Fund.

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 represents 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 property tax 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 Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, expenditures in the instruction, support services and non-instructional programs functions exceed the amounts budgeted. However, the District did not exceed its General Fund unspent authorized budget.

Note 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 \$1,281,981 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Governmental Accounting Standards Board Statement 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.

Note 3. Capital Assets

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

<u>Governmental activities</u>	Balance, Beginning of Year	Additions	Deletions	Balance, End of Year
Capital assets not being depreciated:				
Land	\$ 63,071	\$ -	\$ -	\$ 63,071
Construction in progress	<u>248,728</u>	<u>44,949</u>	<u>-</u>	<u>293,677</u>
Total capital assets, not being depreciated	<u>311,799</u>	<u>44,949</u>	<u>-</u>	<u>356,748</u>
Capital assets being depreciated:				
Buildings and improvements	2,922,493	41,278	-	2,963,771
Improvements other than buildings	295,089	31,211	-	326,300
Furniture and equipment	<u>1,368,836</u>	<u>101,548</u>	<u>-</u>	<u>1,470,384</u>
Total capital assets being depreciated	<u>4,586,418</u>	<u>174,037</u>	<u>-</u>	<u>4,760,455</u>

Less accumulated depreciation for:

Buildings and improvements	2,553,173	52,272	-	2,605,445
Improvements other than buildings	287,262	8,675	-	295,937
Furniture and equipment	<u>981,495</u>	<u>84,595</u>	-	<u>1,066,090</u>
Total accumulated depreciation	<u>3,821,930</u>	<u>145,542</u>	-	<u>3,967,472</u>

Total capital assets being depreciated, net	<u>764,488</u>	<u>28,495</u>	-	<u>792,983</u>
Governmental activities capital assets, net	<u>\$ 1,076,287</u>	<u>\$ 73,444</u>	<u>\$ -</u>	<u>\$ 1,149,731</u>

Business-type activities

Furniture and equipment	\$ 125,138	\$ 771	\$ -	\$ 125,909
Less accumulated depreciation	<u>96,310</u>	<u>5,748</u>	-	<u>102,058</u>
Business-type activities capital assets, net	<u>\$ 28,828</u>	<u>\$ (4,977)</u>	<u>\$ -</u>	<u>\$ 23,851</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 5,352
Special	1,860
Other	500
Support services	
Administration	3,927
Operation and maintenance of plant	6,769
Transportation	63,872
Non-instructional programs	2,315
Unallocated	<u>60,947</u>

Total governmental activities depreciation expense \$ 145,542

Business-type activities

Food services	<u>\$ 5,748</u>
---------------	-----------------

During the year ended June 30, 2004, the District hired an outside company to perform a physical inventory of its capital assets. Also during the year ended June 30, 2004 the District changed its criteria for determining capitalized assets. Prior to the fiscal year ended June 30, 2004 the District included all assets costing more than \$500 in the General Fixed Asset Account Group. However, beginning in FY04 the District only includes items costing in excess of the limits summarized in Note 1, item D as capital assets. Due to these two changes, the District's beginning balance of capital assets in the year ended June 30, 2004 is less than the amounts reported on the financial statements of the prior fiscal year by \$153,918

Note 4. Long-term Liabilities

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

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Early retirement	\$ 2,225	\$ -	\$ (2,225)	\$ -	\$ -
Compensated absences	-	2,303	(2,303)	-	-
Totals	<u>\$ 2,225</u>	<u>\$ 2,303</u>	<u>\$ (4,528)</u>	<u>\$ -</u>	<u>\$ -</u>

Early retirement

The District offers a voluntary early retirement plan to its certified employees. An employee is deemed to be eligible for this program when they have completed at least fifteen years of contract service as a full-time certificated employee with the North Cedar Community School District by June 30 of the current fiscal year and will have attained at least fifty-six years of age on or before June 30 of the current fiscal year. An employee will be deemed to be in their first year of eligibility during the fiscal year in which they meet both longevity and age criteria for the first time.

The early retirement pay for each eligible full-time certified staff member, as defined by the Master Contract or individual contract, shall be calculated based on the current salary schedule, excluding any extra-curricular, Phase II and Phase III monies. An eligible employee, upon early retirement, shall receive an early retirement benefit representing eighty-one days' pay subject to a pro-ration formula.

Additionally, an eligible employee may receive additional per diem pay for unused/accumulated sick leave based on a pro-ration formula. This separation pay shall be made in three equal payments made on July 15th of the three years following early retirement; one third in July of the retirement year, one third in July of the second year and one third in July of the third year.

Note 5. 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, IA, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered 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 \$232,185, \$224,415 and \$215,401 respectively, equal to the required contributions for each year.

Note 6. Risk Management

The District has a self-funded health insurance plan for its employees. The District purchases commercial insurance to provide for aggregate stop-loss coverage for the excess of 125% of estimated claims for the plan year and specific stop-loss reinsurance coverage for the excess \$15,000 in insured claims for any one covered individual. Settled claims have not exceeded the commercial coverage in any of the past three calendar years.

Payments are made to the plan based on actuarial estimates of amounts needed to pay prior and current claims and to establish a reserve for catastrophic losses. That reserve was \$49,304 at October 31, 2003, the last date for which information is available. The incurred but not recorded and unpaid claims liability of \$57,085 reported in the plan at June 30, 2004, is based on the requirements of GASB Statement Number 10, which is required that a liability for claims be reported.

The change in the incurred but not reported and unpaid claims liability for the year ended June 30, 2004 is as follows:

Balance, beginning of year	\$ 57,085
Incurred claims and claim adjustments	621,092
Payment of claims	<u>(621,092)</u>
Balance, end of year	<u>\$ 57,085</u>

In addition, the 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.

Note 7. 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 \$276,820 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.

Note 8. 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, expenditures in the instruction, support services and non-instructional programs functions exceeded the amounts budgeted.

Note 9. Correction of Beginning Balance

During the year ended June 30, 2004, an error in the Enterprise, School Nutrition Fund was noted. It was noted that \$5,376 of equipment, net of accumulated depreciation, had not been previously reported. Therefore, the beginning balance of the School Nutrition Fund has been increased by \$5,376 during the year ended June 30, 2004.

Note 10. Subsequent Event – Local Option Sales and Services Tax

Cedar County voters authorized the Local Option Sales and Services Tax beginning July 1, 2004. This tax is an additional sales tax of 1% on all taxable sales in Cedar County and will continue for 10 years. The revenue from this tax will be distributed to all school districts with students residing in Cedar County on a per student basis. Lisbon Community School District anticipates receiving \$ask Jean from this tax annually beginning with the fiscal year ending June 30, 2005.

Note 11. 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 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 (GASB) 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; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the District’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements 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.

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

	Fund			
	<u>General</u>	<u>Mgmt</u>	<u>Governmental</u>	<u>Total</u>
Net assets June 30, 2003, as previously reported	\$ 974,003	\$ 177,666	\$ 198,173	\$ 1,349,842
GASB Interpretation 6 adjustments	-	-	-	-
Net assets July 1, 2003, as restated for governmental funds	<u>\$ 974,003</u>	<u>\$ 177,666</u>	198,173	1,349,842
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of \$3,821,930				1,076,287
Internal Service Fund balance				15,703
Long-term liabilities:				
Early retirement				(2,225)
			<u>(2,225)</u>	
Net assets July 1, 2003, as restated				<u>\$ 2,439,607</u>

Required Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual
 All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 For the Year Ended June 30, 2004

	Governmental	Proprietary	Total	Less Funds Not Required to be Budgeted	Net	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual				Actual	Original	
Revenues								
Local sources	\$ 3,100,037	\$ 854,544	\$ 3,954,581	\$ (606,890)	\$ 3,347,691	\$ 3,462,657	\$ 3,462,657	\$ (114,966)
State sources	3,673,241	5,795	3,679,036	-	3,679,036	3,771,615	3,771,615	(92,579)
Federal sources	301,235	138,831	440,066	-	440,066	250,000	250,000	190,066
Total revenues	<u>7,074,513</u>	<u>999,170</u>	<u>8,073,683</u>	<u>(606,890)</u>	<u>7,466,793</u>	<u>7,484,272</u>	<u>7,484,272</u>	<u>(17,479)</u>
Expenditures								
Instruction	4,846,043	-	4,846,043	-	4,846,043	4,755,000	4,755,000	(91,043)
Support services	1,852,650	-	1,852,650	-	1,852,650	1,805,000	1,805,000	(47,650)
Non-instructional programs	-	1,002,527	1,002,527	(621,092)	381,435	370,000	370,000	(11,435)
Other expenditures	277,586	-	277,586	-	277,586	300,709	300,709	23,123
Total expenditures	<u>6,976,279</u>	<u>1,002,527</u>	<u>7,978,806</u>	<u>(621,092)</u>	<u>7,357,714</u>	<u>7,230,709</u>	<u>7,230,709</u>	<u>(127,005)</u>
Excess (deficiency) of revenues over (under) expenditures	98,234	(3,357)	94,877	14,202	109,079	253,563	253,563	(144,484)
Balance, beginning of year, as restated	<u>1,349,842</u>	<u>59,886</u>	<u>1,409,728</u>	<u>(15,703)</u>	<u>1,394,025</u>	<u>1,541,407</u>	<u>1,541,407</u>	<u>(147,382)</u>
Balance, end of year	<u>\$ 1,448,076</u>	<u>\$ 56,529</u>	<u>\$ 1,504,605</u>	<u>\$ (1,501)</u>	<u>\$ 1,503,104</u>	<u>\$ 1,794,970</u>	<u>\$ 1,794,970</u>	<u>\$ (291,866)</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the 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 a basis consistent with U.S. generally accepted accounting principles.

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

During the year ended June 30, 2004, District expenditures exceeded the amounts budgeted in instruction, support services and non-instructional programs functions. However, General Fund expenditure did not exceed the unspent authorized budget.

Other Supplementary Information

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

Schedule 1

	Special Revenue			
		Physical Plant and Equipment	Capital Projects	
	Student Activity	Levy	Projects	Total
ASSETS				
Cash and pooled investments	\$ 92,745	\$ 138,234	\$ 12,419	\$ 243,398
Receivables				
Property tax				
Delinquent	-	3,076	-	3,076
Succeeding year	-	146,751	-	146,751
Due from other governments	-	-	421	421
 Total assets	 \$ 92,745	 \$ 288,061	 \$ 12,840	 \$ 393,646
 LIABILITIES AND FUND EQUITY				
Liabilities				
Accounts payable	\$ -	\$ 3,667	\$ -	\$ 3,667
Deferred revenue				
Succeeding year property tax	-	146,751	-	146,751
Total liabilities	-	150,418	-	150,418
 Fund equity				
Unreserved fund balances	92,745	137,643	12,840	243,228
Total liabilities and fund equity	\$ 92,745	\$ 288,061	\$ 12,840	\$ 393,646

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2004

Schedule 2

	<u>Special Revenue</u>			<u>Total</u>
	<u>Student Activity</u>	<u>Physical Plant and Equipment Levy</u>	<u>Capital Projects</u>	
Revenues				
Local sources				
Local taxes	\$ -	\$ 237,272	\$ -	\$ 237,272
Other	140,203	708	5,519	146,430
State sources	-	17	-	17
Federal sources	-	25,000	-	25,000
Total revenues	<u>140,203</u>	<u>262,997</u>	<u>5,519</u>	<u>408,719</u>
Expenditures				
Current				
Instruction				
Other instruction	128,888	-	-	128,888
Support services				
Operation and maintenance of plant services	-	234,010	-	234,010
Other expenditures				
Facilities acquisition and maintenance	-	766	-	766
Total expenditures	<u>128,888</u>	<u>234,776</u>	<u>-</u>	<u>363,664</u>
Net change in fund balances	11,315	28,221	5,519	45,055
Fund balances, beginning of year	<u>81,430</u>	<u>109,422</u>	<u>7,321</u>	<u>198,173</u>
Fund balances, end of year	<u>\$ 92,745</u>	<u>\$ 137,643</u>	<u>\$ 12,840</u>	<u>\$ 243,228</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	<u>Expenditures</u>	Balance, End of <u>Year</u>
District-wide				
Interest	\$ 5,480	\$ 658	\$ 2,855	\$ 3,283
Elementary				
Student productions	8,058	5,525	1,140	12,443
Middle school				
Student clubs	6,495	1,424	3,775	4,144
Cheerleading	1,094	658	1,155	597
Student council	2,408	-	825	1,583
Health education	150	-	-	150
Trail blazers	2,758	3,102	870	4,990
Catalyst award	3,388	-	2,110	1,278
EPA grant	910	1,500	506	1,904
High school				
Student clubs	3,284	646	135	3,795
State technology fund	1,313	-	1,313	-
Drama/speech	5,572	3,780	3,795	5,557
Vocal	5,606	4,268	6,012	3,862
Instrumental	7,205	3,519	2,051	8,673
Cross country	59	365	145	279
Basketball	673	8,701	9,162	212
Rigby athletic fund	9	15,816	14,779	1,046
Volleyball	1,310	6,236	7,445	101
Football	1,150	10,924	11,502	572
Baseball/softball	1,652	8,431	6,379	3,704
Track	412	2,383	2,685	110
Golf	75	256	210	121
Wrestling	1,961	10,805	12,002	764
Cheerleading	2,152	8,290	4,658	5,784
FFA	84	17,172	16,619	637
National Honor Society	118	-	118	-
Peer counselors	132	259	303	88
Student council	2,506	7,436	5,178	4,764
Alumni	2,846	729	37	3,538

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Special Revenue Fund, Student Activity Accounts
 For the Year Ended June 30, 2004

Schedule 3

Account	Balance, Beginning of <u>Year</u>	<u>Revenues</u>	Expenditures	Balance, End of <u>Year</u>
High school (continued)				
Class of				
2004	\$ 48	\$ 1,242	\$ 1,212	\$ 78
2005	3,621	9,438	8,256	4,803
2006	2,878	1,195	8	4,065
2007	2,203	855	110	2,948
2008	1,752	811	-	2,563
2009	1,142	842	-	1,984
2010	276	1,467	-	1,743
2011	-	1,048	1,048	-
2013	139	-	139	-
Spanish club	<u>511</u>	<u>422</u>	<u>351</u>	<u>582</u>
Totals	<u>\$ 81,430</u>	<u>\$ 140,203</u>	<u>\$ 128,888</u>	<u>\$ 92,745</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
 Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund
 For the Year Ended June 30, 2004

Schedule 4

	Balance, Beginning of <u>Year</u>	<u>Additions</u>	<u>Deductions</u>	Balance, End of <u>Year</u>
Assets				
Cash	<u>\$ 13,188</u>	<u>\$ 50,138</u>	<u>\$ 43,954</u>	<u>\$ 19,372</u>
 Liabilities				
Due to others	<u>\$ 13,188</u>	<u>\$ 50,138</u>	<u>\$ 43,954</u>	<u>\$ 19,372</u>

See accompanying Independent Auditor's Report.

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Four Years

Schedule 5

	Modified Accrual Basis			
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues				
Local sources				
Local tax	\$ 2,730,841	\$ 2,713,681	\$ 2,527,417	\$ 2,468,998
Tuition	175,749	156,928	162,439	133,989
Other	193,447	179,169	197,952	226,089
State sources	3,673,241	3,653,004	3,569,167	3,456,136
Federal sources	<u>301,235</u>	<u>172,545</u>	<u>176,664</u>	<u>104,075</u>
 Total revenues	 <u>\$ 7,074,513</u>	 <u>\$ 6,875,327</u>	 <u>\$ 6,633,639</u>	 <u>\$ 6,389,287</u>
 Expenditures				
Instruction				
Regular instruction	3,062,973	3,065,516	2,946,249	2,830,774
Special instruction	1,238,792	1,062,780	987,594	846,687
Other instruction	544,278	568,390	527,198	525,865
Support services			191,356	196,166
Student services	131,344	117,595	46,332	67,316
Instructional staff services	48,312	62,946	537,665	504,207
Administration services	607,643	551,263	748,589	718,736
Operation and maintenance of plant services	717,959	871,962	234,542	216,014
Transportation services	250,476	238,092	29,283	46,905
Central support services	96,916	57,135	-	-
Other expenditures				
Facilities acquisition	766	475	351	146
Interest and other charges	-	-	-	-
AEA flowthrough	<u>276,820</u>	<u>289,071</u>	<u>284,850</u>	<u>283,938</u>
 Total expenditures	 <u>\$ 6,976,279</u>	 <u>\$ 6,885,225</u>	 <u>\$ 6,534,009</u>	 <u>\$ 6,236,754</u>

See accompanying Independent Auditor's Report.

KAY L. CHAPMAN, CPA PC

119 Sycamore Street, Suite 100

Muscataine, Iowa 52761

563-264-1385

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Education
North Cedar Community School District
Clarence, Iowa

I have audited the financial statements of the North Cedar Community School District as of and for the year ended June 30, 2004, and have issued my report thereon dated August 31, 2004. I conducted my 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 North Cedar Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described below.

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 my audit of the financial statements of the District. Since my 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 been resolved except for item 2. Current year statutory comments are detailed as follows:

1. Official Depositories - A resolution naming official depositories has been approved by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004. However, the maximum deposit amounts were not included in the Board minutes.

Recommendation - Chapter 12C of the Code of Iowa requires that the Board minutes list the name of each depository approved and specify the maximum amount which will be kept on deposit in each depository. The District should ensure that the required information is included in the Board minutes.

Response - We will include the required information in the Board minutes in the future.

Conclusion - Response accepted.

2. Certified Budget - Expenditures for the year ended June 30, 2004, exceeded the amounts budgeted in the Instruction, Support Services, and Non-instructional Programs functions.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were not allowed to exceed the budget.

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

Conclusion - Response accepted.

3. Questionable Disbursements - I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
4. 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.
5. Business Transactions - No business transactions between the District and District officials were noted.
6. 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.
7. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board. However, it was noted that the minutes were not always timely published in compliance with Chapter 279.35 of the Code of Iowa.

Recommendation - The District should ensure that all board minutes be made available for publication within two weeks of the board meeting, as required by the Code of Iowa.

Response - We will be more attentive of this in the future.

Conclusion - Response accepted.

8. Certified Enrollment - No variance in the basic enrollment data certified to the Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was filed with the Department of Education timely and I noted no significant deficiencies in the amounts reported.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered North Cedar Community School District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect North Cedar Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Prior year reportable conditions have not been resolved. Current year reportable conditions are as follows:

- A. 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. I noted that the bank deposits, bank reconciliations, the posting of cash journals, payroll and payroll records are all done by the same person.

Recommendation - I 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 deemed necessary.

Conclusion - Response accepted.

- B. Student Activity and School Nutrition Checks - It was noted that the checks of the Student Activity Fund and the School Nutrition Fund required only one signature, that of the Superintendent's secretary. Also, these expenditures were not approved by the Board prior to release.

Recommendation - The Code of Iowa requires that all warrants written by the District bear dual signatures, those of the Board President and Board Secretary, and that the board audit and approve all expenditures of District money. The Student Activity Fund and School Nutrition Fund are included in this requirement. Therefore, the District should implement procedures to ensure that the Board President and Board Secretary sign all checks, including those of the Student Activity Fund and School Nutrition Fund, and that the Board approve expenditures of these funds monthly.

Response - We will implement procedures to comply with this requirement.

Conclusion - Response accepted.

- C. Physical Plant and Equipment Levy Expenditures - It was noted that the Physical Plant and Equipment Levy Fund was used to purchase equipment costing less than \$500, per item. A total of \$2,921 was expended for chairs, each costing less than \$500.

Recommendation - Chapter 298.3 of the Code of Iowa states that proceeds of the Physical Plant and Equipment Levy may be used to "purchase a single unit of equipment exceeding five hundred dollars in value". The purchase of equipment with a value less than \$500 is not an allowable expenditure of the PPEL Fund. The District should review its PPEL expenditures more closely to ensure that all expenditures comply with the Code of Iowa.

Response - We will be more attentive of this in the future.

Conclusion - Response accepted.

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. My 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, I believe the lack of segregation of duties is a material weakness.

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

I would like to acknowledge the many courtesies and assistance extended to me by the personnel of the North Cedar Community School District during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Kay L. Chapman, CPA PC".

Kay L. Chapman, CPA PC
August 31, 2004

NORTH CEDAR COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2004

This audit was performed by

Kay Chapman, CPA